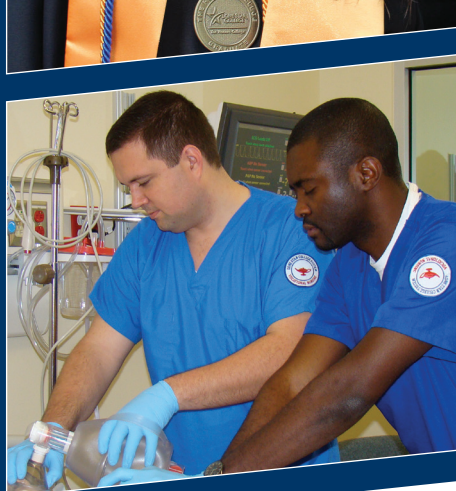




COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended August 31, 2017 and 2016
The Woodlands, Texas



LSC-CyFair ▪ LSC-Kingwood ▪ LSC-Montgomery ▪ LSC-North Harris ▪ LSC-Tomball ▪ LSC-University Park

Globally Connected. Nationally recognized. Locally focused.



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED AUGUST 31, 2017 AND 2016

**Prepared by Finance Operations and Facilities
Lone Star College · 5000 Research Forest Drive · The Woodlands, Texas 77381**



**LONE STAR COLLEGE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED AUGUST 31, 2017 AND 2016**

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INTRODUCTORY SECTION



To the Board of Trustees:

I am pleased to submit to the Lone Star College (LSC) Board of Trustees and the citizens of the LSC service area our Comprehensive Annual Financial Report for the most recent fiscal year, September 1, 2016 through August 31, 2017.



Thanks to the fiscally conservative leadership of the Board, and strong internal management, the College continues to maintain a sound financial position, with a AAA credit rating from Standard and Poor's.

Enrollment grew from fall 2016 to fall 2017 for a total of 89,413 credit students, a 4% increase.

Prudent fiscal management, along with a strengthening of the local economy has enabled us to maintain our low tax rate and invest in several strategic initiatives in support of the College's commitment to student success to emphasize student outcomes and accountability for those outcomes.

Highlights for fiscal year 2017 include:

- Tax rate lowered to .1078 per \$100 valuation
- Base tuition increased \$2 per credit hour
- Discipline-based differential fees increased an average \$4 per credit hour
- Budget aligned with strategic priorities
- Emphasis on academic, workforce and student success initiatives
- 20 new faculty positions
- 2% across the board increase for full time employees (minimum \$750)

Our fiscal practices support our commitment to providing high quality education to our students at an affordable price without placing an undue burden on our taxpayers. Under the leadership of the LSC Board of Trustees, we look forward to continuing to operate in a fiscally sound manner with a continued focus on student success.

Sincerely,

Stephen C. Head
Chancellor



December 7, 2017

To: Chancellor Steve Head
Members of the Board of Trustees
Taxpayers of Harris, Montgomery and San Jacinto Counties
Citizens of the Lone Star College Community

Respectfully submitted for your review is the comprehensive annual financial report of the Lone Star College (the “College”) for the fiscal years ended August 31, 2017 and August 31, 2016. The purpose of this report is to provide detailed information about the financial condition and performance of the College. Management assumes full responsibility for the completeness and reliability of the information contained in this report based upon a comprehensive framework of internal control. The objective of internal control is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. The concept of reasonable assurance ensures that the costs of the controls do not exceed the benefits derived.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Lone Star College’s comprehensive annual financial report (CAFR) for the fiscal years ended August 31, 2017 and 2016 was prepared by the Financial Operations and Facilities Division. The financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) and comply with the Annual Financial Reporting Requirements for Texas Public Community Colleges as set forth by the Texas Higher Education Coordinating Board (THECB). The notes to the financial statements are considered an integral part of the financial statements and should be read in conjunction with them. Additionally, attention should be given to Management’s Discussion and Analysis, which provides readers with a narrative introduction, overview and analysis of the financial statements.

REPORTING ENTITY

The College is a special-purpose government engaged solely in business-type activities (BTA). In compliance with GASB Statement Nos. 34 and 35, this reporting model is intended to make government financial statements similar to corporate financial statements. It also serves to make the financial statements more comparable across organizations.

The Lone Star College Foundation (“Foundation”) has been discretely presented in the College’s statements as a component unit by inclusion of the Foundation’s statements in the College’s statements. Because the financial statements of the Foundation are presented in a different format from the College and are incompatible with the College’s financial statements, the Foundation’s financial statements are presented on separate pages from the College’s financial statements. The Foundation is a non-profit organization established in 1991 with its sole purpose being to provide benefits such as scholarships and grants to the College.

COLLEGE PROFILE

Since its humble beginnings in 1973 when an initial college staff of 16 members welcomed 613 students to the first classes held at Aldine High School, Lone Star College has grown to six colleges, multiple centers and two University Centers enrolling 85,000 credit students. LSC is now the largest institution of higher education in the Houston area and is one of the fastest-growing community college systems in the nation. The six Lone Star Colleges are: LSC-CyFair, LSC-Kingwood, LSC-Montgomery, LSC-North Harris, LSC-Tomball and LSC-University Park. Lone Star College serves an area of more than 1,400 square miles in the northwest Houston metro area including a population of 2.1 million and 11 independent school districts: Aldine, Conroe, Cypress-Fairbanks, Humble, Klein, Magnolia, New Caney, Splendora, Spring, Tomball and Willis. Not only great in size, LSC is also a key driver and growing contributor to the local and regional economy with an annual economic impact of \$3.1 billion.

The College is governed by a nine-member Board of Trustees who are elected to serve six year terms. The Chief Executive Officer of the College is the Chancellor. The Chancellor, through his executive team, is responsible for management of the daily operations of the College.

2015-2020 STRATEGIC PLAN

Lone Star College's 2015-2020 Strategic Plan is based on feedback and recommendations from all members of the College's community – faculty, staff, students and community stakeholders – and is designed to address its continuing student population growth and ensure student success.

MISSION

Lone Star College provides comprehensive educational opportunities and programs to enrich lives.

VISION

Lone Star College will be a model college globally recognized for achieving exceptional levels of success in student learning, student completion, gainful employment, equity and affordability.

GUIDING PRINCIPLES

1. **Access and Equity:** Lone Star College is committed to access and equity for all, regardless of socio-economic background, preparation for college or workforce, or disability.
2. **Student Learning and Success:** Lone Star College is committed to transformational changes with the purpose of maximizing student learning and success.
3. **Dignity and Respect:** Everyone — students, employees and the community — should be treated with dignity and respect.
4. **Community Value:** Lone Star College recognizes the respect the college holds in the community and values that reputation.
5. **Responsibility:** Lone Star College has an important fiduciary responsibility to taxpayers and all citizens.

STRATEGIC GOALS

Through the strategic planning process, the College identified the following top 5 strategic goals.

- **Academic & Workforce Program Quality:** Provide high quality academic and workforce programs that enhance students’ learning experience and prepare them for the 21st century workforce.
- **Student Success:** Promote student success by ensuring excellence in teaching, learning and student-centered support services.
- **Financial Responsibility & Accountability:** Ensure sound financial practices that are accountable to stakeholders and fairly allocate budget and resources.
- **Culture:** Nurture a culture that values and respects all Lone Star College members and encourages collaboration.
- **Partnerships:** Build strong partnerships with local ISDs and civic, charitable, higher education, industry and business organizations to promote student and community success.



CULTURAL BELIEFS

The six cultural beliefs below, originally developed by the LSC 20|20 Task Force, now provide a common language across Lone Star College. The cultural beliefs clarify and focus our actions so we can reach desired results.

- **Students Matter** – I engage and support each student to achieve their goals.
- **Inspire Excellence** – I celebrate successes and value the contributions of all employees.
- **Act Intentionally** – I create goals and make decisions based on meaningful data.
- **Better Together** – I share knowledge and encourage collaboration to reach common goals.
- **No Fear!** – I am empowered to effect positive change.
- **Trust!** – I practice transparent communication, encourage dialogue and cultivate trust.

ECONOMIC CONDITION AND OUTLOOK

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the local environment in which the College operates.

The College’s geographic area is comprised of portions of Harris, Montgomery and San Jacinto Counties. Harris County is a major component of the Houston-The Woodlands-Sugar Land-TX Metropolitan Statistical Area (MSA). Houston is the fourth largest city in the U.S. With a 2010 Census of 5,920,416 residents, the Houston MSA is expected to increase 19.8% to 7,089,920 by 2020.

U.S. Comparative Population Growth Trends			
	<u>1990 - 2000</u>	<u>2000 - 2010</u>	<u>2010 - 2020</u>
Houston	25.2%	26.1%	19.8%
Texas	22.8%	20.6%	15.6%
U.S.	13.2%	9.7%	7.1%

Houston has 20 Fortune 500 companies headquartered in the Houston MSA. In 2017, Houston ranked fourth among U.S. cities with the most Fortune 500 headquarters, behind New York, Chicago, and Dallas-Ft. Worth.

Sources: *Fortune 500 List* as of June 2017 and the Greater Houston Partnership's "[Corporate Headquarters](#)" 6.22.17



LONG-TERM FINANCIAL PLANNING

The College's financial planning is comprised of four planning processes:

- Strategic Plan
- Facilities Master Plan
- Five-year Financial Plan
- Annual Budget

A five-year master plan was updated in 2013 to accommodate the College's facility needs through 2018. The budget is funded primarily through student, state and tax revenues. A methodology was developed to reward colleges for positive impact activities over which they have influence, but not to penalize for activities over which they have no control.

During the annual budget process an allocation methodology model is used that:

- Provides adequate funding for basic needs of the colleges
- Recognizes the importance of a balanced full-time faculty ratio
- Fairly distributes discretionary funds
- Limits administrative spending
- Provides funds to support enrollment increases
- Provides incentive funding for improvements in key indicators

The budget is presented to the Board of Trustees for approval each August.

INDEPENDENT AUDIT

State statutes require an annual audit by independent certified public accountants. The College's Board of Trustees selected the accounting firm of Whitley Penn, LLP, to perform its annual audit. In addition to meeting the requirements set forth in the state statutes, the audit was designed to meet the requirements of the Federal Single Audit Act and the State of Texas Single Audit Circular. The auditor's reports related to single audits are included in the Single Audit Section of the comprehensive annual financial report (CAFR).

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the College for its CAFR for the fiscal year ended August 31, 2016. The College has earned this recognition each year since 2004. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

Credit for this report must be given to the Board of Trustees for its oversight and unfailing support in maintaining the highest standards of integrity, transparency and accountability in the College's financial operations. We would particularly like to acknowledge the Chancellor and the Chancellor's executive leadership team for providing the resources necessary to prepare this financial report. The preparation of this report could not have been accomplished without the hard work and dedication of the entire staff of Financial Operations and Facilities.

Respectfully submitted,



Jennifer Olenick, CFA
Chief Financial Officer
Executive Vice Chancellor Finance and Operations
Lone Star College
832-813-6512
Jennifer.olenick@lonestar.edu





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Lone Star College System
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2016

Executive Director/CEO



Organization Data

LONE STAR COLLEGE BOARD OF TRUSTEES



Alton Smith, Ed.D.
Chair
Trustee, District 3



Kyle A. Scott, Ph.D.
Vice Chair
Trustee, Position 2



Ken E. Lloyd
Secretary
Trustee, District 9



Myriam Saldivar
Assistant Secretary
Trustee, District 6



David Holsey, DDS
Trustee, Position 1



Art Murillo
Trustee, District 4



David A. Vogt
Trustee, District 5



Linda S. Good, JD
Trustee, District 7



Ron Trowbridge, Ph.D.
Trustee, Position 8

LONE STAR COLLEGE ADMINISTRATION

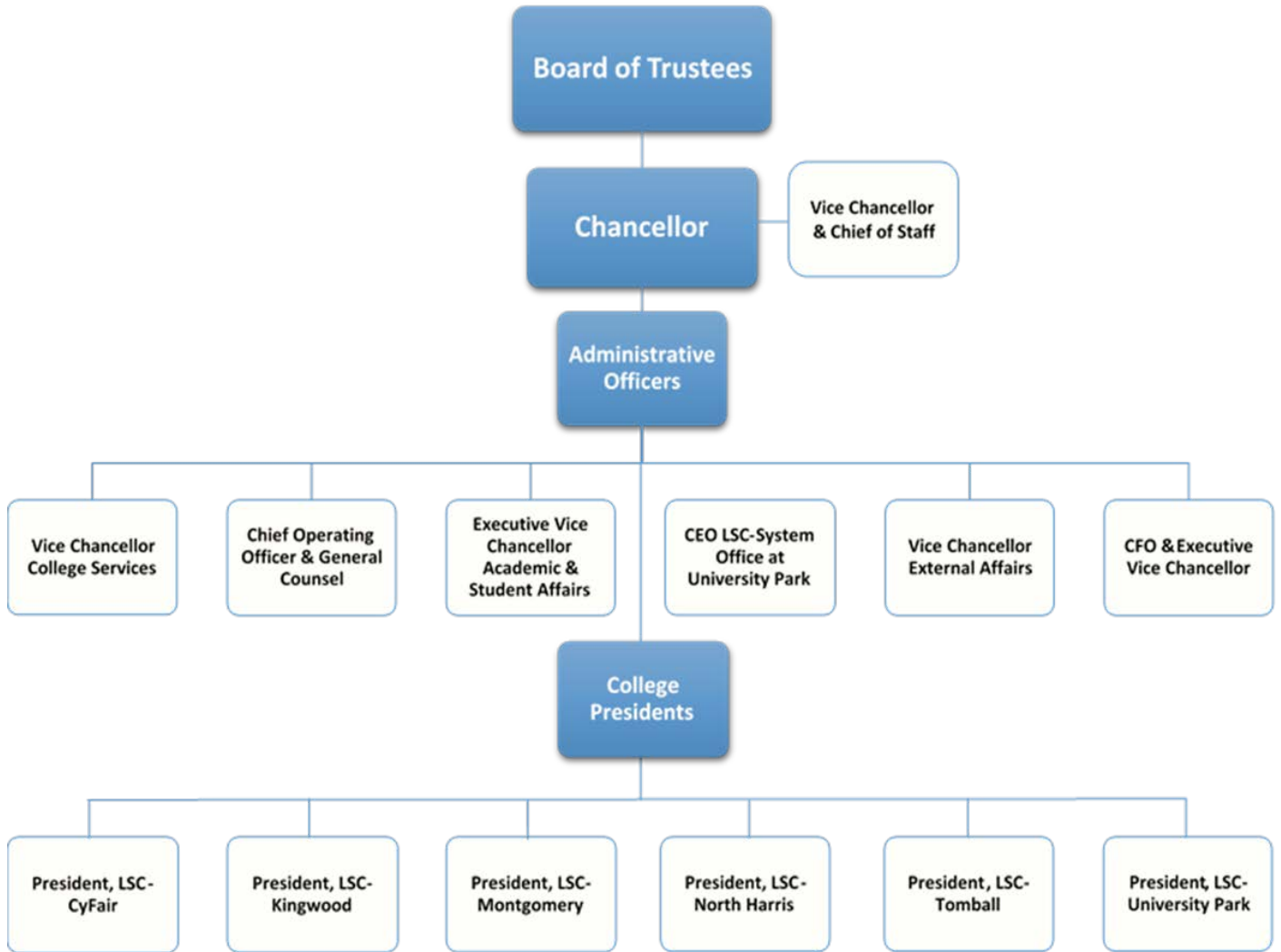
Principal Administrative Officers

Dr. Stephen C. Head Chancellor

Link Alander	Vice Chancellor College Services	Seelpa Keshvala	President, LSC-CyFair
Mario K. Castillo	Chief Operating Officer and General Counsel	Katherine Persson	President, LSC-Kingwood
Helen Clougherty	Vice Chancellor and Chief of Staff	Rebecca Riley	President, LSC-Montgomery
Dr. Alicia B. Harvey Smith	Executive Vice Chancellor Academic and Student Affairs	Gerald Napoles	President, LSC-North Harris
Rand W. Key	CEO, LSC System Office at University Park	Lee Ann Nutt	President, LSC-Tomball
Amos McDonald	Vice Chancellor External Affairs	Shah Ardalan	President, LSC-University Park
Jennifer Olenick	Chief Financial Officer and Executive Vice Chancellor		



LONE STAR COLLEGE ORGANIZATIONAL CHART





FINANCIAL SECTION



Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Lone Star College
The Woodlands, Texas

We have audited the accompanying financial statements of the business-type activities of Lone Star College (the "College"), as of and for the year ended August 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the College'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's financial statements of North Harris Montgomery Community College District Foundation dba Lone Star College Foundation (a Texas non-profit corporation) (the "Foundation") as of and for the years ended August 31, 2017 and 2016. 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.

To the Board of Trustees
Lone Star College
The Woodlands, Texas

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, along with the report of the other auditors, 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 financial position of the business-type activities of the College, as of August 31, 2017 and 2016 and the respective changes in financial position and, cash flows thereof for the years 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 23 through 30 and pension information on pages 78 and 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The Supplemental Schedules A through D 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, 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), the Schedule of Expenditures of State Awards as required by the State of Texas Single Audit Circular contained in the Governor's Office of Budget and Planning *Uniform Grant Management Standards*, and other information such as the introductory and statistical sections are also presented for additional analysis and are not a required part of the basic financial statements.

To the Board of Trustees
Lone Star College
The Woodlands, Texas

The Supplemental Schedules A through D, the schedule of expenditures of federal awards, and schedule of expenditures of state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 D, schedule of expenditures of federal awards, and the schedule of expenditures of state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017 on our consideration of the College'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 College's internal control over financial reporting and compliance.



Houston, Texas
December 7, 2017



Management's Discussion and Analysis

The purpose of the comprehensive annual financial report is to provide readers with financial information about the activities and financial condition of Lone Star College (the “College”). The report consists of three basic financial statements that provide information on the College as a whole: the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. These reports should be read in conjunction with the notes to the financial statements. The following summary and management discussion of the results is intended to provide the readers with an overview of the College’s financial activities. For purposes of the summary and discussion, the terms “2017”, “2016”, and “2015” refer to fiscal years ending August 31, 2017, August 31, 2016, and August 31, 2015, respectively.

Accounting Standards

The financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) standards. The College is considered to be a special-purpose government engaged in business-type activities.

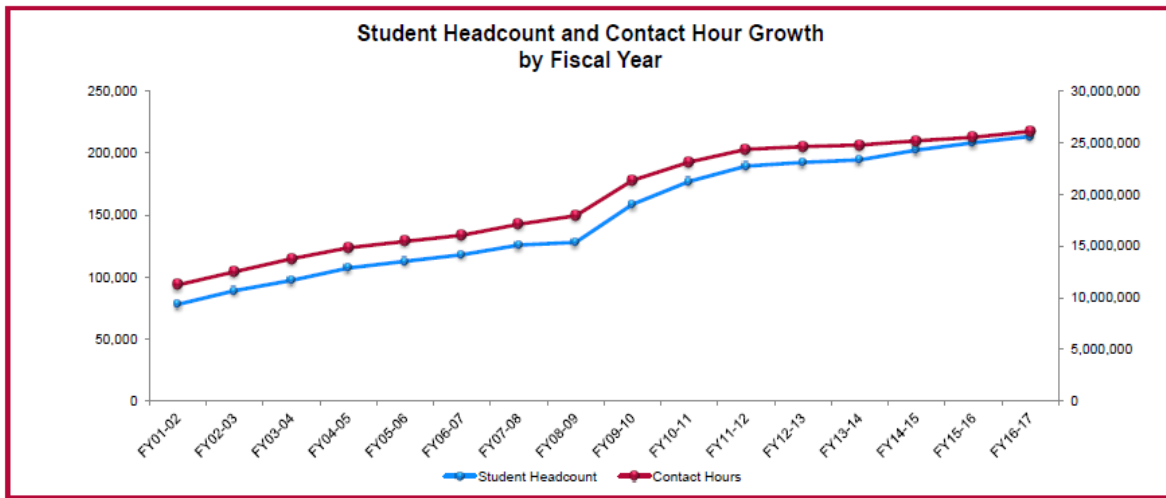
Financial and Enrollment Highlights – 2017

- Enrollment and contact hours increased 4% and 3%, respectively during 2017.
- The College maintained its AAA rating from Standard & Poor’s on its general obligation debt.
- Total assets and liabilities increased \$170.7 million and \$169.9 million, respectively, over 2016 primarily due to the issuance of \$133 million in general obligation bonds for the College’s capital program.
- Total net position increased \$9.5 million, a 4% increase over 2016.
- Total operating expenses increased \$3.7 million, which is a less than 1% increase over 2016. The College had a focused effort to contain costs while still offering quality programs and education.

Financial and Enrollment Highlights - 2016

- Enrollment and contact hours increased 3% and 1%, respectively, during 2016.
- The College maintained its AAA rating from Standard & Poor’s on its general obligation debt.
- Total assets and liabilities decreased \$57 million and \$34 million, respectively, over 2015 due to the repayment and refinancing of debt, which will save taxpayers \$81.35 million.
- Total net position increased \$5.9 million, a 3% increase over 2015.
- Total operating expenses increased \$3 million, which is a less than 1% increase over 2015. The College had a focused effort to contain costs while still offering quality programs and education.

The following chart depicts the growth in student headcount and contact hours by fiscal year:



¹Student headcount for each fiscal year is the total of fall, spring, and summer terms headcount.

Source: LSC Office of Analytics & Institutional Reporting.

Statements of Net Position

The Statements of Net Position present the financial position of the College at the end of the fiscal year. The statements include assets, liabilities, deferred outflows and inflows and are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. A summary of the most recent three fiscal years' statements is shown below.

	2017	August 31 2016	2015
ASSETS			
Current Assets:			
Cash and short-term investments	\$ 284,087,817	\$ 159,558,538	\$ 263,830,069
Receivables, net	63,551,196	51,183,736	47,161,219
Inventory, prepaid expenses & other	1,767,998	1,579,561	768,074
Total current assets	349,407,011	212,321,835	311,759,362
Non-Current Assets:			
Long-term investments	\$ 24,160,352	\$ 29,306,590	\$ 17,438,044
Capital assets, net	849,832,875	811,042,338	780,509,924
Total non-current assets	873,993,227	840,348,928	797,947,968
TOTAL ASSETS	\$ 1,223,400,238	\$ 1,052,670,763	\$ 1,109,707,330
Deferred outflows of resources			
Deferred outflows related to pensions	\$ 18,373,377	\$ 10,033,936	\$ 8,864,100
Deferred charge on refunding	22,439,732	23,724,850	-
Total Deferred outflows of resources	\$ 40,813,109	\$ 33,758,786	\$ 8,864,100
LIABILITIES			
Current Liabilities:			
Accounts payable & accrued liabilities	\$ 46,901,116	\$ 38,705,284	\$ 42,236,370
Unearned revenues	55,116,035	50,477,412	46,996,647
Bonds payable-current portion	34,229,182	15,212,466	25,812,704
Total current liabilities	136,246,333	104,395,162	115,045,721
Non-Current Liabilities:			
Accrued compensable absences	3,617,341	4,541,240	5,295,422
Net pension liability	62,494,141	51,162,604	48,590,997
Bonds payable-noncurrent portion	800,787,650	689,483,324	714,738,144
Local government liability	16,310,263	-	-
Total non-current liabilities	883,209,395	745,187,168	768,624,563
TOTAL LIABILITIES	\$ 1,019,455,728	\$ 849,582,330	\$ 883,670,284
Deferred inflows of resources			
Deferred inflows related to pensions	\$ 10,662,554	\$ 12,296,998	\$ 14,864,132
Deferred charge on refunding	-	-	1,445,282
Total Deferred inflows of resources	\$ 10,662,554	\$ 12,296,998	\$ 16,309,414
NET POSITION			
Net Investment in capital assets	190,413,468	216,840,509	198,560,069
Restricted	67,133,455	52,157,237	48,249,611
Unrestricted	(23,451,858)	(44,447,525)	(28,217,948)
TOTAL NET POSITION	\$ 234,095,065	\$ 224,550,221	\$ 218,591,732

The increase in total current assets of \$137.1 million in 2017 relates primarily to an increase in cash resulting from the bond proceeds from the issuance of \$133 million in general obligation bonds for the College's capital program.

Statements of Net Position (Continued)

Total liabilities increased \$169.9 million during 2017. The increase primarily relates to an increase in bonds payable from the 2017 bond issuance noted above, the recording of liability to local government, and the recognition of pension liability described below.

During 2015, the College implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The standard requires all colleges and state agencies to recognize their share of the Teacher's Retirement System of Texas (TRS) pension liability on their financial statements. As a result, the College recognized a \$62 million liability in 2017 and a \$51 million liability in 2016 to comply with this standard. The various rating agencies and bond counsel have assured all TRS participating entities that there will be no negative impact upon our bond rating from this accounting change. Without this change, unrestricted net position would be a positive \$30 million at August 31, 2017 and a positive \$10.2 million at August 31, 2016.

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position present the operating results of the College, as well as the non-operating revenues and expenses. Ad valorem taxes for maintenance and operations, and state appropriations, while budgeted for operations, are not considered to be exchange transactions and are, therefore, classified as non-operating revenues according to generally accepted accounting principles. A summary of the most recent three fiscal years' statements is shown below.

	Fiscal Year Ending August 31		
	2017	2016	2015
Operating Revenues			
Student tuition and fees	\$ 82,415,623	\$ 77,530,673	\$ 77,564,764
Grants & contracts	12,949,202	13,830,056	15,053,707
Auxiliary enterprises	13,012,225	14,689,638	14,963,113
Other	3,389,147	2,896,665	2,779,531
Total operating revenues	<u>111,766,197</u>	<u>108,947,032</u>	<u>110,361,115</u>
Operating Expenses			
Educational Activities	405,137,838	391,803,548	392,942,852
Auxiliary Activities	11,980,375	16,355,792	14,088,379
Depreciation Expense	22,222,193	27,454,808	25,473,371
Total operating expenses	<u>439,340,406</u>	<u>435,614,148</u>	<u>432,504,602</u>
Operating Loss	(327,574,209)	(326,667,116)	(322,143,487)
Non-Operating Revenues			
Ad-valorem taxes	189,133,551	179,266,732	158,836,447
State Appropriations	95,681,136	97,051,845	90,002,374
Federal Revenue, Non-Operating	77,449,276	77,852,910	91,112,482
Investment income	2,609,230	1,162,650	662,925
Interest and fees on capital asset - related debt	(32,191,930)	(28,869,951)	(23,738,073)
Other	4,437,790	6,161,419	3,329,230
Total net non-operating revenues	337,119,053	332,625,605	320,205,385
Increase (Decrease) in Net Position	9,544,844	5,958,489	(1,938,102)
Net Position, Beginning of Year	224,550,221	218,591,732	275,583,641
Prior Period Adjustment	-	-	(55,053,807)
Net Position, End of Year	<u>\$ 234,095,065</u>	<u>\$ 224,550,221</u>	<u>\$ 218,591,732</u>

Student tuition and fees revenue is reported net of scholarships and discounts. Tuition and fees revenue increased \$4.9 million for 2017, due to Fall 2016 increase in base tuition. Enrollment increased 4% over 2016; this increase was offset by a \$4 million increase in scholarships and discounts. At \$44 per credit hour the College's tuition rate remains below the Texas average for community colleges. For 2016, tuition and fees revenue was about the same as 2015. While enrollment increased 3% over 2015, this increase was offset by \$0.8 million increase in scholarships and discounts.

Grants & contracts decreased \$1 million for 2017 due to a decrease in local grant funding. Grants & contracts also decreased \$1.2 million for 2016 due to a decrease in local grant funding. Auxiliary enterprises revenue decreased \$1.7 million for 2017 due to all campuses outsourcing food services.

Expenses for educational activities increased \$13.3 million in 2017. Expenses for instruction, academic support, student services and institutional support increased by \$19 million. However, these increases were offset by a decrease of \$4.1 million in operational expenses and a decrease of \$2 million in scholarships. Expenses for educational activities decreased \$1.1 million in 2016. Expenses for instruction, student services, institutional support and plant increased by \$13.2 million. However, these increases were offset by a decrease of \$12.1 million in scholarships.

Tax revenues increased \$9.9 million in 2017 (\$20.4 million in 2016) due to an increase in appraised values and the addition of new properties. Investment income increased \$1.4 million in 2017 due to improved interest rates and increased investments due to new bond funds.

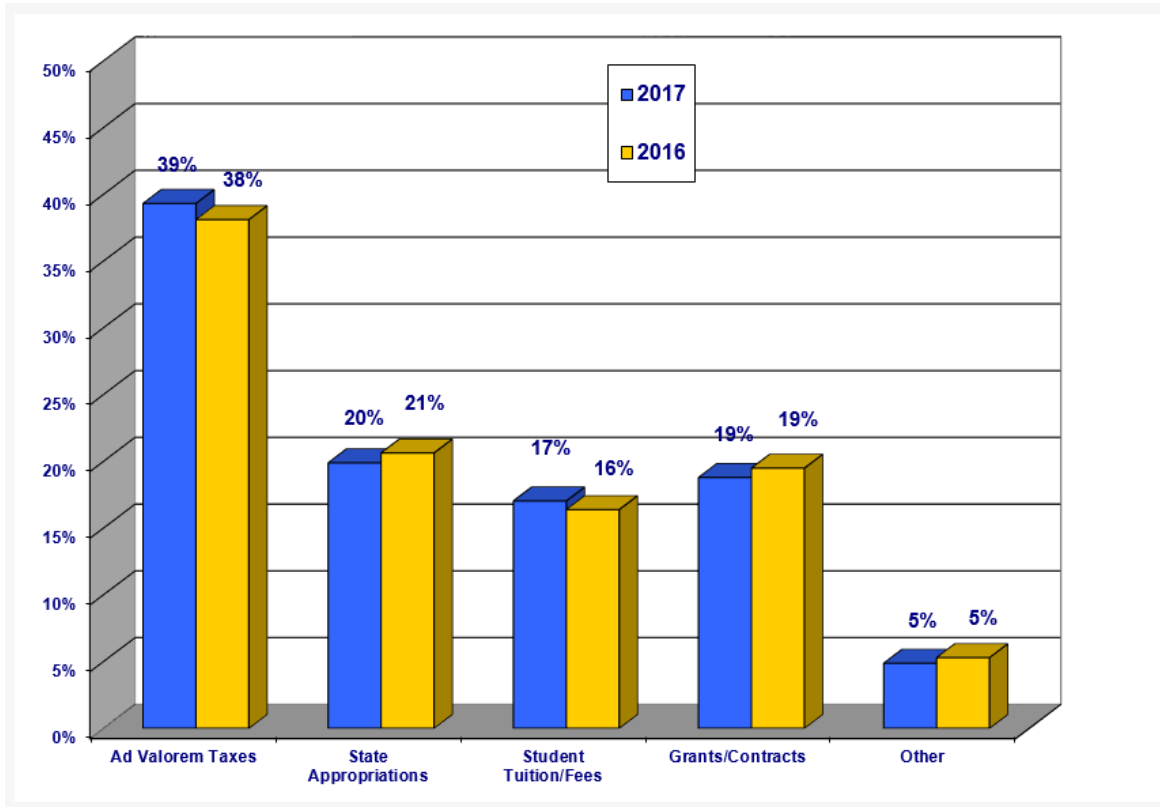
The 83rd legislature passed an appropriations act for the 2014-15 biennium which changed the method of funding for the state's 50 community colleges. Each college receives a base funding amount of \$500,000 per year. Additionally, each college receives an allocation based on contact hours and student success points.

State appropriations decreased \$1.4 million in 2017. The decrease was due primarily to the decrease in state contribution for retirement. State appropriations increased \$7 million in 2016. The base appropriation increased \$1.5 million due to additional growth funding received. The state contribution for insurance and retirement increased by \$5.5 million to offset the higher costs of healthcare.

Total Revenues

The College has four main sources of revenue: ad valorem taxes, state appropriations, student tuition and fees, and grants and contracts.

The following chart illustrates the breakdown of total revenues for the College.

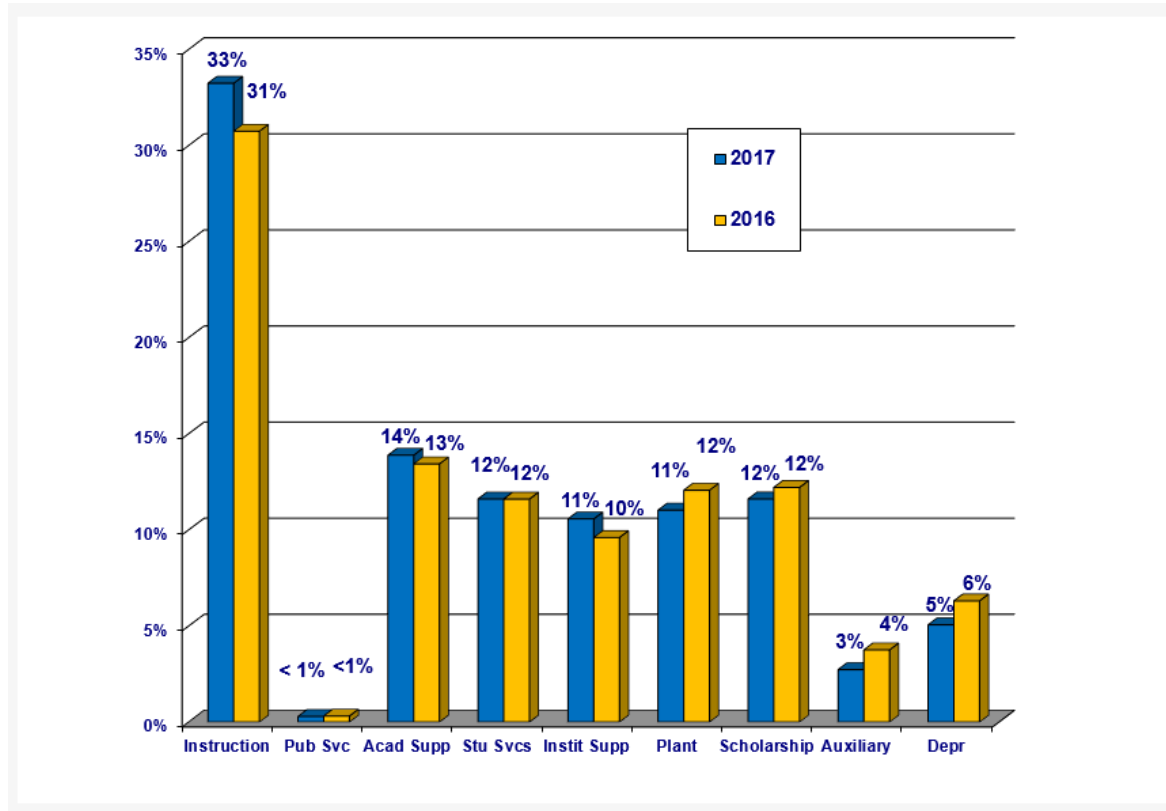


The largest source of revenue for both 2017 and 2016 for the College is ad valorem taxes which accounts for 39% and 38% of total revenues for 2017 and 2016, respectively. Auxiliary income comprises the majority of other revenues.

Total Expenses

Expenses for the College can be grouped into nine functional categories: instruction, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships, auxiliary, and depreciation.

The following chart illustrates the breakdown of total expenses for the College.



At 33% and 31% of the total expenses for 2017 and 2016, respectively, instruction is by far the College's largest expense. All other expense categories remained relatively consistent.

Capital Assets and Long-Term Debt Activity

As depicted in Footnote 5 to the financial statements, capital assets increased from \$811 million in 2016 to \$850 million in 2017. On November 4, 2014, the voters authorized the College to issue \$485 million General Obligation Bonds for the College's capital program. The following lists some of the major projects in progress under the 2014 GO Bond Program.

Bond Projects Completed and in Process as of August 31, 2017

- Completed construction of the 77,000 square foot/\$29.6 million Instructional and Student Life Building at LSC-CyFair.
- Entering initial construction phase of LSC-CyFair Westway Park Technology Center.
- Completed construction of the 50,000 square foot/\$22.2 million Construction & Skilled Trades Technology Center at LSC-North Harris.

Bond Projects Completed and in Process as of August 31, 2017 (cont.)

- Continued construction of the 65,000 square foot/\$26.7 million East Aldine Satellite Center at LSC-North Harris.
- Nearing completion of the construction of the 41,000 square foot/\$22.2 million Process Technology Satellite Center at LSC-Kingwood.
- Continued construction of the 45,000 square foot/\$22.6 million Center for Science and Innovation at LSC-University Park.
- Continued renovations to existing facilities at LSC-University Park.

As detailed in Footnote 7 to the financial statements, financing for the above projects has been achieved through the issuance of long-term bonds. The first tranche of the \$485 million 2014 General Obligation bond program was issued April 29, 2015, the second tranche of the program was issued February 16, 2017 and the balance will be issued at a later date.

As detailed in Footnote 21 to the financial statements, the non current funds held for others relates to an interlocal agreement between the College and Aldine ISD (“AISD”) approved by the Board of Trustees at their meeting in September 2016. AISD has deposited \$16 million of funds in an escrow account with the College, as prescribed by the interlocal agreement. These escrowed funds will be used to pay for costs related to this facility upon approval by AISD.

Currently Known Facts, Decisions and Conditions

On August 25, 2017, Hurricane Harvey made landfall as a Category 4 hurricane. The storm lingered over Texas and Louisiana for days producing over 50 inches of rain in some areas, resulting in widespread flooding and damage. As a result of Hurricane Harvey, the College’s Kingwood campus suffered extensive damages to six of nine buildings due to flooding caused by the San Jacinto River which contained sewage from the nearby flooded water treatment plant. The remediation and restoration of the campus is estimated to cost \$31 million, and the damaged buildings are currently estimated to remain closed thru Fall 2018 semester.

Although the College suffered devastating damage to Kingwood campus, the damage is not expected to have a substantial negative effect on the College’s ability to provide instruction. The College increased online courses but kept those face-to-face courses in the remaining undamaged buildings, nearby satellite centers, and in temporary lease space. For the Fall of 2017, the Kingwood campus enrollment increased 5% from Fall 2016.

As detailed in Footnote 5, the net impairment loss after flood insurance proceeds for the College’s Kingwood campus was \$11.3M. As of the date of this report, remediation of the buildings has been 90% complete and permanent repair is anticipated to begin in Spring of 2018 and full restoration expected by Spring of 2019.

On August 25, 2017, the President of the United States issued a major disaster declaration, which included Harris County and Montgomery County, where the College is located. The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including direct federal assistance, under the Public Assistance program. The College expects to utilize the College’s operating fund balance to initially cover Hurricane Harvey related expenses and to seek reimbursement from the Federal Emergency Management Agency for eligible disaster-related expenses that are not covered by the College’s property insurance policy.

On October 10, 2017, the Board of Trustees approved for tax year 2017 the maintenance and operations tax rate of \$1.078 per \$100 assessed valuation, the same tax rate as tax year 2016.



Financial Statements

Lone Star College
STATEMENTS OF NET POSITION
AUGUST 31, 2017 AND 2016

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents (Note 4)	\$ 256,272,087	\$ 136,561,185
Short-term investments (Note 4)	27,815,730	22,997,353
Accounts receivable, net (Note 13)	63,551,196	51,183,736
Prepaid items	1,767,998	1,579,561
Total current assets	349,407,011	212,321,835
Noncurrent assets:		
Long-term investments (Note 4)	\$ 24,160,352	\$ 29,306,590
Capital assets, net (Note 5)	849,832,875	811,042,338
Total non-current asset:	873,993,227	840,348,928
TOTAL ASSETS	1,223,400,238	1,052,670,763
Deferred outflows of resources		
Deferred outflows related to pensions (Note 10)	\$ 18,373,377	\$ 10,033,936
Deferred charge on refunding	22,439,732	23,724,850
TOTAL DEFERRED OUTFLOWS OF RESOURCES	40,813,109	33,758,786
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (Note 13)	\$ 41,025,415	\$ 33,447,021
Accrued compensable absences (Note 6 & 11)	1,008,419	903,434
Funds held for others	4,867,282	4,354,829
Unearned revenues	55,116,035	50,477,412
Bonds payable-current portion (Note 6 & 7)	34,229,182	15,212,466
Total current liabilities	136,246,333	104,395,162
Noncurrent liabilities:		
Accrued compensable absences (Note 6 & 11)	3,617,341	4,541,240
Net pension liability (Note 6)	62,494,141	51,162,604
Bonds payable-noncurrent portion (Note 6 & 7)	800,787,650	689,483,324
Local government liability (Note 21)	16,310,263	-
Total non-current liabilities	883,209,395	745,187,168
TOTAL LIABILITIES	1,019,455,728	849,582,330
Deferred inflows of resources		
Deferred inflows related to pensions (Note 10)	\$ 10,662,554	\$ 12,296,998
TOTAL DEFERRED INFLOWS OF RESOURCES	10,662,554	12,296,998
NET POSITION		
Net Investment in Capital Assets	\$ 190,413,468	\$ 216,840,509
Restricted:		
Expendable-		
Restricted	10,055,468	100,955
Debt service	57,077,987	52,056,282
Unrestricted	(23,451,858)	(44,447,525)
TOTAL NET POSITION (Schedule D)	\$ 234,095,065	\$ 224,550,221

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

**Lone Star College Foundation
Statements of Financial Position**

<i>August 31,</i>	2017	2016
Assets	\$ 686,159	\$ 1,297,513
Current assets		
Cash and cash equivalents		
Pledges and contributions receivable	678,752	72,450
Prepaid expenses	2,142	3,352
Total current assets	1,367,053	1,373,315
Long-term assets		
Pledges receivable, net current portion	123,334	70,000
Certificates of deposit	538,640	585,343
Investments, at fair value	23,551,832	20,933,103
Total assets	\$ 25,580,859	\$ 22,961,761
Liabilities and net assets		
Current liabilities		
Unearned revenue	\$ 33,326	\$ 33,250
Commitments and contingencies		
Net assets		
Unrestricted		
Undesignated	1,256,492	1,025,927
Board designated	2,148,661	1,873,481
Temporarily restricted	8,413,671	6,873,817
Permanently restricted	13,728,709	13,155,286
Total net assets	25,547,533	22,928,511
Total liabilities and net assets	\$ 25,580,859	\$ 22,961,761

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

Lone Star College
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Tuition and fees (net of discounts of \$43,158,263 in 2017 and \$39,147,533 in 2016)	\$ 82,415,623	\$ 77,530,673
Federal grants and contracts	4,536,292	4,208,064
State and local grants and contracts	8,412,910	9,621,992
Auxiliary enterprises	13,012,225	14,689,638
Other operating revenue	3,389,147	2,896,665
Total operating revenues (Schedule A)	<u>111,766,197</u>	<u>108,947,032</u>
OPERATING EXPENSES		
Instruction	146,012,905	133,901,394
Public service	1,276,395	1,347,732
Academic support	60,991,767	58,499,518
Student services	50,981,548	50,523,917
Institutional support	46,441,343	41,817,396
Operation and maintenance of plant	48,439,653	52,535,800
Scholarships and fellowships	50,994,227	53,177,791
Auxiliary enterprises	11,980,375	16,355,792
Depreciation (Note 5 & Schedule B)	22,222,193	27,454,808
Total operating expenses (Schedule B)	<u>439,340,406</u>	<u>435,614,148</u>
Operating loss	<u>(327,574,209)</u>	<u>(326,667,116)</u>
NON-OPERATING REVENUE (EXPENSES)		
Ad-Valorem taxes		
Maintenance and operations	140,258,439	125,089,457
General obligation bonds	48,875,112	54,177,275
State appropriations	95,681,136	97,051,845
Federal revenue, non-operating (Schedule E)	77,449,276	77,852,910
Gifts	57,000	1,668,125
Investment income, net	2,609,230	1,162,650
Interest and fees on capital asset-related debt (net of capitalized interest costs of \$264,426 in 2017 and \$946,903 in 2016)	(32,191,930)	(28,869,951)
Gain on Sale/Donation of capital assets	1,735,360	4,038
Loss on disposal of capital assets	(720,765)	(63,364)
Other non-operating revenues	3,366,195	4,552,620
Total net non-operating revenue (Schedule C)	<u>337,119,053</u>	<u>332,625,605</u>
Increase (decrease) in net position	9,544,844	5,958,489
NET POSITION, BEGINNING OF YEAR	<u>224,550,221</u>	<u>218,591,732</u>
NET POSITION, END OF YEAR (Schedule D)	<u>\$ 234,095,065</u>	<u>\$ 224,550,221</u>

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

**Lone Star College Foundation
Statement of Activities**

<i>For the year ended August 31, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Donations	\$ 304,362	\$ 1,937,013	\$ 360,195	\$ 2,601,570
Fundraising donations	366,587	61,030	152,425	580,042
Net realized and unrealized gain on investments	82,940	1,812,867	-	1,895,807
Interest and dividends, net of investment fees	27,609	337,745	-	365,354
In-kind revenue	557,494	-	-	557,494
Total revenue and support	1,338,992	4,148,655	512,620	6,000,267
Restrictions released				
Program expenditures	2,567,998	(2,567,998)	-	-
Total revenue, support and reclassification	3,906,990	1,580,657	512,620	6,000,267
Expenses				
Program services				
Program enrichment	767,997	-	-	767,997
Student scholarships	1,700,468	-	-	1,700,468
Mini-grants	19,634	-	-	19,634
Institutional development	79,899	-	-	79,899
Total program services	2,567,998	-	-	2,567,998
Non-program services				
Fundraising	232,500	-	-	232,500
General and administrative	580,747	-	-	580,747
Total expenses	3,381,245	-	-	3,381,245
Change in net assets	525,745	1,580,657	512,620	2,619,022
Net asset transfers	(20,000)	(40,803)	60,803	-
Net assets at beginning of year	2,899,408	6,873,817	13,155,286	22,928,511
Net assets at end of year	\$ 3,405,153	\$ 8,413,671	\$ 13,728,709	\$ 25,547,533

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

**Lone Star College Foundation
Statement of Activities**

<i>For the year ended August 31, 2016</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Donations	\$ 743,112	\$ 1,395,973	\$ 465,463	\$ 2,604,548
Fundraising donations	486,693	174,473	421,406	1,082,572
Net realized and unrealized gain on investments	47,515	877,951	-	925,466
Interest and dividends, net of investment fees	23,925	267,313	-	291,238
In-kind revenue	645,951	-	-	645,951
Total revenue and support	1,947,196	2,715,710	886,869	5,549,775
Restrictions released				
Program expenditures	2,394,794	(2,394,794)	-	-
Total revenue, support and reclassification	4,341,990	320,916	886,869	5,549,775
Expenses				
Program services				
Program enrichment	842,546	-	-	842,546
Student scholarships	1,441,816	-	-	1,441,816
Mini-grants	20,000	-	-	20,000
Institutional development	90,432	-	-	90,432
Total program services	2,394,794	-	-	2,394,794
Non-program services				
Fundraising	459,212	-	-	459,212
General and administrative	729,339	-	-	729,339
Total expenses	3,583,345	-	-	3,583,345
Change in net assets	758,645	320,916	886,869	1,966,430
Net asset transfers	(69,500)	13,655	83,155	-
Net assets at beginning of year	2,210,263	6,566,556	12,185,262	20,962,081
Net assets at end of year	\$ 2,899,408	\$ 6,873,817	\$ 13,155,286	\$ 22,928,511

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

Lone Star College
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 116,552,850	\$ 121,757,465
Receipts from grants and contracts	13,212,562	13,143,943
Payments to suppliers for goods and services	(97,976,053)	(98,105,502)
Payments to or on behalf of employees	(242,105,214)	(241,087,965)
Payments for scholarships and fellowships	(81,609,289)	(82,309,918)
Other receipts	4,502,438	2,638,341
Net cash used by operating activities	<u>(287,422,706)</u>	<u>(283,963,636)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	74,089,265	73,968,598
Receipts from ad-valorem taxes	142,483,264	125,487,529
Receipts from non-operating Federal Revenue	77,449,276	77,941,695
Payments for Federal loans issued to students	(52,544,877)	(53,691,156)
Receipts from Federal loans for students	52,564,440	53,710,630
Net cash provided by non-capital financing activities	<u>294,041,368</u>	<u>277,417,296</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from ad-valorem taxes	49,285,883	54,450,328
Proceeds from capital debt	151,193,650	218,256,324
Paid for acquisition and construction of capital assets	(56,954,425)	(50,963,666)
Proceeds from sale of capital assets	1,735,361	4,038
Principal paid on capital debt and leases	(19,715,000)	(252,100,000)
Interest paid on capital debt and leases	(15,293,048)	(56,666,320)
Net cash used by financing activities	<u>110,252,421</u>	<u>(87,019,296)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	58,329,578	14,400,000
Interest on investments	2,621,598	1,165,832
Purchase of investments and related fees	(58,014,085)	(48,268,000)
Net cash provided by investing activities	<u>2,937,091</u>	<u>(32,702,168)</u>
Net Increase in Cash and Cash Equivalents	119,710,902	(126,267,804)
Cash and Cash Equivalents, Beginning of Year	136,561,185	262,828,989
Cash and Cash Equivalents, End of Year (Exhibit 1 & Note 4)	<u>\$ 256,272,087</u>	<u>\$ 136,561,185</u>

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

Lone Star College
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss (Exhibit 2)	\$ (327,574,209)	\$ (326,667,116)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	22,222,193	27,454,808
Bad debt expense	1,662,986	464,413
Payments made directly by state for benefits	21,591,871	23,083,247
Changes in assets and liabilities		
Receivables, net	(14,030,607)	(4,245,520)
Inventories	-	51,382
Prepaid items	(188,436)	(862,869)
Deferred outflows	(8,339,441)	(1,169,836)
Accounts payable and accrued liabilities	4,605,361	(4,767,617)
Unearned revenue	3,236,944	3,480,765
Funds held for others	512,453	(202,132)
Accrued compensable absences	(818,914)	(587,635)
Net Pension Liability	11,331,537	2,571,606
Deferred inflows	(1,634,444)	(2,567,132)
Total adjustments	<u>40,151,503</u>	<u>42,703,480</u>
Net cash used by operating activities	<u>\$ (287,422,706)</u>	<u>\$ (283,963,636)</u>
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Payments made directly by state for benefits	\$ 21,591,871	\$ 23,083,247
Net Pension Liability	(1,294,153)	(1,264,282)
Charge on Refunding	22,439,732	23,724,850
Net Non-cash Investing, Capital, and Financing Activities	<u>\$ 42,737,450</u>	<u>\$ 45,543,815</u>

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



Notes to Financial Statements

LONE STAR COLLEGE

Notes to Financial Statements

For the Fiscal Years Ended
August 31, 2017 and 2016

1. REPORTING ENTITY

Lone Star College was established in 1972 as a junior college district, in accordance with the laws of the State of Texas, to serve the educational needs of the northern part of Harris County and the southern part of Montgomery County, Texas. The College encompasses the Aldine, Conroe, Cypress-Fairbanks, Humble, Klein, Magnolia, New Caney, Splendora, Spring, Tomball and Willis Independent School Districts. The College is a comprehensive, public, two-year institution offering academic, general, occupational, developmental, and continuing adult education programs through a network of colleges. The colleges of LSC-North Harris, LSC-Kingwood, LSC-Tomball, LSC-Montgomery, LSC-CyFair, and LSC-University Park comprise the College.

The College is considered to be a special-purpose government engaged in business-type activities. While the College receives funding from local, state, and federal 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.

In evaluating how to define the College for financial reporting purposes, management has considered all potential component units, including the Lone Star College Foundation (the "Foundation"). The Foundation is a separate non-profit organization, and its sole purpose is to provide benefits such as scholarships and grants to the students, faculty and staff of the College. The Foundation is a legally separate entity that does not provide a financial benefit or impose a financial burden on The College. The College does not appoint any of the Foundation's board members. The financial position and results of operations of the Foundation are included in these financials statements in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*, and Statement No. 39, *Determining Whether Certain Organizations Are Component Units – An Amendment of GASB Statement No. 14*, as an affiliated entity because the Foundation's sole function is to fund the College and its students. Note 19 to the financial statements describes the Foundation and its financial statement presentation in more detail.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

The significant accounting policies followed by the College in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements also comply with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The College is reported as a special-purpose government engaged in business-type activities.

Basis of Accounting

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. 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 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 College's Board of Trustees adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget and subsequent amendments 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.

Tuition Discounting

Texas Public Education Grants (TPEG)

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code § 56.033). 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 Program Funds (HEA)

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

Other Tuition Discounts

The College awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amount is recorded as a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

Cash and Cash Equivalents

The College's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments consist of balances in privately managed public funds investment pools and investments in United States (U.S.) securities and U.S. Agency securities. The College reports all investments at fair value, except for investment pools. As permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*, the College's local government investment pools are valued and reported at amortized cost, which approximates fair value.

The College 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.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation. For equipment, the College'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. Renovations of \$100,000 to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset 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, generally 50 years for buildings, 50 years for land improvements, 15 years for library books, 10 years for furniture, machinery, vehicles and other equipment and 5 years for telecommunications and peripheral equipment.

Unearned Revenues

A portion of tuition and fee revenue and federal, state, and local grants at August 31, 2017 and 2016, related to the period after August, and therefore have been reported as unearned revenues at August 31, 2017 and 2016, respectively.

Estimates

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

Operating and Non-Operating Revenue and Expense Policy

The College distinguishes operating revenues and expenses from non-operating items. The College 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 College's principal ongoing operations. The principal operating revenues are tuition and related fees and federal grants and contracts. The major non-operating revenue sources are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The principal non-operating expense is long-term debt interest and fees. When both restricted and unrestricted resources are available for use, it is the College's policy to use restricted resources first, then unrestricted resources as they are needed. The bookstore and food service facilities are operated by a third party contractor.

Deferred Outflows and Inflows of Resources

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 College has two items that qualify for reporting in this category:

- Deferred outflows of resources for refunding - Reported in the Statements 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. For additional information, see Note 8.
- Deferred outflows of resources for pension – Reported in the Statements of Net Position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension. For additional information, see Note 10.

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 College has one item that qualifies for reporting in this category:

- Deferred inflows of resources for pension – Reported in the Statements of net position, these deferred inflows represent the College's proportionate share of collective deferred inflows of the TRS pension plan. For additional information, see Note 10.

Pensions

For the year ended August 31, 2015, the College implemented the provisions of GASB Statement 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined based on the flow of economic resource 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, and 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 the benefit terms. Investments are reported at fair value.

New GASB Pronouncements

Effective with fiscal year 2017, the College implemented the following:

- GASB Statement No. 77, *Tax Abatement Disclosures*

The College does not expect the statement to have any impact on its financial statements.

Effective with fiscal year 2016, the College implemented the following:

- GASB Statement No. 72, *Fair Value Measurement and Application*
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

3. AUTHORIZED INVESTMENTS

The College's is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (PFIA) (Sec. 2256.001 Texas Government Code) and as authorized by Board policy. The College's Board of Trustees has adopted a written investment policy regarding the investment of its funds as defined in the PFIA. Such investments include (1) Obligations of the United States or its agencies, (2) Certificates of deposit and other forms of deposit issued by the Federal Deposit Insurance Corporation or its successor or secured by obligations in a manner consistent with State law and the Investment Policy, (3) Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States government, (4) Direct obligations of the State of Texas, or its agencies and instrumentalities, (5) Obligations of states, agencies, counties, cities, and other political subdivisions of any State having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent, (6) Fully collateralized repurchase agreements with a defined termination date secured by a combination of cash and obligations of the United States government or its agencies, (7) SEC registered Money Market Mutual Funds continuously rated AAAM, (8) Local government investment pools in Texas, (9) Commercial paper with a maximum maturity of 180 days, rated A1/P1 or equivalent.

4. DEPOSITS AND INVESTMENTS

Cash and cash equivalents included on Exhibit 1, Statements of Net Position, consist of:

	2017	2016
Demand Deposits	\$ 6,023,059	\$ 1,422,611
Petty Cash on Hand	36,259	35,264
Other Investments	292,617	422,174
External Investment Pools	242,975,335	117,450,155
Certificates of Deposit	-	5,296,329
Money Market	6,944,817	11,934,652
Total Cash and Cash Equivalents	<u>\$ 256,272,087</u>	<u>\$ 136,561,185</u>

Reconciliation of Deposits and Investments to Statements of Net Position (Exhibit 1):

	Fair Value at August 31,	
	2017	2016
U. S. Agency Notes and Bonds > 1 Year Maturity	\$ 24,160,352	\$ 29,306,590
U. S. Agency Notes and Bonds < 1 Year Maturity	20,815,730	22,997,353
Certificates of Deposit	-	5,296,329
Commercial Paper	7,000,000	-
Cash and Deposits	256,272,087	131,264,856
Total Deposits and Investments	<u>\$ 308,248,169</u>	<u>\$ 188,865,128</u>
Cash and Cash Equivalents (Exhibit 1)	256,272,087	\$ 136,561,185
Long Term Investments (Exhibit 1)	24,160,352	29,306,590
Short Term Investments (Exhibit 1)	27,815,730	22,997,353
Total Deposits and Investments	<u>\$ 308,248,169</u>	<u>\$ 188,865,128</u>

As of August 31, 2017, the College had the following investments and maturities:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External Investment Pools	\$ 242,975,335	0.11
Money Market	6,944,817	0.08
U. S. Agency Notes and Bonds	44,976,082	0.98
Commercial Paper	7,000,000	0.13
Other Investments	292,617	-
Total Fair Value	<u>\$ 302,188,851</u>	<u>0.24</u>

	Fair Value Measurements Using			
	Total Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<u>Investments</u>				
U.S. Agency Securities	\$ 44,976,082	\$ -	\$ 44,976,082	\$ -
Commercial Paper	7,000,000		7,000,000	
Total	<u>\$ 51,976,082</u>	<u>\$ -</u>	<u>\$ 51,976,082</u>	<u>\$ -</u>

Interest Rate Risk - In accordance with State of Texas law and the College’s investment policy, the College does not purchase any investments with maturities greater than three years. The College manages its exposure to declines in fair value by limiting the weighted-average maturity of its investment portfolio to approximately one year or less.

Credit Risk and Concentration of Credit Risk - In accordance with State of Texas law and the College’s investment policy, investments in mutual funds and investment pools must be rated at least “AAA” and commercial paper must be rated at least “A-1” or “P-1”. To reduce market risk the College has established portfolio diversification requirements by issuer and/or type of investment. The College’s portfolio is within the stated parameters at August 31, 2017.

The credit quality (ratings) and concentration of the College’s portfolio as of August 31, 2017 are as follows:

Security	Credit Rating	Concentration	
		Actual	Limit
Cash and External Investment Pools	AAA	80.40%	100%
U.S. Agencies and Bonds	AA+	14.88%	90%
Commercial Paper	A1/P1	2.32%	25%
Money Market	N/A	2.30%	100%
Other Investments	N/A	0.10%	N/A
		100.00%	

The State of Texas Comptroller of Public Accounts exercises oversight responsibility over the Texas Local Government Investment Pool (TexPool). Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State of Texas Comptroller of Public Accounts has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAA by Standard & Poor’s. As a requirement to maintain the rating, weekly portfolio information is submitted to both Standard & Poor’s and the Office of the State of Texas Comptroller of Public Accounts for review.

TexPool operates in accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. TexPool uses amortized cost rather than fair value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same value as the value in TexPool shares.

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. First Public is rated AAA by Standard & Poor’s.

Local Government Investment Cooperative (“LOGIC” or the “Cooperative”) was organized in conformity with the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. Participation in the Cooperative is limited to those eligible Government Entities which have become parties to the Participation Agreement. The Cooperative’s governing body is a six-member Board of Directors (the “Board”) comprised of employees, officers or elected officials of participant Government Entities or individuals who do not have a business relationship with the Cooperative and are qualified to advise it. A maximum of two advisory board members represent the Co-Administrators of the Cooperative. The Board has entered into a contract with First Southwest Asset Management, Inc. and JPMorgan Asset Management, Inc. to provide administrative, investment management fund accounting, transfer agency, participant and marketing services for the Cooperative. In compliance with the Public Funds Investment Act, all portfolios will maintain a AAA or equivalent rating from at least one nationally recognized rating agency. LOGIC has been assigned a rating of AAAm by Standard & Poor’s.

5. CAPITAL ASSETS

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

	Balance August 31, 2016	Increase	Decrease	Balance August 31, 2017
<u>Not Depreciated</u>				
Land	\$ 85,349,316	\$ 2,273,972	\$ (644,896)	\$ 86,978,392
Construction-in-Progress	37,411,633	74,905,931	(21,355,941)	90,961,623
Subtotal	<u>122,760,949</u>	<u>77,179,903</u>	<u>(22,000,837)</u>	<u>177,940,015</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	740,775,012	23,234,899	(19,260,000)	744,749,911
Other Real Estate Improvements	<u>56,198,373</u>	<u>(6,922)</u>	<u>-</u>	<u>56,191,451</u>
Total Buildings & Other Real Estate Improvements	796,973,385	23,227,977	(19,260,000)	800,941,362
Library Books	13,958,311	291,956	(697,251)	13,553,016
Furniture, Machinery, Vehicles & Other	90,293,694	3,664,079	(2,113,246)	91,844,527
Total Buildings and Other Capital Assets	<u>901,225,390</u>	<u>27,184,012</u>	<u>(22,070,497)</u>	<u>906,338,905</u>
<u>Accumulated Depreciation</u>				
Buildings and Building Improvements	133,406,328	13,362,518	-	146,768,846
Other Real Estate Improvements	<u>6,585,982</u>	<u>1,012,807</u>	<u>-</u>	<u>7,598,789</u>
Total Buildings & Other Real Estate Improvements	139,992,310	14,375,325	-	154,367,635
Library Books	10,274,139	508,669	(260,430)	10,522,378
Furniture, Machinery, Vehicles & Other	<u>62,677,552</u>	<u>7,338,199</u>	<u>(459,719)</u>	<u>69,556,032</u>
Total Accumulated Depreciation	<u>212,944,001</u>	<u>22,222,193</u>	<u>(720,149)</u>	<u>234,446,045</u>
Net Capital Assets	<u>\$ 811,042,338</u>	<u>\$ 82,141,722</u>	<u>\$ (43,351,185)</u>	<u>\$ 849,832,875</u>

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, requires the disclosure of impairment losses and associated insurance recoveries. In FY 2017, the College impaired assets at the Kingwood and Atascocita locations impacted by Hurricane Harvey. According to GASB Statement No. 42, the asset impairment is measured as follows:

1. Buildings/Infrastructure at Restoration Cost of \$19,260,000.
2. Furniture/Equipment at Carrying Value of \$1,553,991.
3. Library Books at Carrying Value of \$436,822.

The impairment loss is included in the schedule above under "Decreases" for the year ended August 31, 2017. The College did not have impairment losses to report for the year ended August 31, 2016. In FY 2017, the total impairment of capital assets is \$21,250,813. In addition, insurance proceeds totaling \$10,000,000 are netted against these losses to provide a net impairment loss of \$11,250,813 as of August 31, 2017.

5. CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2016 was as follows:

	Balance August 31, 2015	Increase	Decrease	Balance August 31, 2016
<u>Not Depreciated</u>				
Land	\$ 82,650,673	\$ 2,698,643	\$ -	\$ 85,349,316
Construction-in-Progress	25,889,053	36,291,203	(24,768,623)	37,411,633
Subtotal	<u>108,539,726</u>	<u>38,989,846</u>	<u>(24,768,623)</u>	<u>122,760,949</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	706,993,002	33,782,010	-	740,775,012
Other Real Estate Improvements	<u>53,240,052</u>	<u>2,958,321</u>		<u>56,198,373</u>
Total Buildings & Other Real Estate Improvements	760,233,054	36,740,331	-	796,973,385
Library Books	13,825,360	381,248	(248,297)	13,958,311
Furniture, Machinery, Vehicles & Other	83,957,575	6,707,785	(371,666)	90,293,694
Total Buildings and Other Capital Assets	<u>858,015,989</u>	<u>43,829,364</u>	<u>(619,963)</u>	<u>901,225,390</u>
<u>Accumulated Depreciation</u>				
Buildings and Building Improvements	120,452,839	12,953,489	-	133,406,328
Other Real Estate Improvements	<u>5,623,953</u>	<u>962,029</u>		<u>6,585,982</u>
Total Buildings & Other Real Estate Improvements	126,076,792	13,915,518	-	139,992,310
Library Books	9,986,853	535,583	(248,297)	10,274,139
Furniture, Machinery, Vehicles & Other	<u>49,982,146</u>	<u>13,003,707</u>	<u>(308,301)</u>	<u>62,677,552</u>
Total Accumulated Depreciation	<u>186,045,791</u>	<u>27,454,808</u>	<u>(556,598)</u>	<u>212,944,001</u>
Net Capital Assets	<u>\$ 780,509,924</u>	<u>\$ 55,364,402</u>	<u>\$ (24,831,988)</u>	<u>\$ 811,042,338</u>

6. NON-CURRENT LIABILITIES

Non-Current Liabilities

Non-Current Liability activity for the fiscal year ended August 31, 2017 was as follows:

	Balance August 31, 2016	Additions	Reductions	Balance August 31, 2017	Current Portion
Bonds					
General obligation bonds	\$ 504,865,000	\$ 133,015,000	\$ (17,185,000)	620,695,000	\$ 26,625,000
Revenue bonds	87,210,000	-	(905,000)	86,305,000	1,785,000
Maintenance tax note bonds	22,840,000	-	(1,625,000)	21,215,000	1,735,000
Unamortized Bond Premium	89,780,790	18,178,651	(1,157,609)	106,801,832	4,084,182
Subtotal	704,695,790	151,193,651	(20,872,609)	835,016,832	34,229,182
Accrued compensable absences	5,444,674	539,078	(1,357,992)	4,625,760	1,008,419
Net pension liability	51,162,604	16,586,036	(5,254,499)	62,494,141	-
Local governmental liability	-	16,310,263	-	16,310,263	-
Total non-current liabilities	\$ 761,303,068	\$ 184,629,028	\$ (27,485,100)	\$ 918,446,996	\$ 35,237,601

Non-Current Liabilities Comparative

Non-Current Liability activity for the fiscal year ended August 31, 2016 was as follows:

	Balance August 31, 2015	Additions	Reductions	Balance August 31, 2016	Current Portion
Bonds					
General obligation bonds	\$ 545,285,000	\$ 133,250,000	\$ (173,670,000)	\$ 504,865,000	\$ 11,585,000
Revenue bonds	113,555,000	37,910,000	(64,255,000)	87,210,000	905,000
Maintenance tax note bonds	25,565,000	11,450,000	(14,175,000)	22,840,000	1,625,000
Unamortized Bond Premium	56,145,848	35,354,042	(1,719,100)	89,780,790	1,097,466
Subtotal	740,550,848	217,964,042	(253,819,100)	704,695,790	15,212,466
Accrued compensable absences	6,032,309	396,248	(983,883)	5,444,674	903,434
Net pension liability	48,590,997	2,571,607	-	51,162,604	N/A
Total non-current liabilities	\$ 795,174,154	\$ 220,931,897	\$ (254,802,983)	\$ 761,303,068	\$ 16,115,900

Debt Obligations

Debt service requirements by type of bond at August 31, 2017 were as follows:

For the Year Ended August 31,	General Obligation Bonds		Revenue Bonds		Maintenance Tax Notes		Total Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 26,625,000	\$ 29,000,800	\$ 1,785,000	\$ 3,934,694	\$ 1,735,000	\$ 924,925	\$ 30,145,000	\$ 33,860,419
2019	30,115,000	27,685,225	1,590,000	3,884,944	1,840,000	860,325	33,545,000	32,430,494
2020	34,220,000	26,080,600	1,620,000	3,816,381	1,950,000	791,425	37,790,000	30,688,406
2021	26,200,000	24,046,700	1,685,000	3,747,869	2,065,000	705,962	29,950,000	28,500,531
2022	28,130,000	22,756,888	1,750,000	3,677,469	2,175,000	616,000	32,055,000	27,050,357
2023 - 2027	128,365,000	94,265,287	7,985,000	17,370,465	11,450,000	1,488,750	147,800,000	113,124,502
2028 - 2032	112,285,000	67,164,150	29,925,000	13,339,394	-	-	142,210,000	80,503,544
2033 - 2037	106,615,000	40,902,600	19,220,000	7,428,250	-	-	125,835,000	48,330,850
2038 - 2042	73,290,000	19,802,250	17,095,000	3,007,025	-	-	90,385,000	22,809,275
2043 - 2046	54,850,000	4,575,400	3,650,000	91,250	-	-	58,500,000	4,666,650
Sub Total	\$ 620,695,000	\$ 356,279,900	\$ 86,305,000	\$ 60,297,741	\$ 21,215,000	\$ 5,387,387	\$ 728,215,000	\$ 421,965,028
Net Premium	94,471,291	-	8,669,596	-	3,660,945	-	106,801,832	-
Total	\$ 715,166,291	\$ 356,279,900	\$ 94,974,596	\$ 60,297,741	\$ 24,875,945	\$ 5,387,387	\$ 835,016,832	\$ 421,965,028

Debt service principal and interest requirements for all the bonds at August 31, 2017 were as follows:

For the Year Ended August 31,	Principal	Interest	Total
2018	\$ 30,145,000	\$ 33,860,419	\$ 64,005,419
2019	33,545,000	32,430,494	65,975,494
2020	37,790,000	30,688,406	68,478,406
2021	29,950,000	28,500,531	58,450,531
2022	32,055,000	27,050,357	59,105,357
2023 - 2027	147,800,000	113,124,502	260,924,502
2028 - 2032	142,210,000	80,503,544	222,713,544
2033 - 2037	125,835,000	48,330,850	174,165,850
2038 - 2042	90,385,000	22,809,275	113,194,275
2043 - 2046	58,500,000	4,666,650	63,166,650
	\$ 728,215,000	\$ 421,965,028	\$ 1,150,180,028
Net Premium	106,801,832	-	106,801,832
Total	\$ 835,016,832	\$ 421,965,028	\$ 1,256,981,860

7. BONDS PAYABLE

General information related to bonds payable is summarized below:

Series	Purpose	Issue Date	Original Issue Amount	Repayment Source	Amount Outstanding	
					8/31/2017	8/31/2016
2008 GO	Construction, Equip, Site Acquisition	9/10/2008	149,780,000	Ad Valorem Tax	\$ 26,915,000	\$ 30,125,000
2009 GO	Construction, Equip, Site Acquisition	9/16/2009	144,520,000	Ad Valorem Tax	12,580,000	16,480,000
2010A GO	Construction, Equip, Site Acquisition	6/17/2010	110,625,000	Ad Valorem Tax	54,600,000	57,840,000
2011 GO REF	Refunding	10/5/2011	25,305,000	Ad Valorem Tax	25,305,000	25,305,000
2012 GO REF	Refunding	6/14/2012	21,420,000	Ad Valorem Tax	8,305,000	9,540,000
2015A GO	Construction, Equip, Site Acquisition	4/29/2015	134,870,000	Ad Valorem Tax	134,870,000	134,870,000
2015B GO REF	Refunding	4/29/2015	97,455,000	Ad Valorem Tax	97,455,000	97,455,000
2016 GO REF	Refunding	8/10/2016	133,250,000	Ad Valorem Tax	133,250,000	133,250,000
2017A GO	Construction, Equip, Site Acquisition	2/16/2017	133,015,000	Ad Valorem Tax	127,415,000	-
Total General Obligation					\$ 620,695,000	\$ 504,865,000
2011 REV REF	Refunding	10/5/2011	7,980,000	Pledged Revenue	\$ 4,900,000	\$ 5,435,000
2012 REV REF	Refunding	6/14/2012	8,155,000	Pledged Revenue	4,290,000	4,660,000
2013 REV	Construction, Equip, Site Acquisition	10/17/2013	58,145,000	Pledged Revenue	39,205,000	39,205,000
2016 REV REF	Refunding	8/10/2016	37,910,000	Pledged Revenue	37,910,000	37,910,000
Total Revenue					\$ 86,305,000	\$ 87,210,000
2009 MTN	Construction for Energy Conservation	12/3/2009	30,740,000	Ad Valorem Tax	\$ 9,765,000	\$ 11,390,000
2016 MTN REF	Refunding	8/10/2016	11,450,000	Ad Valorem Tax	11,450,000	11,450,000
Total Tax Maintenance Note					\$ 21,215,000	\$ 22,840,000

General Obligation Bonds:

- Limited Tax General Obligation Refunding Bonds, Series 2017A
 - Issued February 16, 2017
 - Total authorized \$133,015,000; all authorized have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 is \$127,415,000
 - Principal payments begin 2017
 - Bonds payable installments vary from \$2,190,000 to \$7,940,000, with interest rates from 3.00% to 5.00%, and with the final installment due in 2046.
- Limited Tax General Obligation Refunding Bonds, Series 2016
 - Refund a portion of Series 2008 and 2009
 - Issued August 10, 2016
 - Total authorized \$133,250,000; all authorized have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$133,250,000 and \$133,250,000, respectively.
 - Principal payments begin 2021
 - Bonds payable installments vary from \$2,200,000 to \$16,270,000, with interest rates from 4.00% to 5.00%, and with the final installment due in 2038.

Bonds Payable (Continued)

- Limited Tax General Obligation Bonds, Series 2015A
 - Construction and equipment of buildings and to purchase sites
 - Issued April 29, 2015; the first tranche of GO bonds approved by the voters in the Nov 2014 \$485 million bond election
 - Total authorized \$134,870,000; all authorized bonds have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$134,870,000 and \$134,870,000, respectively.
 - Principal payments begin 2020
 - Bonds payable installments vary from \$2,820,000 to \$8,625,000, with interest rates from 2.50% to 5.00%, and with the final installment due in 2045.

- Limited Tax General Obligation Refunding Bonds, Series 2015B
 - Refund all or a portion of Series 2003, 2005A Ref, 2008, 2009 and 2010A
 - Issued April 29, 2015
 - Total authorized \$97,455,000; all authorized bonds have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$97,455,000 and \$97,455,000, respectively.
 - Principal payments begin 2020
 - Bonds payable installments vary from \$2,090,000 to \$19,280,000, with interest rates from 3.92% to 5.00%, and with the final installment due in 2027.

- Limited Tax General Obligation Refunding Bonds, Series 2012
 - Refund the remaining of Series 2002 and a portion of Series 2003
 - Issued June 14, 2012
 - Total authorized \$21,420,000; all authorized bonds have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$8,305,000 and \$9,540,000, respectively.
 - Bonds payable installments vary from \$460,000 to \$1,235,000, with interest rates from 3.00% to 5.00%, and with the final installment due in 2028.

- Limited Tax General Obligation Refunding Bonds, Series 2011
 - Refund a portion of Series 2002
 - Issued October 5, 2011
 - Total authorized \$25,305,000; all authorized bonds have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$25,305,000 and \$25,305,000, respectively.
 - Principal payments begin 2018
 - Bonds payable installments vary from \$915,000 to \$4,565,000, with interest rates from 3.00% to 5.00%, and with the final installment due in 2027.

- Limited Tax General Obligation Bonds, Series 2010A
 - Construction and equipment of buildings including instructional facilities, academic support facilities, administrative support facilities, plant system replacements and technology infrastructure, and acquisition of sites.
 - Issued June 17, 2010
 - Total authorized \$110,625,000; all authorized bonds have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$54,600,000 and \$57,840,000, respectively.
 - Bonds payable installments vary from \$3,240,000 to \$19,200,000, with interest rates from 3.46% to 5.00%, and with the final installment due in 2020.
 - Total authorized \$144,520,000; all authorized bonds have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$12,580,000 and \$16,480,000, respectively.

Bonds Payable (Continued)

- Limited Tax General Obligation Bonds, Series 2009
 - Construction and equipment of buildings, including instructional facilities, academic support facilities, administrative support facilities, plant system replacements and technology infrastructure, and acquisition of sites.
 - Issued September 16, 2009
 - Total authorized \$144,520,000; all authorized bonds have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$12,580,000 and \$16,480,000, respectively.
 - Bonds payable installments vary from \$3,320,000 to \$5,260,000, with interest rates from 3.83% to 5.00%, and with the final installment due in 2020.

- Limited Tax General Obligation Bonds, Series 2008
 - Construction and equipment of buildings, including instructional facilities, academic support facilities, administrative support facilities, plant system replacements and technology infrastructure, and acquisition of sites.
 - Issued September 10, 2008
 - Total authorized \$149,780,000; all authorized bonds have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$26,915,000 and \$30,125,000, respectively.
 - Bonds payable installments vary from \$3,210,000 to \$7,825,000, with interest rates at 5.00%, and with the final installment due in 2036.

Revenue Bonds:

- Revenue Financing Refunding Bonds, Series 2016
 - Refund the remaining of Series 2007 and 2012B Bonds
 - Issued August 10, 2016
 - Total authorized \$37,910,000, all authorized bonds have been issued
 - Source of revenue for debt service is tuition and general fees
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$37,910,000 and \$37,910,000, respectively.
 - Principal payments to begin 2019
 - Bonds payable installments vary from \$650,000 to \$5,625,000, with interest rates at 3.25% to 5.00%, and with the final installment due in 2038.

- Revenue Financing Bonds, Series 2013
 - Acquire, construct, improve, equip and maintain buildings, property, and facilities.
 - Issued October 17, 2013
 - Total authorized \$58,145,000; all authorized bonds have been issued
 - Source of revenue for debt service is tuition and general fees
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$39,205,000 and \$39,205,000, respectively.
 - Bonds payable installments vary from \$1,335,000 to \$3,650,000, with interest rates from 4.00% to 5.00%, and with the final installment due in 2043.

- Revenue Financing Refunding Bonds, Series 2012
 - Refund a portion of Series 2003 and Series 2003A Bonds
 - Issued June 14, 2012
 - Total authorized \$8,155,000; all authorized bonds have been issued
 - Source of revenue for debt service is tuition and general fees
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$4,290,000 and \$4,660,000, respectively.
 - Bonds payable installments vary from \$210,000 to \$1,245,000, with interest rates from 3.00% to 4.00%, and with the final installment due in 2028.

- Revenue Financing Refunding Bonds, Series 2011
 - Refund the remaining of Series 2000
 - Issued October 5, 2011
 - Total authorized \$7,980,000; all authorized bonds have been issued
 - Source of revenue for debt service is tuition and general fees

Bonds Payable (Continued)

- Outstanding principal balance as of August 31, 2017 and 2016 is \$4,900,000 and \$5,435,000, respectively.
- Bonds payable installments vary from \$535,000 to \$675,000, with interest rates from 2.00% to 4.00%, and with the final installment due in 2025.

Maintenance Tax Notes:

- **Maintenance Tax Refunding Bonds, Series 2016**
 - Refund a portion of Series 2009
 - Issued August 10, 2016
 - Total authorized \$11,450,000; all authorized bonds have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$11,450,000 and \$11,450,000, respectively.
 - Principal payments begin 2022
 - Bonds payable installments vary from \$2,060,000 to \$2,520,000, with interest rates at 5.00%, and with the final installment due in 2026.
- **Maintenance Tax Note, Series 2009**
 - Acquire, finance, install, renovate, and rehabilitate certain facilities for the purpose of energy conservation, mechanical upgrades and projects.
 - Issued December 3, 2009
 - Total authorized \$30,740,000; all authorized bonds have been issued
 - Source of revenue for debt service is ad valorem taxes
 - Outstanding principal balance as of August 31, 2017 and 2016 is \$9,765,000 and \$11,390,000, respectively.
 - Bonds payable installments vary from \$1,625,000 to \$2,175,000, with interest rates from 3.25% to 4.50%, and with the final installment due in 2021.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. There was no positive arbitrage rebate liability for the bonds with installment calculations due within Fiscal Year 2017 and 2016.

Pledged Revenue

The revenue pledged as security for the life of the revenue bond debt service includes a portion of tuition and fees, investment income and auxiliary revenues. The bond covenants require the pledge of tuition, allowable by state law, and other revenue sources to maintain a minimum debt service coverage ratio of 1.25. The pledged revenues amounted to \$72,940,505 and \$68,324,282 for the years ended August 31, 2017 and 2016, respectively. The pledged revenue amount equates to 66.63% and 65.48% of the above total revenue streams, respectively. Debt service on the revenue bonds was \$4,908,139 and \$6,329,309 for the years ended August 31, 2017 and 2016, and the debt service coverage ratio was 14.86 and 10.80, respectively. Revenue bonds are payable in annual installments varying from \$905,000 to \$7,650,000 with interest rates from 2.00% to 5.00% and the final installment due in 2043. The College was in compliance with all bond covenants for the years ended August 31, 2017 and 2016.

8. ISSUED, REFUNDED & DEFEASED BONDS OUTSTANDING

FY2017 BONDS ISSUED

On February 16, 2017 the College issued \$133,015,000 of Limited Tax General Obligation Bonds. The Series 2017A Limited GO Bonds consisted solely of General Obligation Bonds with a premium of \$18,178,650. The bonds mature serially through 8/14/2038 with term bonds maturing 8/15/2046. Interest rates on the bonds range from 3.00% to 5.00%. After payment of \$726,223 in underwriter's discount and cost of issuance expense of \$467,000, the bond proceeds amounted to \$151,193,650.

The bonds have an average interest rate of 4.65%. The total debt service payments of the bonds are \$246,058,495. The maximum annual debt service is \$8,702,145 with an average annual debt service of \$8,341,751.

On November 4, 2014 the voters authorized Lone Star College to issue \$485 million General Obligation Bonds for the College's capital program. The first \$150 million was issued on 4/29/2015 known as Series 2015A. The 2017A bonds are the second issue of the \$485 million authorization. The balance of \$185 million remains to be issued at a later date.

FY2016 REFUNDING BONDS

On August 10, 2016 the College issued \$133,250,000 of Limited Tax General Obligation Refunding Bonds, \$37,910,000 of Revenue Financing Refunding Bonds, and \$11,450,000 of Maintenance Tax Refunding Bonds.

\$133,250,000 Limited Tax General Obligation Refunding Bonds

The Series 2016 GO Refunding Bonds consisted solely of Refunding Bonds with a reoffering premium of \$24,794,721. The bonds mature serially through 02/15/2034 with term bonds maturing 2/15/2038. Interest rates on the bonds range from 4.00% to 5.00%. After payment of \$1,021,070 in underwriter's discount and cost of issuance expense, the net refunding proceeds were applied to refund \$142,230,000, a portion, of the following outstanding bonds:

Limited Tax General Obligation Bonds, Series 2008 (\$58,990,000)
Limited Tax General Obligation Bonds, Series 2009 (\$83,240,000).

The net refunded bonds have an average interest rate of 5.00%. The aggregate debt service payments of the refunding bonds (\$217,783,811) are \$31,685,189 less than the aggregate debt service payments of the refunded bonds (\$249,469,000). The net present value of the savings, adjusted for cash paid out for the refunding transaction, is \$23,463,355. The accounting loss that resulted from the bond refunding is \$17,322,487 and is being amortized over the life of the new debt using the straight line method. The refunding proceeds were deposited into an irrevocable trust with an escrow agent to provide all the debt service payments. The refunded bonds are considered defeased and the liability for those bonds was removed from the College's liabilities in fiscal year 2016.

\$37,910,000 Revenue Financing System Refunding Bonds

The Series 2016 Revenue Refunding Bonds consisted solely of Refunding Bonds with a reoffering premium of \$7,455,584. The bonds mature serially through 08/15/2038. Interest rates on the bonds range from 3.25% to 5.00%. After payment of \$403,132 in underwriter's discount and cost of issuance expense, the net refunding proceeds were applied to refund \$43,385,000, in part or in whole, of the following outstanding bonds:

Revenue Financing System Bonds, Series 2007 (\$23,100,000)
Variable Rate Revenue Financing System Bonds, Series 2012B 1&2 (\$20,285,000).

The net refunded bonds have an average interest rate of 5.47%. The aggregate debt service payments of the refunding bonds (\$61,187,307) are \$13,055,415 less than the aggregate debt service payments of the refunded bonds (\$74,242,722). The net present value of the savings, adjusted for cash paid out for the refunding transaction, is \$11,574,326. The accounting loss that resulted from the bond refunding is \$1,436,567 and is being amortized over the life of the new debt using the straight line method. The refunding proceeds were deposited into an irrevocable trust with an escrow agent to provide all the debt service payments. The refunded bonds are considered defeased and the liability for those bonds was removed from the College's liabilities in fiscal year 2016.

\$11,450,000 Maintenance Tax Refunding Bonds

The Series 2016 Maintenance Refunding Bonds consisted solely of Refunding Bonds with a reoffering premium of \$3,103,737. The bonds mature serially through 09/15/2026. Interest rates on the bonds are 5.00%. After payment of \$147,705 in underwriter's discount and cost of issuance expense, the net refunding proceeds were applied to refund \$12,650,000, a portion, of the following outstanding bond:

Maintenance Tax Notes, Series 2009 (\$12,650,000).

The net refunded bonds have an average interest rate of 4.85%. The aggregate debt service payments of the refunding bonds (\$16,143,160) are \$1,779,728 less than the aggregate debt service payments of the refunded bonds (\$17,922,888). The net present value of the savings for the refunding transaction, is \$1,622,544. The accounting loss that resulted from the bond refunding is \$1,346,898 and is being amortized over the life of the new debt using the straight line method. The refunding proceeds were deposited into an irrevocable trust with an escrow agent to provide all the debt service payments. The refunded bonds are considered defeased and the liability for those bonds was removed from the College's liabilities in fiscal year 2016.

DEFEASED BONDS

In FY 2016, the College defeased a portion of a Revenue Financing System Refunding Bond, Series 2012, Revenue Financing System Bond, Series 2013, and Limited Tax General Obligation Bond, Series 2010A.

Revenue Financing System Refunding Bond, Series 2012 and Revenue Financing System Bond, Series 2013 were redeemed July 28, 2016 for the total amount of \$17,925,000. The Series 2012 partial defeasance consisted of \$825,000 in par value with an original maturity of 2/15/17 and an interest rate of 4.00%. The series 2013 partial defeasance consisted of \$17,100,000 in par value with original serial maturities through 2/15/2029 and with an interest rate range from 3.50% - 5.00%. Limited Tax General Obligation Bond, Series 2010A was redeemed August 10, 2016 for the total amount of \$11,210,000. The original maturity was 8/15/17 with an interest rate of 5.00%.

In FY 2017, Limited Tax General Obligation Bond, Series 2010A, Revenue Financing Bonds, Series 2007 and 2012, were called or matured, resulting in an outstanding balance of \$0.

DEFEASED BONDS OUTSTANDING

The liability for the bonds below do not appear on the College's financial statement as of August 31, 2017 as these bonds are considered legally defeased.

Bond Issue	Year Refunded	Par Value Outstanding	Call Date/Final Maturity Date
General Obligation Bond, Series 2008	2015	\$35,635,000	8/15/2018
General Obligation Bond, Series 2009	2015	\$25,000,000	8/15/2019
General Obligation Bond, Series 2008	2016	\$58,990,000	8/15/2018
General Obligation Bond, Series 2009	2016	\$83,240,000	8/15/2019
Revenue Financing Bond, Series 2013	2016	\$16,055,000	2/15/2021
Maintenance Tax Notes, Series 2009	2016	\$12,650,000	9/15/2019

9. OPERATING LEASES

The College leases certain of its educational facilities, offices and other equipment. These lease agreements have clauses which allow the College to terminate the agreement if funding becomes unavailable or the Board does not approve funding. Rent expense for the years ended August 31, 2017 and 2016 was \$1,175,673 and \$1,205,927, respectively. Future minimum lease payments are as follows:

For the Year Ended	
<u>August 31,</u>	<u>Total</u>
2018	1,052,271
2019	1,039,539
2020	974,821
2021	668,172
2022	234,724
Total future minimum lease payments	<u>\$ 3,969,527</u>

10. EMPLOYEES' RETIREMENT PLANS

The state of Texas has joint contributory retirement plans for almost all its employees. Within the first 90 days of employment, higher education employees make an irrevocable choice to be covered by either the Teacher Retirement System (TRS) or the Optional Retirement Plan (ORP).

TRS issues suggested footnote disclosures for pension plans resulting from the implementation of GASB Statement No. 68. The TRS sample footnotes are displayed below and can also be obtained from the TRS website. Certain revisions, including additions and deletions, have been made to the TRS suggested footnote disclosures below to achieve appropriate disclosure for community colleges.

Teacher Retirement System (Defined Benefit Plan)

A. Plan Description

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

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

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 <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

C. Benefits Provided

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

D. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the

particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rate for fiscal years 2016 and 2017.

	Contribution Rates	
	Plan Fiscal Year	
	2017	2016
Member	7.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
	Fiscal Year 2017	Measurement Year 2016
	TRS Contributions	Contributions Required and Made
College Contributions	\$ 5,624,823	\$ 5,320,500
Member Contributions	\$11,138,802	\$10,086,189
	Measurement Year 2016	Measurement Year 2015
State of Texas (NECE) On-behalf Contributions	\$ 4,364.822	\$ 4,594,832

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, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

F. Discount Rate

The discount rate used to measure the total pension liability was 8.00%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

The College's target asset allocation as of August 31, 2016 are summarized below:

Teacher Retirement System of Texas			
Asset Allocation and Long-Term Expected Real Rate of Return			
As of August 31, 2016			
	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns ¹
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%
¹ The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.			

G. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
College's proportionate share of the net pension liability:	\$ 96,719,876	\$ 62,494,140	\$ 33,463,796

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

At August 31, 2017, the College reported a liability of \$62,494,140 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the College. The amount recognized by the College 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 College were as follows:

The College's Proportionate share of the collective net pension liability	\$ 62,494,140
State's proportionate share that is associated with the College	<u>51,809,767</u>
Total	<u>\$114,303,907</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 thru August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was .1653787% which was a increase of .0206417% from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

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

For the year ended August 31, 2017, the College recognized pension expense of \$5,376,618 and revenue of \$5,376,618 based on the State's measurement date of August 31, 2016.

At August 31, 2017, the College 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 <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual economic experiences	\$ 979,896	\$ 1,866,039
Changes in actuarial assumptions	1,904,709	1,732,254
Differences between projected and actual investment earnings	5,291,875	-
Changes in proportion and differences between the employer's contributions	<u>4,572,074</u>	<u>7,064,261</u>
Total as of August 31, 2016 measurement date	\$ 12,748,554	\$ 10,662,554
Contributions paid to TRS subsequent to the measurement date	<u>5,624,823</u>	-
Total as of fiscal year end	<u>\$ 18,373,377</u>	<u>\$ 10,662,554</u>

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>Pension Expense Amount</u>
2018	\$ (158,417)
2019	\$ (158,417)
2020	\$ 3,216,999
2021	\$ (417,714)
2022	\$ (1,078,714)
Thereafter	<u>\$ 682,263</u>
	<u>\$ 2,086,000</u>

Optional Retirement Plan (Defined Contribution Plan)

Plan Description. The state has also established an ORP for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. The ORP 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. Benefits fully vest after one year plus one day of employment. Since these are individual annuity contracts, the state has no additional or unfunded liability for this program.

<u>Optional Retirement Plan Contribution Rates</u>	<u>2017</u>	<u>2016</u>
Member Contribution	6.65%	6.65%
State Contribution	6.60%	6.60%
College Contribution for Participants Enrolled Prior to September 1, 1995	1.90%	1.90%

Retirement Plan Expense

Below is a summary of ORP retirement plan expense for fiscal years ended August 31, 2017 and 2016.

<u>ORP Retirement Plan Expense</u>	<u>2017</u>	<u>2016</u>
Actual cost of ORP Retirement Benefits	3,441,873	3,777,894
College Contribution for ORP Retirement Benefits	2,313,433	2,600,923
State Legislative Appropriation Expended for ORP	1,128,440	1,176,971

11. COMPENSABLE ABSENCES

Full-time non-faculty employees on a twelve month work schedule are eligible for paid annual leave. Eligible employees accrue vacation leave at different rates depending on their length of service and position. Accrual rates range from 8 hours per month to 13.33 hours per month. The College's policy is to allow employees to carry their accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours accrued equal to 400 hours. Eligible employees are entitled to payment for all accumulated annual leave up to the maximum allowed at the time employment with the College is terminated. The College recognizes an accrued liability for the unpaid compensated absences in the amounts of \$4,625,760 and \$5,444,674 for the fiscal years ended August 31, 2017 and 2016, respectively.

Sick leave, which is accumulated to a maximum of 600 hours, is earned at the rate of 8 hours per month. Full time employees eligible to participate in the sick leave plan are those who work a 12 month schedule and who work at least 20 hours per week. It is paid to an employee who misses work due to illness. The College's policy is to recognize the cost of sick leave when paid. The liability is not shown in the financial statements because the benefit is budgeted annually and employees are not compensated upon termination for accrued sick leave balances.

12. PENDING LAWSUITS AND CLAIMS

On August 31, 2017, various lawsuits and claims involving the College were pending. The ultimate liability with respect to litigation and other claims asserted against the College cannot be reasonably estimated at this time. This liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.

13. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2017 and 2016 were as follows:

	August 31	
	2017	2016
Student Receivables	\$48,574,735	\$43,547,120
Taxes Receivable	6,024,289	5,952,260
Federal Receivable	1,382,473	1,558,438
Accounts Receivable	2,169,443	1,795,765
Other Receivables	12,096,335	2,681,882
Subtotal	70,247,275	55,535,465
Allowance for Doubtful Accounts	(6,696,079)	(4,351,729)
Total Accounts Receivable, Net	\$63,551,196	\$51,183,736

Payables at August 31, 2017 and 2016 were as follows:

	August 31	
	2017	2016
Vendors Payable	\$26,930,723	\$21,078,231
Salaries and Benefits Payable	4,290,167	2,739,793
Students Payable	1,488,554	1,055,088
Accrued Interest	1,814,890	1,353,781
Other Payables	6,501,081	7,220,128
Total Accounts Payable and Accrued Liabilities	\$41,025,415	\$33,447,021

14. FEDERAL AND STATE 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*. Revenues are disclosed on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are 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. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2017 and 2016 for which monies have not been received nor funds expended totaled \$51,791,718 and \$64,936,282, respectively. Of these amounts, \$47,112,377 and \$60,424,427 were from Federal Contract and Grant Awards; \$4,679,341 and \$4,511,855 were from State Contract and Grant Awards for the fiscal years ended 2017 and 2016, respectively.

15. RISK MANAGEMENT

The College is exposed to various risks of loss related to property damage, personal injury, professional errors and omissions and natural disasters. Significant losses for these risks are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the past three years. The College did not maintain or operate a self-insured insurance plan during the years ended August 31, 2017 and 2016.

16. POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums.

State/Employer Contribution for Health Care Insurance (includes basic life insurance rate)

HealthSelect of Texas Plan	2017 State/Employer Contribution	2017 Annualized Contribution	2016 State/Employer Contribution	2016 Annualized Contribution
Member Only	\$617.30	\$7,407.60	\$576.54	\$6,918.48

The cost of retirees and active employees' health care is provided:

<u>Cost of Providing Health Care Insurance</u>	<u>2017</u>	<u>2016</u>
Number of Retirees	501	433
Cost of Health Benefits for Retirees	\$4,068,069	\$3,400,309
Number of Active Full Time Employees	2,569	2,592
Cost of Health Benefits for Active Full Time Employees	\$24,635,365	\$23,072,695
State Appropriation for Health Insurance (Schedule C)	\$10,821,722	\$10,098,948
College Expense	\$17,881,712	\$16,374,056

17. AD VALOREM TAX

The College’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 System’s taxing jurisdiction. The College’s taxable values at August 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Assessed Valuation of the College	\$196,054,317,147	\$ 183,418,226,596
Less: Exemptions	(15,500,453,924)	(14,483,058,357)
Net Assessed Valuation of the College	<u><u>\$180,553,863,223</u></u>	<u><u>\$168,935,168,239</u></u>

Tax rates for the years ending August 31, 2017 and 2016 are as follows:

	<u>2017</u>			<u>2016</u>		
	Current Operation	Debt Service	Total	Current Operation	Debt Service	Total
Authorized Tax Rate per \$100 valuation	\$0.3000	\$0.5000	\$0.8000	\$0.3000	\$0.5000	\$0.8000
Assessed Tax Rate per \$100 valuation	\$0.0800	\$0.0278	\$0.1078	\$0.0754	\$0.0325	\$0.1079

Taxes levied for the years ended August 31, 2017 and 2016 were approximately \$191,597,489 and \$180,220,182 respectively, including any penalty and interest assessed, if applicable. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which imposed, and are subject to penalties and interest.

Taxes collected for the years ended August 31, 2017 and 2016 are as follows:

	<u>2017</u>			<u>2016</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	\$141,102,201	\$49,045,559	\$190,147,760	\$ 124,580,466	\$ 53,697,333	\$ 178,277,799
Delinquent Taxes	484,946	199,089	684,035	770,041	315,902	1,085,943
Penalties & Interest	1,421,280	546,731	1,968,011	498,364	208,431	706,795
Total Gross Collections	<u><u>\$143,008,427</u></u>	<u><u>\$49,791,379</u></u>	<u><u>\$192,799,806</u></u>	<u><u>\$ 125,848,871</u></u>	<u><u>\$ 54,221,667</u></u>	<u><u>\$ 180,070,538</u></u>
Tax Appraisal & Collection Fees	(1,537,857)	(550,443)	(2,088,300)	(1,385,246)	(591,654)	(1,976,900)
Total Net Collections	<u><u>\$141,470,570</u></u>	<u><u>\$49,240,936</u></u>	<u><u>\$190,711,506</u></u>	<u><u>\$ 124,463,625</u></u>	<u><u>\$ 53,630,013</u></u>	<u><u>\$ 178,093,638</u></u>

Tax collections for the years ended August 31, 2017 and 2016 were 99.24% and 98.92%, respectively, of the current year’s tax levy. The use of tax proceeds is restricted for the use of maintenance and operations and/or general obligation debt service.

18. INCOME TAXES

The College 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 College had no material unrelated business income tax liability for the years ended August 31, 2017 or 2016.

19. COMPONENT UNIT

Lone Star College Foundation (the Foundation) was established as a separate nonprofit organization in 1991 for the purpose of providing student scholarships and to support academic and workforce programs for the College. Under Governmental Accounting Standards Board Statement (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*, and Statement No. 39, *Determining Whether Certain Organizations Are Component Units – An Amendment of GASB Statement No. 14*, an organization should report as a discretely presented component unit those organizations that raise and hold economic resources for the direct benefit of a government unit.

Accordingly, the Foundation's financial statements are included in the College's comprehensive annual financial report as a discretely presented component unit as Exhibit 1A – Statements of Financial Position and Exhibit 2A – Statements of Activities for the fiscal years ended August 31, 2017 and 2016.

For complete financial information about the Lone Star College Foundation, please contact the Foundation at:

Lone Star College Foundation, 5000 Research Forest, The Woodlands, TX 77381 or visit their website at: <http://www.lonestar.edu/giving/index.htm>

20. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

(In accordance with GASB Statement No. 45)

Plan Description. The College contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple- employer, defined benefit postemployment healthcare plan administered by the Employees Retirement System of Texas (ERS). SRHP provides medical benefits to retired employees of participating universities, community colleges and state agencies in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the SRHP are authorized by State law and may be amended by the Texas Legislature.

ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained from ERS via their website at <http://www.ers.state.tx.us/>.

Funding Policy. 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. Plan members or beneficiaries receiving benefits pay any premium over and above the employer contribution.

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS Board of Trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB Statement No. 45.

The employer contribution rate represents a level of funding that, if paid on an-ongoing basis; is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

The College's contributions to SRHP for the years ended August 31, 2017, 2016 and 2015 were \$4,068,069, \$3,400,309, and \$2,995,654 respectively. This equaled the required contributions each year and no employee contributions were required.

21. ALDINE ISD EARLY COLLEGE HIGH SCHOOL

The College’s Board of Trustees approved an interlocal agreement at their meeting in September 2016 between the College and Aldine ISD (“AISD”). AISD has proposed building its MacArthur Early College Facility on the site of the College’s East Aldine Satellite Center. The AISD facility is planned to be approximately 46,000 square feet and will be constructed as a separate, controlled access wing of the College’s building, with a shared utility infrastructure. AISD has deposited \$16 million of funds in an escrow account with the College, as prescribed by the interlocal agreement. These escrowed funds will be used to pay for costs related to this facility upon approval by AISD. This agreement has no impact on the Net Position of the College at August 31, 2017.



Required Supplementary Information

**LONE STAR COLLEGE
SCHEDULE OF COLLEGE'S SHARE OF NET PENSION LIABILITY
Last Three Fiscal Years ****

Fiscal year ending August 31 *	2017 **	2016	2015
College's proportionate share of the net pension liability (%)	0.1653787%	0.1447370%	0.1819112%
College's proportionate share of net pension liability (\$)	\$ 62,494,140	\$ 51,162,603	\$ 48,590,997
State's proportionate share of net pension liability associated with the college	51,809,767	54,836,429	36,082,142
Total	\$ 114,303,907	\$ 105,999,032	\$ 84,673,139
College's covered employee payroll	\$ 140,070,767	\$ 131,015,965	\$ 114,391,840
College's proportionate share of the net pension liability as a percentage of its covered employee payroll	44.62%	39.05%	42.48%
TRS net position as a percentage of total pension liability ***	78.00%	78.43%	83.25%
Plan's net pension liability as a percentage of covered employee payroll ***	92.75%	91.94%	72.89%

* The amounts presented above are as of the measurement date of the collective net pension liability, which is the prior fiscal year's 8/31.

** Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

*** Per TRS CAFR

Notes to the Schedule of College's Share of Net Pension Liability are an integral part of this statement

**LONE STAR COLLEGE
SCHEDULE OF COLLEGE'S CONTRIBUTIONS
Last Four Fiscal Years ****

Fiscal year ending August 31 *	2017**	2016	2015	2014
Legally required contributions	\$ 5,624,823	\$ 5,320,500	\$ 4,954,156	\$ 4,021,984
Actual contributions	(5,624,823)	(5,320,500)	(4,954,156)	(4,021,984)
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -
College's covered employee payroll	\$ 144,659,771	\$ 140,070,767	\$ 131,015,965	\$ 114,391,840
Contributions as a percentage of covered employee payroll	3.89%	3.80%	3.78%	3.52%

* In accordance with GASB 67, Paragraph 81.2.b, the amounts presented above are as of the College's respective fiscal year end.

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to the Schedule of College's Contributions are an integral part of this statement

Notes to Required Supplementary Information

Changes of Assumptions

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

Changes of Benefit Terms

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

Changes in Reporting Method

During 2016, GASB clarified that their intention was for a pension plan to maintain the amortization levels by year for the plan amounts of each deferred outflow and deferred inflow and to combine all year's layers together (2014, 2015 and 2016) to arrive at a "collective" or "accumulated" total for each deferral. The total accumulated (collective) amount will be allocated proportionately to each participating employer. Since the information is calculated at the plan level, there will be no need for the participating employers to maintain an amortization schedule.



Supplementary Schedules

LONE STAR COLLEGE
SCHEDULE OF OPERATING REVENUES
YEAR ENDED AUGUST 31, 2017 (With Memorandum Totals for the Year Ended August 31, 2016)

	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises	2017 Total	2016 Total
Tuition						
State funded courses						
In-district resident tuition	\$ 48,699,282	\$ -	\$ 48,699,282	\$ -	\$ 48,699,282	\$ 48,020,367
Out-of-district resident tuition	20,388,035	-	20,388,035	-	20,388,035	17,357,385
Non-resident tuition	7,822,757	-	7,822,757	-	7,822,757	7,060,668
TPEG -credit (set aside)*	(4,815,035)	-	(4,815,035)	-	(4,815,035)	(4,326,074)
State-funded continuing education	2,847,625	-	2,847,625	-	2,847,625	2,792,183
TPEG -non-credit (set aside)*	(224,007)	-	(224,007)	-	(224,007)	(240,453)
Non-state funded continuing education	3,296,598	-	3,296,598	-	3,296,598	4,138,234
Total tuition	<u>78,015,255</u>	<u>-</u>	<u>78,015,255</u>	<u>-</u>	<u>78,015,255</u>	<u>74,802,310</u>
Fees						
Registration fee	2,143,620	-	2,143,620	-	2,143,620	2,094,018
Student activity fee	2,752,337	-	2,752,337	-	2,752,337	2,673,320
Laboratory fee	1,241,970	-	1,241,970	-	1,241,970	1,280,420
Technology fee	12,374,396	-	12,374,396	-	12,374,396	12,009,612
General use fee	9,603,474	-	9,603,474	-	9,603,474	9,327,793
Distance learning fee	5,220,255	-	5,220,255	-	5,220,255	4,825,889
Infrastructure fee	2,582,024	-	2,582,024	-	2,582,024	2,595,154
Differential tuition fee	11,246,101	-	11,246,101	-	11,246,101	5,861,455
Incidental fee	60,924	-	60,924	-	60,924	834,099
Other fees	333,530	-	333,530	-	333,530	374,136
Total fees	<u>47,558,631</u>	<u>-</u>	<u>47,558,631</u>	<u>-</u>	<u>47,558,631</u>	<u>41,875,896</u>
Scholarship allowances and discounts						
Scholarship allowances	(2,377,488)	-	(2,377,488)	-	(2,377,488)	(2,290,601)
Remissions and exemptions - state	(9,962,398)	-	(9,962,398)	-	(9,962,398)	(7,797,592)
Remissions and exemptions - local	(2,580,803)	-	(2,580,803)	-	(2,580,803)	(2,217,814)
TPEG allowances	(1,346,363)	-	(1,346,363)	-	(1,346,363)	(1,329,329)
State grants to students	(1,382,604)	-	(1,382,604)	-	(1,382,604)	(1,378,856)
Federal grants to students	(25,508,607)	-	(25,508,607)	-	(25,508,607)	(24,133,341)
Total scholarship allowances and discounts	<u>(43,158,263)</u>	<u>-</u>	<u>(43,158,263)</u>	<u>-</u>	<u>(43,158,263)</u>	<u>(39,147,533)</u>
Total net tuition and fees	<u>82,415,623</u>	<u>-</u>	<u>82,415,623</u>	<u>-</u>	<u>82,415,623</u>	<u>77,530,673</u>

LONE STAR COLLEGE

SCHEDULE OF OPERATING REVENUES

YEAR ENDED AUGUST 31, 2017 (With Memorandum Totals for the Year Ended August 31, 2016)

	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises	2017 Total	2016 Total
Additional operating revenues						
Federal grants and contracts (Schedule E)	-	4,536,292	4,536,292	-	4,536,292	4,208,064
State grants and contracts (Schedule F)	-	4,662,678	4,662,678	-	4,662,678	4,851,134
Local grants and contracts	1,982,572	1,767,660	3,750,232	-	3,750,232	4,770,858
Other operating revenue	3,389,147	-	3,389,147	-	3,389,147	2,896,665
Total additional operating revenues	5,371,719	10,966,630	16,338,349	-	16,338,349	16,726,721
Auxiliary enterprises						
Food service	-	-	-	696,918	696,918	1,513,770
Bookstore	-	-	-	1,542,838	1,542,838	2,323,156
Child care fees	-	-	-	1,644,480	1,644,480	1,754,638
Special events	-	-	-	1,019,564	1,019,564	790,521
Tenant Related	-	-	-	7,315,009	7,315,009	7,179,920
Other	-	-	-	793,416	793,416	1,127,633
Total auxiliary enterprises	-	-	-	13,012,225	13,012,225	14,689,638
Total operating revenues	\$ 87,787,342	\$ 10,966,630	\$ 98,753,972	\$ 13,012,225	\$ 111,766,197	\$ 108,947,032
				(Exhibit 2)	(Exhibit 2)	

* In accordance with Education Code 56.033, \$5,039,042 and \$4,566,527 was set aside for Texas Public Education Grants in 2017 and 2016, respectively.

LONE STAR COLLEGE
SCHEDULE OF OPERATING EXPENSES BY OBJECT
YEAR ENDED AUGUST 31, 2017 (with Memorandum Totals for the Year Ended August 31, 2016)

	Operating Expenses			2017 Total	2016 Total	
	Salaries and Wages	Benefits State	Local			Other Expenses
Unrestricted educational activities		-				
Instruction	\$ 101,085,832	-	\$ 10,947,774	\$ 10,595,625	\$ 122,629,231	\$ 120,172,512
Public service	545,756	-	101,689	71,948	719,393	887,616
Academic support	36,867,577	-	5,455,576	12,679,086	55,002,239	52,285,399
Student services	31,438,016	-	4,802,524	10,174,648	46,415,188	46,070,908
Institutional support	21,891,898	-	5,680,809	14,389,714	41,962,421	37,377,808
Operation and maintenance of plant	13,896,751	-	4,927,423	29,281,583	48,105,757	51,661,825
Total unrestricted educational activities	<u>205,725,830</u>	<u>-</u>	<u>31,915,795</u>	<u>77,192,604</u>	<u>314,834,229</u>	<u>308,456,068</u>
Restricted educational activities						
Instruction	1,515,804	8,565,351	198,425	13,104,094	23,383,674	13,728,882
Public service	182,333	80,419	32,513	261,737	557,002	460,116
Academic support	1,008,014	4,463,583	153,679	364,252	5,989,528	6,214,119
Student services	361,656	3,938,664	35,813	230,227	4,566,360	4,453,009
Institutional support	-	4,319,011	-	159,911	4,478,922	4,439,588
Operation and maintenance of plant	-	226,986	-	106,910	333,896	873,975
Scholarships and fellowships	-	-	-	50,994,227	50,994,227	53,177,791
Total restricted educational activities	<u>3,067,807</u>	<u>21,594,014</u>	<u>420,430</u>	<u>65,221,358</u>	<u>90,303,609</u>	<u>83,347,480</u>
Total educational activities	208,793,637	21,594,014	32,336,225	142,413,962	405,137,838	391,803,548
Auxiliary enterprises	1,585,032	-	1,517,437	8,877,906	11,980,375	16,355,792
Depreciation expense - buildings	-	-	-	13,362,518	13,362,518	12,953,489
Depreciation expense - equip & furn	-	-	-	8,859,675	8,859,675	14,501,319
Total operating expenses	<u>\$ 210,378,669</u>	<u>\$ 21,594,014</u>	<u>\$ 33,853,662</u>	<u>\$ 173,514,061</u>	<u>\$ 439,340,406</u>	<u>\$ 435,614,148</u>
				(Exhibit 2)	(Exhibit 2)	

LONE STAR COLLEGE
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
YEAR ENDED AUGUST 31, 2017 (With Memorandum Totals for the Year Ended August 31, 2016)

	Unrestricted	Restricted	Auxiliary Enterprises	2017 Total	2016 Total
Non-Operating revenues					
State appropriations					
Education and general state support	\$ 74,089,265	\$ -	\$ -	\$ 74,089,265	\$ 73,968,598
State group insurance (Note 16)	-	10,821,722	-	10,821,722	10,098,948
State retirement matching	-	10,770,149	-	10,770,149	12,984,299
Total state appropriations	74,089,265	21,591,871	-	95,681,136	97,051,845
Maintenance ad valorem taxes	140,258,439	-	-	140,258,439	125,089,457
General obligation ad valorem taxes	-	48,875,112	-	48,875,112	54,177,275
Federal revenue, non-operating (Schedule E)	-	77,449,276	-	77,449,276	77,852,910
Gifts	57,000	-	-	57,000	1,668,125
Investment income, net	2,609,230	-	-	2,609,230	1,162,650
Gain on sale/donation of capital asset	1,735,360	-	-	1,735,360	4,038
Other non-operating revenues	930,095	2,436,100	-	3,366,195	4,552,620
Total non-operating revenues	219,679,389	150,352,359	-	370,031,748	361,558,920
Non-Operating expenses					
Interest on capital related debt	-	32,191,930	-	32,191,930	28,869,951
Loss on disposal of capital assets	720,765	-	-	720,765	63,364
Total non-operating expenses	720,765	32,191,930	-	32,912,695	28,933,315
Net non-operating revenues	\$ 218,958,624	\$ 118,160,429	\$ -	\$ 337,119,053	\$ 332,625,605
				(Exhibit 2)	(Exhibit 2)

LONE STAR COLLEGE
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
YEAR ENDED AUGUST 31, 2017 (with Memorandum Totals for the Year Ended August 31, 2016)

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets (Net)	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ (31,721,164)	\$ -	\$ -	\$ -	\$ (31,721,164)	\$ (31,721,164)	\$ -
Restricted	-	10,055,468	-	-	10,055,468	-	10,055,468
Auxiliary enterprises	8,269,306	-	-	-	8,269,306	8,269,306	-
Plant:							
Debt service	-	57,077,987	-	-	57,077,987	-	57,077,987
Investment in Plant	-	-	-	190,413,468	190,413,468	-	190,413,468
Total Net Position - August 31, 2017	(23,451,858)	67,133,455	-	190,413,468	234,095,065 (Exhibit 1)	(23,451,858)	257,546,923
Total Net Position - August 31, 2016	(44,447,525)	52,157,237	-	216,840,509	224,550,221 (Exhibit 1)	(44,447,525)	268,997,746
Net Increase (Decrease) in Net Position	\$ 20,995,667	\$ 14,976,218	\$ -	\$ (26,427,041)	\$ 9,544,844 (Exhibit 2)	\$ 20,995,667	\$ (11,450,823)

LONE STAR COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED August 31, 2017

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Direct Programs:</u>			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants-FSEOG(15-16)	84.007	P007A154084	\$ (431)
Federal Supplemental Educational Opportunity Grants-FSEOG(16-17)	84.007	P007A164084	1,125,345
Total Federal Supplemental Educational Opportunity Grants			<u>1,124,914</u>
Federal Work-Study Program (16-17)	84.033	P933A164084	841,467
Federal Work-Study Program (17-18)	84.033	P933A174084	38,153
Total Federal Work-Study Program			<u>879,620</u>
Federal Pell Grant Program (14-15)	84.063	P063P143422	(352)
Federal Pell Grant Program (15-16)	84.063	P063P153422	2,214
Federal Pell Grant Program (16-17)	84.063	P063P163422	75,442,880
Total Federal Pell Grant Program			<u>75,444,742</u>
Direct Loan Program (15-16)	84.268	P268K163422	(15,170)
Direct Loan Program (16-17)	84.268	P268K173422	49,744,595
Total Direct Loan Program			<u>49,729,425</u>
TOTAL FINANCIAL AID CLUSTER			<u>127,178,701</u>
TRIO Cluster			
TRIO - Student Support Services - North Harris	84.042A	P042A150892	188,055
TRIO - Student Support Services - Tomball	84.042A	P042A151021	227,348
Total TRIO - Student Support Services			<u>415,403</u>
TRIO - Talent Search	84.044A	P044A160416	245,692
TRIO - Upward Bound ACE	84.047A	P047A120378	273,247
TRIO - Upward Bound MAC	84.047A	P047A120397	305,241
Total TRIO - Upward Bound			<u>578,488</u>
TOTAL TRIO CLUSTER			<u>1,239,583</u>
Higher Education Institutional Aid Math Success STEM	84.031	P031C110072	54,583
Higher Education Institutional Aid Title V CLASS - North Harris	84.031S	P031S160059	154,911
Higher Education Institutional Aid Title V CLASS - Tomball	84.031S	P031S160060	105,738
Total Higher Education Institutional Aid Title V CLASS			<u>260,649</u>
<u>Pass-Through:</u>			
Texas Higher Education Coordinating Board			
Career and Technical Education - Basic Grants to States	84.048	1642020601	933,277
Career and Technical Education - Leadership Grants	84.048	17420202701	64,305
Education Research, Development and Dissemination - RAND RCT TSI Research	84.305H	16439	76,343
Total Texas Higher Education Coordinating Board			<u>1,073,925</u>
Texas Workforce Commission			
Adult Education - Basic Grants to States	84.002	2816AEL000	101,520
<u>Pass-Through:</u>			
Houston Galveston Area Council			
Adult Education - Basic Grants to States 2016	84.002A	214-16	92,969
Adult Education - Basic Grants to States 2017	84.002A	214-17	680,077
Total Adult Education and Literacy			<u>773,046</u>
University of Houston - Downtown			
Higher Education Institutional Aid - Pathways to Teaching Careers Program	84.031S	P031S150206	109,888
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>130,791,895</u>

Notes to the Schedule of Expenditures of Federal Awards are integral part of this statement

SCHEDULE E

**LONE STAR COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED August 31, 2017**

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Pass-Through:</u>			
Change Happens			
Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Marketplaces - Change Happens Campus Navigator	93.332	N/A	55,299
Texas Workforce Commission			
<u>Pass-Through:</u>			
Houston Galveston Area Council			
Temporary Assistance for Needy Families	93.558	214-17	29,717
Texas Association of Community Colleges			
Temporary Assistance for Needy Families - Texas Success Center			
Career Pathways Project	93.558	N/A	16,410
Total Texas Workforce Commission			46,127
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			101,426
U.S. DEPARTMENT OF LABOR			
<u>Pass-Through:</u>			
Texas Workforce Commission			
Employment Service/Wagner-Peyser Funded Activities	17.207	2817WPB000	117,772
WIOA Adult Program - Building Construction Trades Training Demonstration Project	17.258	2817WOS003	2,324
WIOA Youth Activities - Accelerate Texas: Integrated Education Training	17.259	2816AEL000	141,710
Total Workforce Innovation and Opportunity Act			144,034
TOTAL U.S. DEPARTMENT OF LABOR			261,806
U. S. SMALL BUSINESS ADMINISTRATION			
<u>Pass-Through from:</u>			
University of Houston			
Small Business Development Centers	59.037	R-16-0051-53813	29,118
Small Business Development Centers	59.037	R-17-0032-53813	206,094
TOTAL U.S. SMALL BUSINESS DEVELOPMENT CENTER			235,212
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
<u>Pass-Through from:</u>			
OneStar National Service Commission			
AmeriCorps - College Knowledge Corps FY17	94.006	16AFHTX001	262,159
AmeriCorps - College Knowledge Corps FY18	94.006	16AFHTX001	10,461
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			272,620
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
<u>Pass-Through from:</u>			
The University of Texas at Austin			
Education - Texas Space Grant Consortium Proposal for the NASA National Space Grant & Fellowship Program Nsg&Fp	43.008	UTA15-000886	2,530
NATIONAL ENDOWMENT FOR THE HUMANITIES			
<u>Pass-Through from:</u>			
Association of American Colleges and Universities			
Promotion of the Humanities Public Programs - Citizenship Under Siege	45.164	LD-234387-16	13,315
NATIONAL SCIENCE FOUNDATION			
<u>Direct Program:</u>			
Education and Human Resources - Developing Troubleshooting Skills for Students in Energy Programs	47.076	1457711	36,189
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 131,714,993

Notes to the Schedule of Expenditures of Federal Awards are integral part of this statement

LONE STAR COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED August 31, 2017

1 Basis of Presentation

The schedule of expenditures of federal awards presents the federal grant activity of Lone Star College (the "College") for the year ended August 31, 2017. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget's (OMB) Uniform Guidance. and includes awards received directly from federal agencies as well as federal awards passed through other government agencies.

2 Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting. Revenue is recognized when earned and expenditures are recognized when incurred. Revenues are reported only to the extent of expenditures for the current year. Federal receivables represent amounts expended in excess of that received. The College has elected not to use the 10-percent de Minimis indirect cost rate allowed under the Uniform Guidance.

3 Federal Assistance Reconciliation

Federal Grants and Contracts Revenue - per Schedule of Operating Revenues (Schedule A)	\$	4,536,292
Federal Revenue, Non-Operating - per Schedule of Non-Operating Revenues and Expenses (Schedule C)		77,449,276
Federal Direct Student Loan Program		49,729,425
 Total Federal Revenues per Schedule of Expenditures of Federal Awards (Schedule E)	 \$	 <u>131,714,993</u>

4 Expenditures Not Subject to Federal Single Audit:
 NONE

5 Sub-Recipients:
 NONE

SCHEDULE F

**LONE STAR COLLEGE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED August 31, 2017**

State Grantor/Pass Through Grantor	State/Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
TEXAS HIGHER EDUCATION COORDINATING BOARD:			
<u>Direct Programs:</u>			
College Work - Study Program (16-17)	N/A	N/A	\$ 266,606
Texas Grant Renewal Program (15-16)	N/A	N/A	(1,352)
Texas Grant Renewal Program (16-17)	N/A	N/A	2,832
Total Texas Grant Renewal Program			1,480
Texas Educational Opportunity Grant Program (15-16)	N/A	N/A	(20,520)
Texas Educational Opportunity Grant Program (16-17)	N/A	N/A	2,369,799
Texas Educational Opportunity Grant Renewal Program (15-16)	N/A	N/A	(1,710)
Texas Educational Opportunity Grant Renewal Program (16-17)	N/A	N/A	678,419
			3,025,988
Fifth Year Accounting Scholarship	N/A	N/A	6,759
Accelerate Texas: Scaling and Sustaining Success	N/A	14936	166,026
Nursing Innovation Grant Program - Nursing and Allied Health Kingwood FY16	N/A	14127	3,405
Nursing Innovation Grant Program - Nursing and Allied Health Kingwood FY17	N/A	18024	109,089
Nursing Innovation Grant Program - Nursing and Allied Health North Harris	N/A	14128	18,511
Total Nursing Innovation Grant Program - Nursing and Allied Health			131,005
Nursing Shortage Reduction Plan - Regular Programs	N/A	N/A	118,451
Nursing Shortage Reduction Plan - Under 70 Programs	N/A	N/A	161,628
Total Nursing Shortage Reduction Plan			280,079
T-STEM Challenge Scholarship Program	N/A	16903	111,403
TOTAL TEXAS HIGHER EDUCATION COORDINATING BOARD			3,989,346
TEXAS WORKFORCE COMMISSION:			
<u>Direct Programs:</u>			
Lone Star College in Partnership with Cameron International Corporation	N/A	2815SDF004	275,305
Lone Star College in Partnership with Cypress Fairbanks Medical Center INC	N/A	2817SDF004	35,327
Lone Star College in Partnership with National Oilwell Varco Consortium	N/A	2815SDF005	98,125
Lone Star College in Partnership with Webber, LLC	N/A	2817SDF000	72,012
Skills for Small Business Program	N/A	2815SSD001	5,796
Total Skills Development Fund			486,565
<u>Pass-Through:</u>			
College of the Mainland			
Distance Learning Mentor Initiative	N/A	N/A	6,686
Houston Galveston Area Council			
Adult Education - Basic Grants to States 2017	N/A	214-17	180,081
TOTAL TEXAS WORKFORCE COMMISSION			673,332
TOTAL STATE FINANCIAL ASSISTANCE			\$ 4,662,678

Notes to the Schedule of Expenditures of State Awards are an integral part of this statement.

**LONE STAR COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED August 31, 2017**

1 Significant Accounting Policies used in Preparing the Schedule

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

2 State Assistance Reconciliation

State Grants and Contracts (Schedule A)	\$	4,662,678
Reconciling items:		
None		-
Total State Revenue per Schedule of Expenditures of State Awards	\$	<u>4,662,678</u>



Statistical Section

STATISTICAL SECTION

This part of the Lone Star College comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the College's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the College's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the College's most significant local revenue sources - tuition and fees, state appropriations, and ad valorem taxes.

Debt Capacity

These schedules present information to help the reader assess the affordability of the College's current levels of outstanding debt and the College's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the College's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the College's financial report relates to the services the College provides and the activities it performs.

Sources: unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Lone Star College
Statistical Supplement 1
Net Position by Component
Last Ten Fiscal Years
(unaudited)

For the Fiscal Year Ended August 31,
(amounts expressed in thousands)

	2017	2016	2015 *	2014	2013	2012	2011	2010	2009	2008
Net Investment in Capital Assets	\$190,413	\$216,841	\$198,560	\$178,160	\$178,498	\$195,090	\$190,949	\$178,172	\$153,534	\$139,813
Restricted - expendable	67,133	52,157	48,250	44,889	37,800	13,886	7,574	492	7,652	5,617
Unrestricted	(23,451)	(44,448)	(28,218)	52,534	56,314	60,189	47,563	45,022	45,996	47,832
Total net position	<u>\$ 234,095</u>	<u>\$ 224,550</u>	<u>\$ 218,592</u>	<u>\$ 275,583</u>	<u>\$ 272,612</u>	<u>\$ 269,165</u>	<u>\$ 246,086</u>	<u>\$ 223,686</u>	<u>\$ 207,182</u>	<u>\$193,262</u>
Net increase (decrease) in net position	<u>\$ 9,545</u>	<u>\$ 5,958</u>	<u>\$ (56,991)</u>	<u>\$ 2,971</u>	<u>\$ 3,447</u>	<u>\$ 23,079</u>	<u>\$ 22,400</u>	<u>\$ 16,504</u>	<u>\$ 13,920</u>	<u>\$ 26,621</u>

* Net position in 2015 was impacted by GASB 68, *Accounting and Financial Reporting for Pensions*.

**Lone Star College
Statistical Supplement 2
Revenues by Source
Last Ten Fiscal Years
(unaudited)**

For the Year Ended August 31,
(amounts expressed in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Tuition and Fees (Net of Discounts)	\$ 82,416	\$ 77,531	\$ 77,565	\$ 61,961	\$ 59,682	\$ 58,864	\$ 54,089	\$ 46,330	\$ 42,325	\$ 39,171
Governmental Grants and Contracts										
Federal Grants and Contracts	4,536	4,208	4,823	5,775	5,583	6,636	5,016	7,803	7,213	6,642
State Grants and Contracts	4,663	4,851	4,657	3,456	3,901	2,657	3,271	2,744	2,215	1,517
Local Grants and Contracts	3,750	4,771	5,574	4,612	4,000	4,423	5,791	3,656	3,388	3,895
Auxiliary enterprises	13,012	14,690	14,963	14,335	9,850	8,570	7,313	6,737	5,663	6,052
Other Operating Revenues	3,389	2,897	2,780	2,239	1,467	1,757	1,547	1,326	1,694	892
Total Operating Revenues	<u>\$ 111,766</u>	<u>\$ 108,948</u>	<u>\$ 110,361</u>	<u>\$ 92,378</u>	<u>\$ 84,483</u>	<u>\$ 82,907</u>	<u>\$ 77,027</u>	<u>\$ 68,596</u>	<u>\$ 62,498</u>	<u>\$ 58,169</u>
Ad Valorem Taxes:										
Maintenance and Operations	140,258	125,089	112,203	109,041	104,875	101,461	96,232	89,416	86,540	83,480
General Obligation Bonds	48,875	54,177	46,633	43,663	40,884	39,020	38,486	39,416	38,050	34,698
State Appropriations	95,681	97,052	90,002	85,709	75,962	75,418	73,405	74,594	71,148	72,000
Federal Revenue, Non-Operating	77,449	77,853	91,112	91,369	90,757	89,175	74,414	50,747	23,243	18,599
Investment income	2,609	1,163	663	451	556	500	732	967	3,434	3,961
Other non-operating revenues	5,159	6,225	3,525	4,568	4,871	4,183	3,868	4,601	1,120	1,379
Total Non-Operating Revenues	<u>370,031</u>	<u>361,559</u>	<u>344,139</u>	<u>334,801</u>	<u>317,905</u>	<u>309,757</u>	<u>287,137</u>	<u>259,741</u>	<u>223,535</u>	<u>214,117</u>
Total Revenues	<u>\$ 481,797</u>	<u>\$ 470,507</u>	<u>\$ 454,500</u>	<u>\$ 427,179</u>	<u>\$ 402,388</u>	<u>\$ 392,664</u>	<u>\$ 364,164</u>	<u>\$ 328,337</u>	<u>\$ 286,033</u>	<u>\$ 272,286</u>

Statistical Supplement 2 (Cont)

For the Year Ended August 31,

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Tuition and Fees (Net of Discounts)	17.11%	16.48%	17.07%	14.50%	14.83%	14.99%	14.85%	14.11%	14.80%	14.39%
Governmental Grants and Contracts										
Federal Grants and Contracts	0.94%	0.89%	1.06%	1.35%	1.39%	1.69%	1.38%	2.38%	2.52%	2.44%
State Grants and Contracts	0.97%	1.03%	1.02%	0.81%	0.97%	0.68%	0.90%	0.84%	0.77%	0.56%
Local Grants and Contracts	0.78%	1.01%	1.23%	1.08%	0.99%	1.13%	1.59%	1.11%	1.18%	1.43%
Auxiliary enterprises	2.70%	3.12%	3.29%	3.36%	2.45%	2.18%	2.01%	2.05%	1.98%	2.22%
Other Operating Revenues	0.70%	0.62%	0.61%	0.52%	0.36%	0.45%	0.42%	0.40%	0.59%	0.33%
Total Operating Revenues	23.20%	23.16%	24.28%	21.63%	21.00%	21.11%	21.15%	20.89%	21.85%	21.37%
Ad Valorem Taxes:										
Maintenance and Operations	29.11%	26.59%	24.69%	25.53%	26.06%	25.84%	26.43%	27.23%	30.26%	30.66%
General Obligation Bonds	10.14%	11.51%	10.26%	10.22%	10.16%	9.94%	10.57%	12.00%	13.30%	12.74%
State Appropriations	19.86%	20.63%	19.80%	20.06%	18.88%	19.21%	20.16%	22.72%	24.87%	26.44%
Federal Revenue, Non-Operating	16.08%	16.55%	20.05%	21.39%	22.55%	22.71%	20.43%	15.46%	8.13%	6.83%
Investment income	0.54%	0.25%	0.15%	0.11%	0.14%	0.13%	0.20%	0.29%	1.20%	1.45%
Other non-operating revenues	1.07%	1.32%	0.78%	1.07%	1.21%	1.07%	1.06%	1.40%	0.39%	0.51%
Total Non-Operating Revenues	76.80%	76.84%	75.72%	78.37%	79.00%	78.89%	78.85%	79.11%	78.15%	78.63%
Total Revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Lone Star College
Statistical Supplement 3
Program Expenses by Function
Last Ten Fiscal Years
(unaudited)

For the Year Ended August 31,
(amounts expressed in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Instruction	\$ 146,013	\$ 133,901	\$ 128,276	\$ 123,466	\$ 113,233	\$ 108,314	\$ 104,578	\$ 99,673	\$ 92,039	\$ 88,102
Public service	1,276	1,348	1,364	1,340	1,048	1,163	1,252	1,805	1,757	1,510
Academic support	60,992	58,500	60,595	55,928	54,998	47,383	47,497	44,995	44,796	36,140
Student services	50,982	50,524	47,340	41,840	38,498	34,101	30,101	29,942	24,065	18,469
Institutional support	46,442	41,817	40,664	37,230	32,744	29,227	29,908	30,207	27,105	33,961
Operation and maintenance of plant	48,440	52,536	49,375	43,688	42,416	42,230	36,497	35,753	38,258	31,868
Scholarships and fellowships	50,994	53,178	65,330	55,840	56,215	60,374	51,120	33,743	14,092	10,662
Auxiliary enterprises	11,979	16,356	14,088	12,307	8,621	6,772	5,748	5,297	4,952	5,696
Depreciation	22,222	27,455	25,473	23,588	22,346	19,368	12,666	10,682	9,369	8,492
Total Operating Expenses	\$ 439,340	\$ 435,615	\$ 432,505	\$ 395,227	\$ 370,119	\$ 348,932	\$ 319,367	\$ 292,097	\$ 256,433	\$ 234,900
Interest on capital related debt	32,192	28,870	23,738	27,106	22,792	19,614	20,959	19,731	15,582	10,419
Loss on disposal of capital assets	721	63	196	1,876	6,030	666	1,439	5	97	347
Total Non-Operating Expenses	32,913	28,933	23,934	28,982	28,822	20,280	22,398	19,736	15,679	10,766
Total Expenses	\$ 472,253	\$ 464,548	\$ 456,438	\$ 424,209	\$ 398,941	\$ 369,212	\$ 341,765	\$ 311,833	\$ 272,112	\$ 245,666

Statistical Supplement 3 (Cont)

	For the Year Ended August 31,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Instruction	30.91%	28.82%	28.10%	29.10%	28.38%	29.34%	30.60%	31.96%	33.83%	35.87%
Public service	0.27%	0.29%	0.30%	0.32%	0.26%	0.31%	0.37%	0.58%	0.65%	0.61%
Academic support	12.92%	12.59%	13.28%	13.18%	13.79%	12.83%	13.90%	14.43%	16.46%	14.71%
Student services	10.80%	10.88%	10.37%	9.86%	9.65%	9.24%	8.81%	9.60%	8.84%	7.52%
Institutional support	9.83%	9.00%	8.91%	8.78%	8.21%	7.92%	8.75%	9.69%	9.96%	13.82%
Operation and maintenance of plant	10.26%	11.31%	10.82%	10.30%	10.63%	11.43%	10.67%	11.46%	14.05%	12.97%
Scholarships and fellowships	10.80%	11.45%	14.31%	13.16%	14.09%	16.35%	14.96%	10.82%	5.18%	4.34%
Auxiliary enterprises	2.54%	3.52%	3.09%	2.90%	2.16%	1.83%	1.68%	1.70%	1.82%	2.32%
Depreciation	4.71%	5.91%	5.58%	5.56%	5.60%	5.25%	3.71%	3.43%	3.44%	3.46%
Total Operating Expenses	93.04%	93.77%	94.76%	93.16%	92.77%	94.50%	93.45%	93.67%	94.23%	95.62%
Interest on capital related debt	6.82%	6.21%	5.20%	6.39%	5.71%	5.31%	6.13%	6.33%	5.73%	4.24%
Loss on disposal of capital assets	0.15%	0.01%	0.04%	0.44%	1.51%	0.18%	0.42%	0.00%	0.04%	0.14%
Total Non-Operating Expenses	6.97%	6.22%	5.24%	6.83%	7.22%	5.49%	6.55%	6.33%	5.77%	4.38%
Total Expenses	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**Lone Star College
Statistical Supplement 4
Tuition and Fees
Last Ten Academic Years
(unaudited)**

Resident Fees per Semester Credit Hour (SCH)												
Academic Year (Fall)	Registration Fee (per student)	In-District Tuition	Out-of-District Tuition	Technology Fees	Student Activity Fees	General Use Fee	Infrastructure Fee (per semester)	Cost for 12 SCH In-District	Cost for 12 SCH Out-of-District	Increase Prior Year In-District	Increase from Prior Year Out-of-District	
2017	\$12	\$44	\$119	\$11	\$2	\$7	\$20	\$800	\$1,700	3.09%	5.20%	
2016	12	44	114	9	2	7	20	776	1,616	3.19%	1.51%	
2015	12	42	112	9	2	7	20	752	1,592	0.00%	0.00%	
2014	12	42	112	9	2	7	20	752	1,592	6.82%	3.11%	
2013	12	40	110	7	2	7	20	704	1,544	0.00%	0.00%	
2012	12	40	110	7	2	7	20	704	1,544	0.00%	0.00%	
2011	12	40	110	7	2	7	20	704	1,544	17.33%	7.22%	
2010	12	38	108	7	2	2		600	1,440	0.00%	0.00%	
2009	12	38	108	7	2	2		600	1,440	6.38%	12.15%	
2008	12	36	96	6	2	2		564	1,284	N/A	N/A	

Non-Resident Fees per Semester Credit Hour (SCH)												
Academic Year (Fall)	Registration Fee (per student)	In-District Tuition	Out-of-District Tuition	Technology Fees	Student Activity Fees	General Use Fee	Infrastructure Fee (per semester)	Cost for 12 SCH Out-of-State	Cost for 12 SCH International	Increase Prior Year Out-of-State	Increase from Prior Year International	
2017	\$12	\$134	\$134	\$11	\$2	\$7	\$20	\$1,880	\$1,880	4.68%	4.68%	
2016	12	129	129	9	2	7	20	1,796	1,796	1.35%	1.35%	
2015	12	127	127	9	2	7	20	1,772	1,772	0.00%	0.00%	
2014	12	127	127	9	2	7	20	1,772	1,772	2.78%	2.78%	
2013	12	125	125	7	2	7	20	1,724	1,724	0.00%	0.00%	
2012	12	125	125	7	2	7	20	1,724	1,724	0.00%	0.00%	
2011	12	125	125	7	2	7	20	1,724	1,724	6.42%	6.42%	
2010	12	123	123	7	2	2		1,620	1,620	0.00%	0.00%	
2009	12	123	123	7	2	2		1,620	1,620	10.66%	10.66%	
2008	12	111	111	6	2	2		1,464	1,464	N/A	N/A	

Note: Includes basic enrollment tuition and fees but excludes course based fees such as laboratory fees, testing fees and certification fees. Additional differential fees are assessed for certain higher cost programs. Amounts vary by program.

Lone Star College
 Statistical Supplement 5
 Assessed Value and Taxable Assessed Value of Property
 Last Ten Fiscal Years
 (Unaudited)

Fiscal Year	(amounts expressed in thousands)			Ratio of Taxable Assessed Value to Assessed Value	Direct Rate		
	Assessed Valuation of Property	Less: Exemptions	Taxable Assessed Value (TAV)		Maintenance & Operations (a)	Debt Service (a)	Total (a)
2016-17	196,054,317	(15,500,454)	180,553,863	92.09%	0.0800	0.0278	0.1078
2015-16	183,418,226	(14,483,058)	168,935,168	92.10%	0.0754	0.0325	0.1079
2014-15	162,036,778	(13,195,229)	148,841,549	91.86%	0.0765	0.0316	0.1081
2013-14	145,894,831	(12,841,989)	133,052,842	91.20%	0.0825	0.0335	0.1160
2012-13	134,231,554	(11,446,862)	122,784,692	91.47%	0.0863	0.0335	0.1198
2011-12	127,768,523	(10,264,805)	117,503,718	91.97%	0.0875	0.0335	0.1210
2010-11	124,218,962	(8,525,498)	115,693,464	93.14%	0.0841	0.0335	0.1176
2009-10	126,352,009	(8,422,514)	117,929,495	93.33%	0.0766	0.0335	0.1101
2008-09	122,354,425	(9,679,185)	112,675,240	92.09%	0.0766	0.0335	0.1101
2007-08	110,258,237	(6,990,029)	103,268,208	93.66%	0.0809	0.0335	0.1144

Source: Montgomery and Harris County Appraisal Districts.

Notes: Property is assessed at full market value. The assessed valuation represents two classes of property; real and personal. An aggregate presentation is preferred due to the relatively minor portion of the value represented by personal property.

(a) per \$100 Taxable Assessed Valuation

Lone Star College
Statistical Supplement 6
State Appropriation per FTSE and Contact Hour
Last Ten Fiscal Years
(unaudited)

Fiscal Year	Appropriation per FTSE			Appropriation per Contact Hour			
	State Appropriation (expressed in thousands)	FTSE (a)	State Appropriation per FTSE	(hours expressed in thousands)			State Appropriation per Contact Hour
				Academic Contact Hours (b)	Voc/Tech Contact Hours (c)	Total Contact Hours	
2016-17	\$ 74,089	42,516	\$ 1,743	21,882	4,554	26,436	\$ 2.80
2015-16	73,969	40,350	1,833	21,173	4,532	25,705	2.88
2014-15	72,476	40,357	1,796	20,867	4,621	25,488	2.84
2013-14	72,476	39,973	1,813	20,491	4,765	25,256	2.87
2012-13	75,962	40,029	1,898	7,971	166	8,137	9.34
2011-12	75,418	37,563	2,008	7,397	164	7,561	9.97
2010-11	73,405	36,391	2,017	7,126	211	7,337	10.00
2009-10	74,594	32,124	2,322	7,692	183	7,875	9.47
2008-09	71,148	28,358	2,509	6,821	199	7,020	10.14
2007-08	72,001	27,168	2,650	6,592	153	6,745	10.67

Source 2013-14 and after:

- (a) CBM001 - Fall Semester (this information is from the total fall fundable credit hours on CBM 004 divided by 12).
- (b) CBM004 - Full academic year (Academic only)
- (c) CBM00C - Full academic year

Source 2012-13 and prior:

- (a) CBM001 Fall Semester (this information is from the total fall fundable credit hours on CBM 004 divided by 12).
- (b) CBM004 Fall Semester (Academic only)
- (c) CBM00C 1st Quarter

Note: FTSE is defined as the number of full time students plus total hours taken by part-time students divided by 12.

**Lone Star College
Statistical Supplement 7
Principal Taxpayers
Last Ten Fiscal Years
(Unaudited)**

Taxable Assessed Value (TAV) by Fiscal Year (amounts expressed in thousands)											
Taxpayer	Type of Business	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Palmetto Transoceanic LLC	General Industrial	\$ 1,289,093	\$ 1,130,070	\$ 534,150	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hewlett Packard	Manufacturing	958,710	999,045	970,506	923,268	950,638	966,995	773,400	951,681	851,026	1,070,242
United Airlines Inc	Airline	897,152	868,505	669,438	315,198	269,573	240,493	234,462	-	-	-
National Oilwell Varco	Oil and Gas	822,446	1,148,101	831,228	750,757	953,362	853,978	1,029,299	542,361	344,584	-
Centerpoint Energy Inc	Utility	768,270	593,230	697,677	726,301	627,931	612,353	607,492	631,661	634,424	629,973
Baker Hughes	Oil and Gas	605,697	825,106	612,975	549,693	329,148	316,406	-	244,222	-	-
Halliburton	Oil and Gas	504,152	761,259	689,307	637,090	602,119	417,115	243,305	251,237	264,056	-
Liberty Property	Real Estate	411,386	369,225	-	-	-	-	-	-	-	-
Anadarko Realty Co	Real Estate	387,529	377,015	367,015	-	-	-	-	-	-	-
HEB Grocery Co LP	Retail grocery	378,851	-	-	-	252,711	223,180	-	-	-	-
Noble Drilling	Oil and Gas	-	413,495	397,375	339,270	-	-	-	-	-	-
Cameron	Oil and Gas	-	-	413,225	406,267	339,451	-	-	-	-	-
Walmart	Retail	-	-	-	343,630	333,060	340,227	324,956	345,162	324,154	298,417
Smith International	Oil and Gas	-	-	-	371,334	314,722	241,037	227,655	254,117	235,543	-
Walmart RE Business Trust	Real Estate	-	-	-	-	-	230,856	-	-	-	214,003
LeTourneau Technologies	Oil and Gas	-	-	-	-	-	-	226,670	282,033	-	-
Comcast of Houston LLC	Utility	-	-	-	-	-	-	218,045	-	-	-
Hines Interests Ltd Psp	Real Estate	-	-	-	-	-	-	215,407	234,733	286,343	248,302
Houston Pipeline Co LP	Utility	-	-	-	-	-	-	-	355,074	324,603	251,875
Schlumberger Technology	Oil and Gas	-	-	-	-	-	-	-	-	269,686	-
AT&T/Southwestern Bell	Utility	-	-	-	-	-	-	-	-	236,936	348,854
Nabors Drilling USA LP	Oil and Gas	-	-	-	-	-	-	-	-	-	507,533
Express Jet Airlines Inc	Airline	-	-	-	-	-	-	-	-	-	200,909
Exxon Mobil Corp	Oil and Gas	-	-	-	-	-	-	-	-	-	198,660
Totals		\$ 7,023,286	\$ 7,485,051	\$ 6,182,896	\$ 5,362,808	\$ 4,972,715	\$ 4,442,640	\$ 4,100,691	\$ 4,092,281	\$ 3,771,355	\$ 3,968,768
Total Taxable Assessed Value		\$ 180,553,863	\$ 168,935,168	\$ 148,841,539	\$ 133,052,842	\$ 122,784,692	\$ 117,503,718	\$ 115,693,464	\$ 117,929,495	\$ 112,675,240	\$ 103,268,208

Statistical Supplement 7 (cont)

		% of Taxable Assessed Value (TAV) by Fiscal Year									
Taxpayer	Type of Business	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Palmetto Transoceanic LLC	General Industrial	0.71%	0.67%	0.36%	-	-	-	-	-	-	-
Hewlett Packard	Manufacturing	0.53%	0.59%	0.65%	0.69%	0.77%	0.82%	0.67%	0.81%	0.76%	1.04%
United Airlines Inc	Airline	0.50%	0.51%	0.45%	0.24%	0.22%	0.20%	0.20%	-	-	-
National Oilwell Varco	Oil and Gas	0.46%	0.68%	0.56%	0.56%	0.78%	0.73%	0.89%	0.46%	0.31%	-
Centerpoint Energy Inc	Utility	0.43%	0.35%	0.47%	0.55%	0.51%	0.52%	0.53%	0.54%	0.56%	0.61%
Baker Hughes	Oil and Gas	0.34%	0.49%	0.41%	0.41%	0.27%	0.27%	-	0.21%	-	-
Halliburton	Oil and Gas	0.28%	0.45%	0.46%	0.48%	0.49%	0.35%	0.21%	0.21%	0.23%	-
Liberty Property	Real Estate	0.23%	0.22%	-	-	-	-	-	-	-	-
Anadarko Realty Co	Real Estate	0.21%	0.22%	0.25%	-	-	-	-	-	-	-
HEB Grocery Co LP	Retail grocery	0.21%	-	-	-	0.21%	0.19%	-	-	-	-
Noble Drilling	Oil and Gas	-	0.24%	0.27%	0.25%	-	-	-	-	-	-
Cameron	Oil and Gas	-	-	0.28%	0.31%	0.28%	-	-	-	-	-
Walmart	Retail	-	-	-	0.26%	0.27%	0.29%	0.28%	0.29%	0.29%	0.29%
Smith International	Oil and Gas	-	-	-	0.28%	0.26%	0.21%	0.20%	0.22%	0.21%	-
Walmart RE Business Trust	Real Estate	-	-	-	-	-	0.20%	-	-	-	0.21%
LeTourneau Technologies	Oil and Gas	-	-	-	-	-	-	0.20%	0.24%	-	-
Comcast of Houston LLC	Utility	-	-	-	-	-	-	0.19%	-	-	-
Hines Interests Ltd Psp	Real Estate	-	-	-	-	-	-	0.19%	0.20%	0.25%	0.24%
Houston Pipeline Co LP	Utility	-	-	-	-	-	-	-	0.30%	0.29%	0.24%
Schlumberger Technology	Oil and Gas	-	-	-	-	-	-	-	-	0.24%	-
AT&T/Southwestern Bell	Utility	-	-	-	-	-	-	-	-	0.21%	0.34%
Nabors Drilling USA LP	Oil and Gas	-	-	-	-	-	-	-	-	-	0.49%
Express Jet Airlines Inc	Airline	-	-	-	-	-	-	-	-	-	0.19%
Exxon Mobil Corp	Oil and Gas	-	-	-	-	-	-	-	-	-	0.19%
Total % of TAV		3.89%	4.43%	4.15%	4.03%	4.05%	3.78%	3.54%	3.47%	3.35%	3.84%

Lone Star College
Statistical Supplement 8
Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)
(amounts expressed in thousands)

Fiscal Year Ended August 31	Levy (a)	Cumulative Levy Adjustments	Adjusted Tax Levy (b)	Collections - Year of Levy (c)	Percentage	Current Collections of Prior Levies (d)	Penalty and Interest Collections (e)	Total Collections (c+d+e)	Cumulative Collections of Adjusted Levy
2017	\$ 177,854	\$ 13,744	\$ 191,597	\$ 190,148	99.24%	\$ 684	\$ 1,968	\$ 192,800	100.63%
2016	163,569	16,651	180,220	178,278	98.92%	1,086	1,872	181,235	100.56%
2015	143,277	16,524	159,801	157,603	98.62%	1,089	1,749	160,441	100.40%
2014	126,882	26,539	153,421	151,805	98.95%	614	1,561	153,979	100.36%
2013	130,094	17,002	147,096	144,108	97.97%	2,118	964	147,190	100.06%
2012	131,397	8,624	140,021	139,289	99.48%	2,069	1,264	142,622	101.86%
2011	121,564	14,359	135,923	133,207	98.00%	1,679	1,257	136,143	100.16%
2010	115,096	14,436	129,532	126,317	97.52%	2,292	1,228	129,837	100.24%
2009	110,518	13,297	123,815	122,271	98.75%	-	-	122,271	98.75%
2008	105,100	13,039	118,139	114,588	96.99%	-	-	114,588	96.99%

Source: Local Tax Assessor/Collector and College records.

(a) Per original certified tax levy

(b) As of August 31st of the current reporting year

(c) Property tax only - does not include penalties and interest

(d) Represents cumulative collections of prior years collected in the current year or the year of the tax levy

(e) Represents current year collections of Penalty & Interest in current and prior years levies

**Lone Star College
Statistical Supplement 9
Ratios of Outstanding Debt
Last Ten Fiscal Years
(Unaudited)**

For the Year Ended August 31 (amounts expressed in thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Bonded Debt										
General Obligation Bonds	\$ 620,695	\$ 504,865	\$ 545,285	\$ 444,660	\$ 461,635	\$ 477,330	\$ 496,455	\$ 511,070	\$ 276,300	\$ 149,040
Net General Bonded Debt	\$ 620,695	\$ 504,865	\$ 545,285	\$ 444,660	\$ 461,635	\$ 477,330	\$ 496,455	\$ 511,070	\$ 276,300	\$ 149,040
Other Debt										
Revenue bonds	\$ 86,305	\$ 87,210	\$ 113,555	\$ 116,445	\$ 61,610	\$ 43,860	\$ 46,500	\$ 48,780	\$ 51,015	\$ 53,255
Maintenance Tax Notes	21,215	22,840	25,565	26,995	28,330	29,580	30,740	30,740	-	-
Total Outstanding Debt	\$ 728,215	\$ 614,915	\$ 684,405	\$ 588,100	\$ 551,575	\$ 550,770	\$ 573,695	\$ 590,590	\$ 327,315	\$ 202,295
General Bonded Debt Ratios										
Per Capita	\$ 253.02	\$ 209.94	\$ 231.31	\$ 192.41	\$ 203.76	\$ 214.92	\$ 228.01	\$ 239.43	\$ 134.39	\$ 75.27
Per FTSE	14,599	12,512	13,512	11,124	11,533	12,707	13,642	15,909	9,743	5,486
As a percentage of Taxable Assessed Value	0.34%	0.30%	0.37%	0.33%	0.38%	0.41%	0.43%	0.43%	0.25%	0.14%
Total Outstanding Debt Ratios										
Per Capita	\$ 296.85	\$ 255.70	\$ 290.32	\$ 254.48	\$ 243.46	\$ 247.98	\$ 263.49	\$ 276.69	\$ 159.21	\$ 102.16
Per FTSE	17,128	15,240	16,959	14,712	13,779	14,663	15,765	18,385	11,542	7,446
As a percentage of Taxable Assessed Value	0.40%	0.36%	0.46%	0.44%	0.45%	0.47%	0.50%	0.50%	0.29%	0.20%

Notes: Ratios calculated using population and TAV from current year. Debt per student calculated using full-time-equivalent enrollment.

Lone Star College
Statistical Supplement 10
Legal Debt Margin Information
Last Ten Fiscal Years
(Unaudited)

	For the Year Ended August 31 (amounts expressed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Taxable Assessed Value	\$ 180,553,863	\$ 168,935,168	\$ 148,841,549	\$ 133,052,842	\$ 122,784,692	\$ 117,503,718	\$ 115,693,464	\$ 117,929,495	\$ 112,675,240	\$ 103,268,207
General Obligation Bonds										
Statutory Tax Levy Limit for Debt Service	\$ 902,769	\$ 844,676	\$ 744,208	\$ 665,264	\$ 613,923	\$ 587,519	\$ 578,467	\$ 589,647	\$ 563,376	\$ 516,341
Less: Funds Restricted for Repayment of General Obligation Bonds	(59,251)	(53,410)	(50,010)	(8,565)	(37,687)	(13,400)	(6,351)	(6)	(7,166)	(5,131)
Net Statutory Limit for Debt Service	843,519	791,266	694,198	656,699	576,236	574,119	572,116	589,641	556,210	511,210
Current Year Debt Service Requirements	43,797	45,538	59,360	52,946	46,496	45,493	47,201	46,679	36,300	31,836
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 799,722	\$ 745,727	\$ 634,838	\$ 603,753	\$ 529,740	\$ 528,626	\$ 524,915	\$ 542,962	\$ 519,910	\$ 479,374
Net Current Requirements as a % of Statutory Limit	-1.71%	-0.93%	1.26%	6.67%	1.43%	5.46%	7.06%	7.92%	5.17%	5.17%

Note: Texas Education Code Section 130.122 limits the debt service tax levy of community colleges to \$0.50 per hundred dollars taxable assessed valuation.

Lone Star College
 Statistical Supplement 11
 Pledged Revenue Coverage
 Last Ten Fiscal Years
 (Unaudited)

Revenue Bonds

Fiscal Year Ended August 31	Pledged Revenues (amounts expressed in thousands)													Debt Service Requirements (amounts expressed in thousands)			
	Tuition	Technology and Other Fees	General Fees	Laboratory Fees	Community Education Fees	General Use Fee	Differential Tuition Fee	Infrastructure Fee	Rental Income	Interest Income	Vending Commission	Bookstore Commission	Total	Principal	Interest	Total	Coverage Ratio
	2017	\$ 12,175	\$ 17,989	\$ 2,144	\$ 1,242	\$ 5,920	\$ 9,603	\$ 11,246	\$ 2,582	\$ 7,315	\$ 692	\$ 489	\$ 1,543	\$ 72,941	\$ 905	\$ 4,003	\$ 4,908
2016	12,005	18,044	2,094	1,280	6,690	9,328	5,861	2,595	7,181	439	484	2,323	68,324	2,945	3,384	6,329	10.80
2015	12,105	18,191	2,036	1,312	7,614	9,183	5,844	2,632	6,151	667	491	2,673	68,898	2,890	4,531	7,421	9.28
2014	11,383	15,424	1,949	1,310	7,068	9,039	6,075	2,546	7,145	327	464	2,489	65,220	3,310	4,139	7,449	8.76
2013	11,240	14,708	1,910	1,266	6,867	8,911	4,544	2,536	3,826	381	430	2,481	59,102	2,535	1,898	4,433	13.33
2012	11,164	13,372	1,885	1,221	7,110	8,744	958	2,523	2,619	297	395	2,648	52,935	2,845	1,537	4,382	12.08
2011	10,291	13,869	5,872	1,187	7,256	-	-	-	-	339	377	2,496	41,688	2,280	2,219	4,499	9.27
2010	9,517	11,836	1,687	1,416	6,158	-	-	-	-	320	166	2,318	33,418	2,235	2,308	4,543	7.36
2009	7,381	8,942	1,416	937	5,601	-	-	-	-	836	333	2,029	27,474	2,240	2,394	4,634	5.93
2008	6,846	6,637	1,351	899	5,936	-	-	-	-	1,696	329	1,654	25,348	1,808	2,817	4,625	5.48

**Lone Star College
Statistical Supplement 12
Demographic and Economic Statistics
Last Ten Fiscal Years
(unaudited)**

Fiscal Year	District Population (a)	District Personal Income (thousands of dollars) (c)	District Personal Income Per Capita (b)	District Unemployment Rate (d)
2017	2,453,175	\$ 78,758,910	\$ 32,105	5.2%
2016	2,404,825	74,747,664	31,082	4.9%
2015	2,357,428	70,940,713	30,092	4.7%
2014	2,310,965	67,327,653	29,134	5.4%
2013	2,265,527	63,392,562	27,981	6.1%
2012	2,220,983	59,687,506	26,874	7.0%
2011	2,177,315	56,198,996	25,811	8.6%
2010	2,134,505	52,914,377	24,790	8.8%
2009	2,055,895	50,150,685	24,394	8.3%
2008	1,980,180	47,531,482	24,004	8.3%

Sources:

(a) Estimated: Based on 68 zip codes within LSC taxing district. Projected district population growth based on 2000/2010 Census data. 2014-2019 projected population growth from ESRI data.

(b) Estimated: District per capita income based on ESRI projected per capita income within 68 zip codes within LSC taxing district.

(c) Estimated: District person income based on calculation of estimated district population multiplied by estimated per capita income.

(d) U.S. Bureau of Labor Statistics, Metropolitan Area Employment and Unemployment, August 2017.

Lone Star College
Statistical Supplement 13
Principal Employers (a)
(unaudited)

Principal Employment Sectors (a)	2015 (b)		2006 (b)	
	Number of Employees	Percentage of Total Employment	Number of Employees	Percentage of Total Employment
State and local	350,371	8.69%	314,654	9.79%
Retail trade	367,802	9.13%	315,739	9.82%
Construction	312,204	7.75%	269,694	8.39%
Health care and social assistance	(c)		254,933	7.93%
Professional, scientific, and technical services	(c)		255,904	7.96%
Manufacturing	264,632	6.57%	236,062	7.35%
Administrative and waste services	(c)		243,563	7.58%
Accommodation and food services	(c)		211,221	6.57%
Other services, except public administration	246,579	6.12%	192,046	5.98%
Finance and insurance	194,478	4.82%	143,424	4.46%
Total	1,736,066	43.07%	2,437,240	75.84%
Total Employment	4,030,642		3,213,699	

Source:

U.S. Department of Commerce Bureau of Economic Analysis, Regional Economic System Information, Houston Economic Area (Houston-The Woodlands-Sugar Land, TX), CA25N Total full-time and part-time employment by NAICS industry.

Notes:

(a) Principal employer data was not available for the College.

(b) Data is normally presented with the current year compared to nine years prior.

(c) Not shown to avoid disclosure of confidential information, but the estimates for this item are included in the totals.

Lone Star College
 Statistical Supplement 14
 Faculty, Staff and Administrators Statistics
 Last Ten Fiscal Years
 (unaudited)

		Fiscal Year									
		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Faculty											
Full-Time		865	878	875	918	842	833	742	780	756	761
Part-Time		3,101	2,222	2,382	2,039	1,999	1,894	1,900	2,271	2,118	1,923
Total		3,966	3,100	3,257	2,957	2,841	2,727	2,642	3,051	2,874	2,684
Percent											
Full-Time		21.8%	28.3%	26.9%	31.0%	29.6%	30.5%	28.1%	25.6%	26.3%	28.4%
Part-Time		78.2%	71.7%	73.1%	69.0%	70.4%	69.5%	71.9%	74.4%	73.7%	71.6%
Staff and Administrators											
Full-Time		1,744	1,855	1,852	1,673	1,581	1,479	1,431	1,408	1,340	1,263
Part-Time		1,401	1,356	1,376	1,483	1,642	1,476	1,297	1,334	1,472	1,480
Total		3,145	3,211	3,228	3,156	3,223	2,955	2,728	2,742	2,812	2,743
Percent											
Full-Time		55.5%	57.8%	57.4%	53.0%	49.1%	50.1%	52.5%	51.3%	47.7%	46.0%
Part-Time		44.5%	42.2%	42.6%	47.0%	50.9%	49.9%	47.5%	48.7%	52.3%	54.0%
FTSE per Full-time Faculty		83.34	81.97	74.42	71.22	77.75	79.03	88.03	83.35	86.38	82.46
FTSE per Full-Time Staff Member		41.34	38.80	35.16	39.08	41.41	44.51	45.65	46.17	48.73	49.69
Average Annual Faculty Salary		\$ 72,088	\$ 71,972	\$ 65,114	\$ 65,376	\$ 65,462	\$ 65,835	\$ 65,321	\$ 65,012	\$ 65,301	\$ 62,755

Statistical Supplement 15 (Cont)

Fall 2011		Fall 2010		Fall 2009		Fall 2008	
Number	Percent	Number	Percent	Number	Percent	Number	Percent
43,134	57.00%	33,296	48.02%	35,171	58.95%	22,237	48.52%
19,787	26.15%	20,895	30.13%	13,039	21.86%	11,758	25.66%
12,759	16.86%	15,148	21.85%	11,449	19.19%	11,835	25.82%
75,680	100.00%	69,339	100.00%	59,659	100.00%	45,830	100.00%

Fall 2011		Fall 2010		Fall 2009		Fall 2008	
Number	Percent	Number	Percent	Number	Percent	Number	Percent
2791	3.69%	702	1.01%	232	0.39%	246	0.54%
14476	19.13%	13,089	18.88%	11,974	20.07%	10,941	23.87%
21164	27.97%	17,940	25.87%	15,455	25.91%	11,669	25.46%
16553	21.87%	13,851	19.98%	11,442	19.18%	8,514	18.58%
17612	23.27%	19,948	28.77%	16,917	28.36%	12,053	26.30%
2797	3.70%	3,377	4.87%	3,213	5.39%	2,185	4.77%
287	0.38%	432	0.62%	426	0.71%	222	0.48%
75,680	100.00%	69,339	100.00%	59,659	100.00%	45,830	100.00%

8.4 8.4 8.7 8.7

Fall 2011		Fall 2010		Fall 2009		Fall 2008	
Number	Percent	Number	Percent	Number	Percent	Number	Percent
64901	85.76%	61,054	88.05%	54,138	90.75%	41,477	90.50%
7224	9.55%	4,839	6.98%	3,965	6.65%	2,951	6.44%
3555	4.70%	3,446	4.97%	1,556	2.61%	1,402	3.06%
75,680	100.00%	69,339	100.00%	59,659	100.00%	45,830	100.00%

**Lone Star College
Statistical Supplement 16
Student Profile
Last Ten Fiscal Years
(unaudited)**

	Fall 2017		Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Gender																					
Female	53,316	59.63%	50,593	59.06%	49,978	59.55%	50,043	60.43%	47,155	60.75%	48,086	61.75%	46,503	61.45%	42,187	60.84%	35,925	60.22%	27,545	60.10%	
Male	36,097	40.37%	35,068	40.94%	33,954	40.45%	32,775	39.57%	30,466	39.25%	29,791	38.25%	29,177	38.55%	27,152	39.16%	23,734	39.78%	18,285	39.90%	
Total	89,413	100.00%	85,661	100.00%	83,932	100.00%	82,818	100.00%	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	100.00%	59,659	100.00%	45,830	100.00%	

	Fall 2017		Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Ethnic Origin																					
White	28,053	31.37%	27,814	32.47%	28,117	33.50%	28,412	34.31%	27,819	35.84%	28,976	37.21%	29,642	39.17%	29,788	42.96%	27,244	45.67%	21,587	47.10%	
Hispanic	34,695	38.80%	32,628	38.09%	30,775	36.67%	28,166	34.01%	25,053	32.28%	23,534	30.22%	21,512	28.42%	18,317	26.42%	15,170	25.43%	5,381	11.74%	
African American	14,115	15.79%	13,430	15.68%	13,746	16.38%	15,326	18.51%	13,971	18.00%	14,644	18.80%	13,804	18.24%	10,598	15.28%	8,239	13.81%	11,520	25.14%	
Asian	6,744	7.54%	6,381	7.45%	5,958	7.10%	5,514	6.66%	4,989	6.43%	4,521	5.81%	4,404	5.82%	4,784	6.90%	4,076	6.83%	3,013	6.57%	
Foreign		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%	735	1.23%	178	0.39%	
Native American	177	0.20%	205	0.24%	212	0.25%	204	0.25%	243	0.31%	258	0.33%	297	0.39%	321	0.46%	274	0.46%	758	1.65%	
Other	5,629	6.30%	5,203	6.07%	5,124	6.10%	5,196	6.27%	5,546	7.14%	5,944	7.63%	6,021	7.96%	5,531	7.98%	3,921	6.57%	3,393	7.40%	
Total	89,413	100.00%	85,661	100.00%	83,932	100.00%	82,818	100.00%	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	100.00%	59,659	100.00%	45,830	100.00%	

	Fall 2017		Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Age																					
Under 20	34,586	38.68%	32,653	38.12%	30,431	36.26%	28,378	34.27%	25,466	32.81%	20,005	25.69%	19,910	26.31%	22,769	32.84%	12,380	20.75%	16,769	36.59%	
20-24	28,262	31.61%	27,584	32.20%	27,048	32.23%	26,390	31.87%	24,866	32.04%	28,122	36.11%	27,294	36.07%	22,029	31.77%	24,654	41.32%	14,969	32.66%	
25-29	10,757	12.03%	10,203	11.91%	10,303	12.28%	10,467	12.64%	9,964	12.84%	11,167	14.34%	10,718	14.16%	9,292	13.40%	9,086	15.23%	5,435	11.86%	
30-39	9,944	11.12%	9,429	11.01%	9,911	11.81%	10,781	13.02%	10,499	13.53%	11,342	14.56%	10,974	14.50%	9,417	13.58%	8,269	13.86%	5,204	11.36%	
40-49	4,130	4.62%	4,088	4.77%	4,420	5.27%	4,799	5.79%	4,834	6.23%	5,127	6.58%	4,900	6.47%	4,203	6.06%	3,710	6.22%	2,497	5.45%	
50 & over	1,734	1.94%	1,704	1.99%	1,819	2.17%	2,003	2.42%	1,992	2.57%	2,114	2.71%	1,884	2.49%	1,629	2.35%	1,560	2.61%	956	2.09%	
Total	89,413	100.00%	85,661	100.00%	83,932	100.00%	82,818	100.00%	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	116.23%	59,659	100.00%	45,830	100.00%	

Average Age	23.7	23.8	24.1	24.4	25.5	25.3	24.8	25.6	25.2	23.6
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Source: AIR Official Day

Lone Star College
 Statistical Supplement 17
 Transfers to Senior Institutions
 Academic Year 2015-2016 Students
 (Includes only public senior colleges in Texas)
 (unaudited)

	Transfer Student Count Academic	Transfer Student Count Technical	Transfer Student Count Tech-Prep	Total of all Lone Star Transfer Students	% of all Lone Star Transfer Students
University of Houston	3,901	133		4,034	22.1%
Sam Houston State University	3,327	147		3,474	19.0%
Texas A&M University	1,900	60		1,960	10.7%
University of Houston - Downtown	1,824	82		1,906	10.4%
The University of Texas at Austin	1,141	23		1,164	6.4%
Texas State University	968	20		988	5.4%
Texas Tech University	665	24		689	3.8%
Texas A&M University - Central Texas	552			552	3.0%
Stephen F. Austin State University	488	16		504	2.8%
Prairie View A&M University	424	36		460	2.5%
The University of Texas at San Antonio	294	9		303	1.7%
The University of Texas at Arlington	273	66		339	1.9%
Texas Southern University	265	13		278	1.5%
University of North Texas	193	9		202	1.1%
University of Houston - Victoria	171	16		187	1.0%
Lamar University	167	15		182	1.0%
Texas Woman's University	135	7		142	0.8%
The University of Texas at Tyler	131	5		136	0.7%
Texas A&M University - Corpus Christi	125	2		127	0.7%
The University of Texas at Dallas	122	10		132	0.7%
University of Houston - Clear Lake	99	10		109	0.6%
Tarleton State University	83	7		90	0.5%
Texas A&M University at Galveston	82	4		86	0.5%
Texas A&M University - Kingsville	38			38	0.2%
West Texas A&M University	32	3		35	0.2%
Midwestern State University	25	4		29	0.2%
Texas A&M University - Commerce	22	1		23	0.1%
The University of Texas of the Permian Basin	16	1		17	0.1%
The University of Texas - Rio Grande Valley	13	3		16	0.1%
Texas A&M International University	9			9	0.0%
Angelo State University	8			8	0.0%
The University of Texas at El Paso	5	3		8	0.0%
Sul Ross State University	4			4	0.0%
Texas A&M University - San Antonio	3	7		10	0.1%
Texas A&M University - Texarkana	3			3	0.0%
University of North Texas at Dallas	2	3		5	0.0%
Grand Total	17,510	739		18,249	100.0%

Source:
 Texas Higher Education Data, ASALFS Students Pursuing Additional Education

Lone Star College
Statistical Supplement 18
Capital Asset Information
Last Ten Fiscal Years
(unaudited)

	Fiscal Year									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Building Use										
Square Footage (in thousands)										
Instruction/Student Services	3,277	3,258	3,140	3,106	2,994	2,969	2,969	2,080	2,080	1,814
Safety, Facilities Systems	104	104	103	103	103	103	103	95	58	41
Libraries	351	351	351	351	351	351	351	351	351	351
Public Service	105	105	105	105	105	105	105	105	105	105
Auxiliary Services	37	37	36	36	36	36	36	29	29	29
Institutional Support	145	145	145	145	145	145	145	145	145	145
Mixed Use	222	222	222	222	222	222	222	222	222	0
Dining Facilities										
Square footage (in thousands)	91	91	91	91	91	91	91	91	55	55
Average daily customers	4,550	4,550	4,550	4,550	4,550	4,550	4,300	4,100	3,900	3,900
Athletic Facilities										
Square footage (in thousands)	112	112	112	112	112	112	112	112	112	112
Stadiums (number of buildings)	-	-	-	-	-	-	-	-	-	-
Gymnasiums (number of buildings)	-	-	-	-	-	-	-	-	-	-
Fitness Centers (number of buildings)	7	7	7	7	7	6	6	6	6	6
Tennis Court (number of courts)	32	32	32	32	32	32	32	32	32	32
Transportation										
Cars	41	38	24	27	25	26	15	15	15	15
Light Trucks/Vans	55	50	50	42	37	33	20	20	20	20
Buses	-	-	-	-	-	-	-	-	-	-



SINGLE AUDIT SECTION



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**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**

Independent Auditors' Report

To the Board of Trustees
Lone Star College
The Woodlands, 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 Lone Star College (the "College"), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 7, 2017. Our report includes a reference to other auditors who audited the financial statements of North Harris Montgomery Community College District Foundation dba Lone Star College Foundation (a Texas non-profit corporation) (the "Foundation"), as described in our report on the College's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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



Austin

Dallas

Fort Worth

Houston

To the Board of Trustees
Lone Star College
The Woodlands, Texas

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 College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider 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 College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Houston, Texas
December 7, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE AND STATE OF TEXAS SINGLE AUDIT*
CIRCULAR**

To the Board of Trustees
Lone Star College
The Woodlands, Texas

Report on Compliance for Each Major Federal and State Program

We have audited Lone Star College's (the "College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and *State of Texas Single Audit Circular* that could have a direct and material effect on each of the College's major federal and state programs for the year ended August 31, 2017. The College's major federal and state 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 and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditor's Responsibility

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

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

To the Board of Trustees
Lone Star College
The Woodlands, Texas

Opinion on Each Major Federal and State Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2017.

Report on Internal Control over Compliance

Management of the College 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 College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state 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 and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and State of Texas Single Audit Circular, 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 College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than 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 and State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
December 7, 2017



Schedule of Findings and Questions Cost

LONE STAR COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2017

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 weakness?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness?	None reported
Type of auditors' report issued on compliance with major programs:	
Unmodified Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	None

Identification of major programs:

Name of Federal Program or Cluster	CFDA Numbers
Student Financial Aid Cluster	
Federal Supplemental Education Opportunity Grant	84.007
Federal Work-Study Program	84.033
Federal Pell Grant Program	84.063
Direct Loan Program	84.268

LONE STAR COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2017

TRIO Cluster	
Student Support Services	84.042A
Talent Search	84.044A
Upward Bound	84.047A
Adult Education – Basic Grants to States	84.002

Name of State Program

Texas Educational Opportunity Grant Program	N/A
Adult Education – Basic Grants to States	N/A

I. Summary of Auditors’ Results (continued)

Dollar Threshold used to Distinguish
between Type A and B Programs

Federal	\$3,000,000
State	\$300,000

Auditee qualified as a low-risk auditee

Federal	Yes
State	Yes

II. Financial Statement Findings

There are no current year findings.

III. Federal Award Findings and Questioned Costs

There are no current year findings.



GLOSSARY

Glossary –

The definitions in this glossary are for reference purposes only and give a general description.

Academic Support – A functional expense category. Includes funds expended to provide support services for the institution’s primary missions, including: retention, preservation and display of educational materials (libraries, galleries), academic administration (deans’ salaries and office expenses), technical support (computer services and audiovisual information) and separately budgeted support for course and curriculum development, and organized activities related to instruction.

Auxiliary Fund – Activities that exist primarily to furnish goods and/or services to students, faculty, and staff and are expected to be self-supporting. Revenues will equal or exceed the expenses. Examples include food services, bookstore, and tenant activities.

AVC – Associate Vice Chancellor.

CEO – Chief Executive Officer.

CFO – Chief Financial Officer.

CIP – Capital Improvement Projects.

Debt Service Fund – A fund used to account for the accumulation of resources for, and the payment of, general long-term debt obligation principal and interest.

Expenditure – A disbursement, the incurrence of a liability, or the transfer of an asset for the purpose of obtaining goods or services.

FTE – Full Time Equivalent.

Functional Classification – a method of grouping expenses according to the purpose for which the costs are incurred used in higher education, as defined by NACUBO. The functional expense categories used at LSC are instruction, public service, academic support, student services, institutional support, plant services, scholarships and fellowships, and other (auxiliary) revenue.

Fund – A fiscal and accounting entity with a self-balancing set of accounts.

FY – Fiscal Year. The LSC FY is the period of time beginning September 1 and ending the following August 31.

GASB – Governmental Accounting Standards Board.

General Funds – A group of funds that includes the Operating, Repair & Replacement (FY 2017 and prior years), Student Activity, Technology and Corporate College funds.

Institutional Support – A functional expense category. Funds expended to support the entire organization including: fiscal operations, administrative data processing, employee personnel and records, logistics activities (procurement), support services for faculty and staff that do not operate as auxiliary enterprises and activities concerned with community or alumni relations including development and fundraising.

Instruction – A functional expense category. Includes faculty salaries, academic departmental operating expenses, and support staff salaries, but not academic deans.

LBB – Legislative Budget Board.

LSC – Lone Star College.

LSC-CF – CyFair College, one of the Lone Star Colleges.

LSC-KW – Kingwood College, one of the Lone Star Colleges.

LSC-NH – North Harris College, one of the Lone Star Colleges.

LSC-MG – Montgomery College, one of the Lone Star Colleges.

LSC-TB – Tomball College, one of the Lone Star Colleges.

LSC-UP – University Park College, one of the Lone Star Colleges.

Operating Fund – Unrestricted funds that support the primary missions of the College.

ORP – Optional Retirement Plan.

Plant Services – A functional expense category. Includes: custodial, building and grounds maintenance, security, and utilities.

Public Service – A functional expense category. Includes non-instructional services benefitting external groups or individuals.

Revenue – Funds received from student tuition, property taxes, state appropriations, grants, and other additional sources.

Student Services – A functional expense category. Funds expended for activities that primarily contribute to students’ emotional and physical well-being and to their intellectual, cultural, and social development outside the context of formal instruction including: admissions, registrar, counseling, and financial aid administration (not awarding).

SO-UP – System Office University Park.

THECB – Texas Higher Education Coordinating Board.

TRS - Teacher Retirement System.

VC – Vice Chancellor.

VP – Vice President.

Sources:

Lone Star College, www.lonestar.edu.

National Association of College & University Business Officers, *Financial Accounting and Reporting Manual for Higher Education (FARM)*, www.nacubo.org.



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