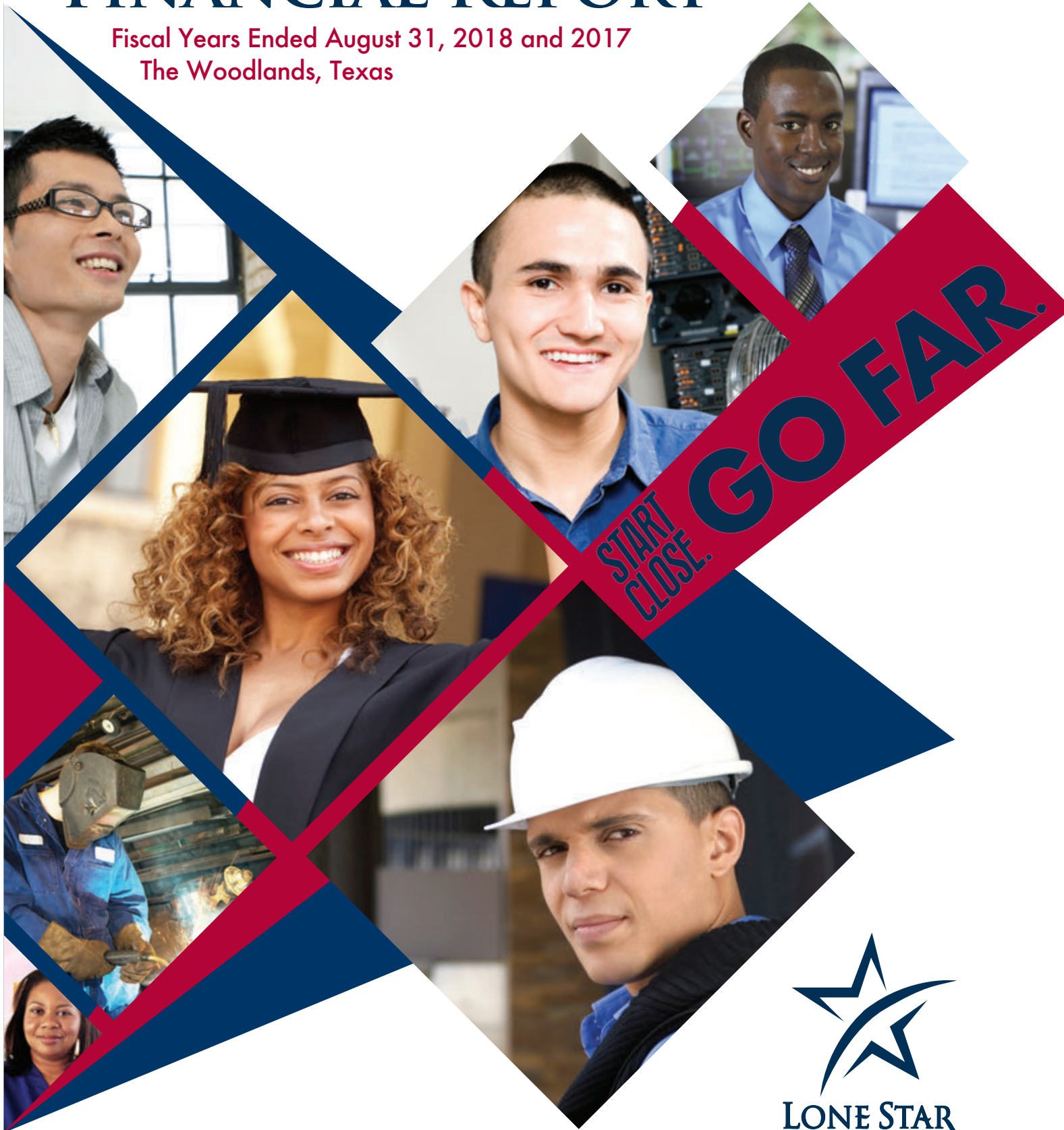


COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Years Ended August 31, 2018 and 2017
The Woodlands, Texas





COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED AUGUST 31, 2018 AND 2017

**Prepared by Financial 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, 2018 AND 2017**

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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, 2017 through August 31, 2018.



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 was flat from Fall 2017 to Fall 2018 mainly due to the effects of Hurricane Harvey and most of the Kingwood Campus being closed.

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 2018 include:

- Tax rate of \$0.1078 per \$100 valuation unchanged
- Base tuition increased \$10 per credit hour for out of district fees and \$30 per credit hour for out of state/international fees
- Discipline-based differential fees increased on average \$1 per credit hour
- Budget aligned with strategic priorities
- Emphasis on academic, workforce and student success initiatives
- 30 new faculty positions
- 2% across the board increase for full time/part 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 14, 2018

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, 2018 and August 31, 2017. 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, 2018 and 2017 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 makes 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 the sole purpose 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 89,000 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 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 nearly \$3 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.



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.

CORE VALUES

- Excellence
- Learning
- Student Success
- Access and Affordability
- Accountability
- Community
- Diversity
- Human Resources
- Innovation and Creativity
- Integrity

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

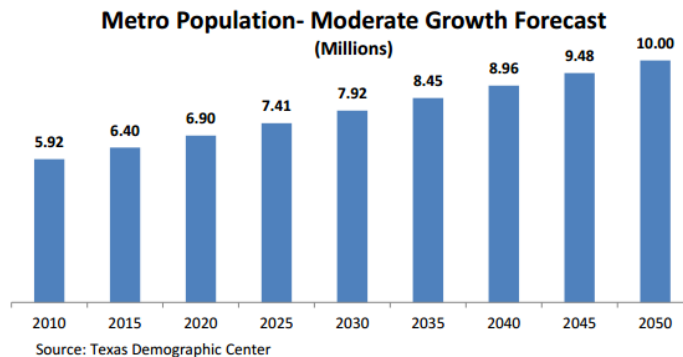
The six cultural beliefs - originally developed by the LSC 20|20 Task Force - provide a common language across Lone Star College. The cultural beliefs clarify and focus our actions so we can reach desired results.

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

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). With a population of 5.9 million as of the 2010 U.S. Census, the Houston MSA is expected to increase to 10.0 million by 2050.



Twenty-one companies on the 2018 Fortune 500 list are headquartered in the Houston metro area, ranking Houston fourth in the U.S. behind New York, Chicago, and Dallas-Ft. Worth.

Sources: Fortune 500 and the Greater Houston Partnership Research - June 2018

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 for approval to the Board of Trustees 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 Weaver 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, 2017. 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 Mott, CFA
Chief Financial Officer
Lone Star College
832-813-6512
Jennifer.Mott@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, 2017

Christopher P. Merrill

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 Saldívar
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

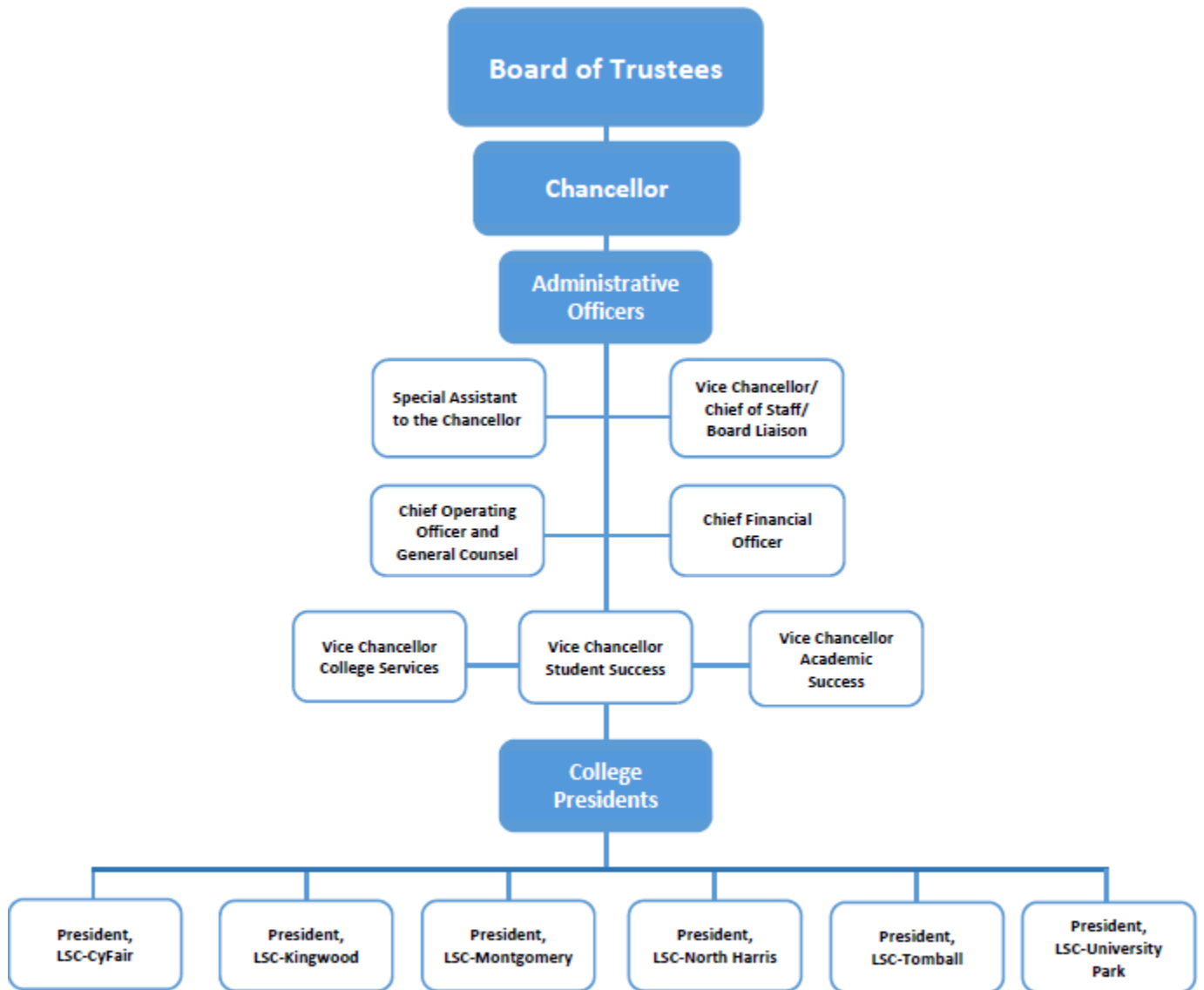
Principal Administrative Officers

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 / Chief of Staff / Board Liaison	Rebecca Riley	President, LSC-Montgomery
Dr. Alicia B. Harvey Smith	Vice Chancellor Student Success	Gerald Napoles	President, LSC-North Harris
Jennifer Mott	Chief Financial Officer	Lee Ann Nutt	President, LSC-Tomball
Dr. Dwight L. Smith, III	Vice Chancellor Academic Success	Shah Ardalan	President, LSC-University Park
Dr. Quentin Wright	Special Assistant to the Chancellor		



LONE STAR COLLEGE ORGANIZATIONAL CHART





FINANCIAL SECTION



Independent Auditors' Report



Austin | Conroe | Dallas | Fort Worth | Houston
Los Angeles | Midland | New York City | San Antonio

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lone Star College (the College) as of and for the year ended August 31, 2018, 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

The College's 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, 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, 2018 and 2017. Those financial statements were audited by other auditors whose report thereon 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 about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

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CPAs AND ADVISORS | WEAVER.COM

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of August 31, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principle

As discussed in Notes 2 and 22 to the financial statements, the College implemented Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective September 1, 2017. The implementation of this statement resulted in a restatement of net position as of August 31, 2017 in the amount of \$95,755,460. Our opinion is not modified with respect to this matter.

Predecessor Auditor and Restatement of 2017 Financial Statements

The financial statements of the College for the year ended August 31, 2017, before the restatements described in Note 22, were audited by other auditors whose report dated December 7, 2017, expressed an unmodified opinion on those statements.

As part of our audit of the August 31, 2018 financial statements, we also audited the adjustments described in Note 22 that were applied to restate the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2017 financial statements of the College other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

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 21 through 29, and the required supplementary information on pages 84 through 89 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 basic financial statements. The introductory section on pages 7 through 17, the supplementary Schedules A through D on pages 91 through 95, and the statistical section on pages 103 through 125, 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*, and 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*, are also presented for additional analysis and are also not a required part of the basic financial statements.

The supplementary Schedules A through D, the Schedule of Expenditures of Federal Awards, and the 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 2018 financial information presented in supplementary Schedules A through D, the 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 13, 2018 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
December 14, 2018



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”) for the years ended August 31, 2018 and August 31, 2017. The report consists of three basic financial statements that provide information on the College as a whole: the Statement of Net Position; the Statement 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 an overview of the College’s financial activities. For purposes of the summary and discussion, the terms “2018”, “2017”, and “2016” refer to fiscal years ending August 31, 2018, August 31, 2017, and August 31, 2016, respectively.

Accounting Standards

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

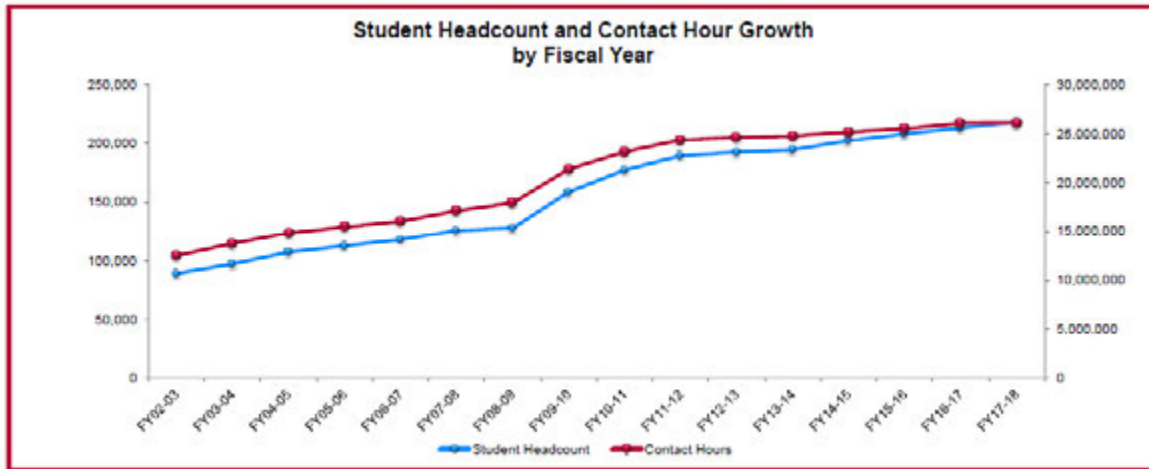
Financial and Enrollment Highlights – 2018

- Enrollment remained flat and contact hours decreased 2.8% during 2018, mainly due to the impact of Hurricane Harvey, in particular on the Kingwood Campus, where several buildings were closed due to the damages.
- The College maintained its AAA rating from Standard & Poor’s on its general obligation debt.
- Total assets increased \$1.3 million over 2017 as restated.
- Total liabilities increased \$43.6 million from 2017 to 2018. In 2018, the College implemented a new governmental accounting standard that requires colleges and state agencies to record their proportional share of the State’s other postemployment benefits.
- Total net position decreased \$67.1 million from 2017 to 2018.
- Total operating expenses increased \$9.7 million in 2018, primarily due to educational activities.

Financial and Enrollment Highlights – 2017 As restated

- 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 \$181.1 million and \$190.0 million, respectively, over 2016 primarily due to the issuance of \$133.0 million in general obligation bonds for the College’s capital program.
- Total net position increased \$34.0 million over 2016.
- Total operating expenses increased \$1.4 million. 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

Statement of Net Position

The Statement of Net Position presents 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.

	2018	August 31 2017 as restated	2016 as restated
ASSETS			
Current Assets:			
Cash and short-term investments	\$ 212,840,260	\$ 284,087,817	\$ 159,558,538
Receivables, net	25,320,938	34,985,288	25,198,470
Inventory, prepaid expenses & other	1,704,923	1,767,998	1,579,561
Total current assets	239,866,121	320,841,103	186,336,569
Non-Current Assets:			
Long-term investments	\$ 67,113,150	\$ 24,160,352	\$ 29,306,590
Capital assets, net	902,057,837	862,781,156	811,042,338
Total non-current assets	969,170,987	886,941,508	840,348,928
TOTAL ASSETS	\$ 1,209,037,108	\$ 1,207,782,611	\$ 1,026,685,497
Deferred outflows of resources			
Deferred outflows related to pensions	\$ 14,718,980	\$ 18,373,377	\$ 10,033,936
Deferred outflows related to OPEB	2,470,246		
Deferred charge on refunding	26,039,922	28,188,385	30,336,848
Total Deferred outflows of resources	\$ 43,229,148	\$ 46,561,762	\$ 40,370,784
LIABILITIES			
Current Liabilities:			
Accounts payable & accrued liabilities	\$ 71,749,061	\$ 51,426,449	\$ 47,429,634
Unearned revenues	28,524,154	26,550,127	24,492,146
Bonds payable-current portion	43,259,576	34,229,182	15,212,466
Total current liabilities	143,532,791	112,205,758	87,134,246
Non-Current Liabilities:			
Accounts payable & accrued liabilities	-	13,857,513	-
Accrued compensable absences	4,757,305	3,987,710	4,251,334
Net pension liability	54,472,950	62,494,141	51,162,604
Net OPEB liability	82,036,384	-	-
Bonds payable-noncurrent portion	727,281,404	776,232,864	652,583,349
Local government liability	16,562,151	16,310,263	-
Total non-current liabilities	885,110,194	872,882,491	707,997,287
TOTAL LIABILITIES	\$ 1,028,642,985	\$ 985,088,249	\$ 795,131,533
Deferred inflows of resources			
Deferred inflows related to pensions	\$ 13,951,035	\$ 10,662,554	\$ 12,296,998
Deferred inflows related to OPEB	18,138,638	-	-
Total Deferred inflows of resources	\$ 32,089,673	\$ 10,662,554	\$ 12,296,998
NET POSITION			
Net Investment in capital assets	275,144,614	233,665,188	216,840,509
Restricted	27,070,794	36,830,016	52,157,237
Unrestricted	(110,681,810)	(11,901,634)	(44,447,525)
TOTAL NET POSITION	\$ 191,533,598	\$ 258,593,570	\$ 224,550,221

Statement of Net Position (Continued)

The increase in total assets of \$1.3 million from 2017 to 2018 was primarily due to real estate acquisitions and facility construction in 2018.

Total liabilities increased \$43.6 million during 2018 following the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Post Employment Benefits other than Pensions*. The new governmental accounting standard requires all colleges and state agencies to recognize their share of the Employee Retirement System's Other Post Employment Benefits ("OPEB") liability on their financial statements. As a result, the College recognized a net OPEB liability of \$82.0 million in 2018 to comply with this standard. The various rating agencies and bond counsel have assured all Employee Retirement System ("ERS") participating entities that there will be no negative impact upon our bond rating from this accounting change.

Similarly, 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*. This 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 net pension liability of \$54.5 million in 2018 and a \$62.5 million in 2017 to comply with this standard.

Without the effects of GASB 68 and GASB 75, the unrestricted net position would be a positive \$39.9 million at August 31, 2018 and a positive \$41.5 million at August 31, 2017.

The increase in total liabilities due to the implementation of GASB Statement No. 75 was partially offset by a reduction of bonds payable resulting from the recalculation and restatement of the bonds premium amortization through maturity (Refer to Note 22 in the Notes to Financial Statements for more details).

The College's net position as restated was \$191.5 million in 2018, \$258.6 in 2017, and \$224.6 million in 2016. The decrease of \$67.1 million in 2018 was primarily due to an increase in total liabilities and deferred inflows following the implementation of a new accounting standard related to other postemployment benefits (GASB Statement No. 75).

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents 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. They are classified as non-operating revenues according to generally accepted accounting principles. A summary of the most recent three fiscal years' statements is shown below.

Statement of Revenues, Expenses and Changes in Net Position (Continued)

	Fiscal Year Ending August 31		
	2018	2017 as restated	2016 as restated
Operating Revenues			
Student tuition and fees	\$ 81,366,561	\$ 82,415,623	\$ 77,530,673
Grants & contracts	13,093,795	12,949,202	13,830,056
Auxiliary enterprises	10,605,529	13,012,225	14,689,638
Other	4,317,001	3,389,147	2,896,665
Total operating revenues	<u>109,382,886</u>	<u>111,766,197</u>	<u>108,947,032</u>
Operating Expenses			
Educational Activities	419,098,128	406,858,687	395,860,822
Auxiliary Activities	8,935,215	11,984,844	16,378,134
Depreciation Expense	22,770,474	22,222,193	27,454,808
Total operating expenses	<u>450,803,817</u>	<u>441,065,724</u>	<u>439,693,764</u>
Operating Loss	(341,420,931)	(329,299,527)	(330,746,732)
Non-Operating Revenues			
Ad-valorem taxes	197,844,342	189,133,551	179,266,732
State Appropriations	102,753,058	95,681,136	97,051,845
Federal Revenue, Non-Operating	82,323,906	77,449,276	77,852,910
Investment income	4,848,309	2,609,230	1,162,650
Interest and fees on capital asset - related debt	(23,116,180)	(24,844,466)	(5,913,976)
Other	5,463,164	4,437,790	6,161,419
Total net non-operating revenues	370,116,599	344,466,517	355,581,580
Increase (Decrease) in Net Position	28,695,668	15,166,990	24,834,848
Net Position, Beginning of Year, As Previously Reported	258,593,570	243,426,580	218,591,732
Prior Period Adjustments	<u>(95,755,640)</u>		
Net Position, End of Year, As Resated	<u>\$ 191,533,598</u>	<u>\$ 258,593,570</u>	<u>\$ 243,426,580</u>

Student tuition and fees revenue is reported net of scholarships and discounts. In Fall 2017 the College increased the base tuition per credit hour for out of district, out of state, technology and differential fees. As a result, the associated tuition and fees revenue in 2018 improved \$6.7 million with an offset of \$5.3 million increase in scholarships and discounts, and \$2.5 million of allowance for doubtful accounts as the College reevaluated the collectability of its students receivable at August 31, 2018. At \$44 per credit hour, the College's tuition rate remains below the Texas average for community colleges.

In 2017, tuition and fees revenue increased \$4.9 million due to Fall 2016 increase in base tuition. Enrollment increased 4% over 2016 and was offset by \$4.0 million increase in scholarships and discounts.

Grants & contracts increased only slightly in 2018 while in 2017 they declined by \$1.0 million due to a decrease in local grant funding.

Auxiliary enterprise revenues decreased \$2.4 million in 2018 primarily due to the ending of International Partnership fees. In 2017, this revenue source decreased \$1.7 million due to the outsourcing of food services by all campuses.

Expenses for restricted educational activities increased \$16.3 million while expenses for unrestricted educational activities decreased \$4.1 million, resulting in a total net educational activities increase of \$12.2 million in 2018. The unrestricted educational activities increase of \$16.3 million relates to the continued Hurricane Harvey recovery efforts further discussed at the end of this section.

As the College focused on student success and safety, unrestricted activities of academic support, student services, and operation and maintenance of plant saw increases of \$2.8, \$1.9 & \$2.4 million respectively. These increases were favorably offset by a reduction of \$11.6 million in institutional support, due to the Department of Education (“DOE”) liability estimate as restated in 2017 (Refer to Note 22 in the Notes to Financial Statements for more details).

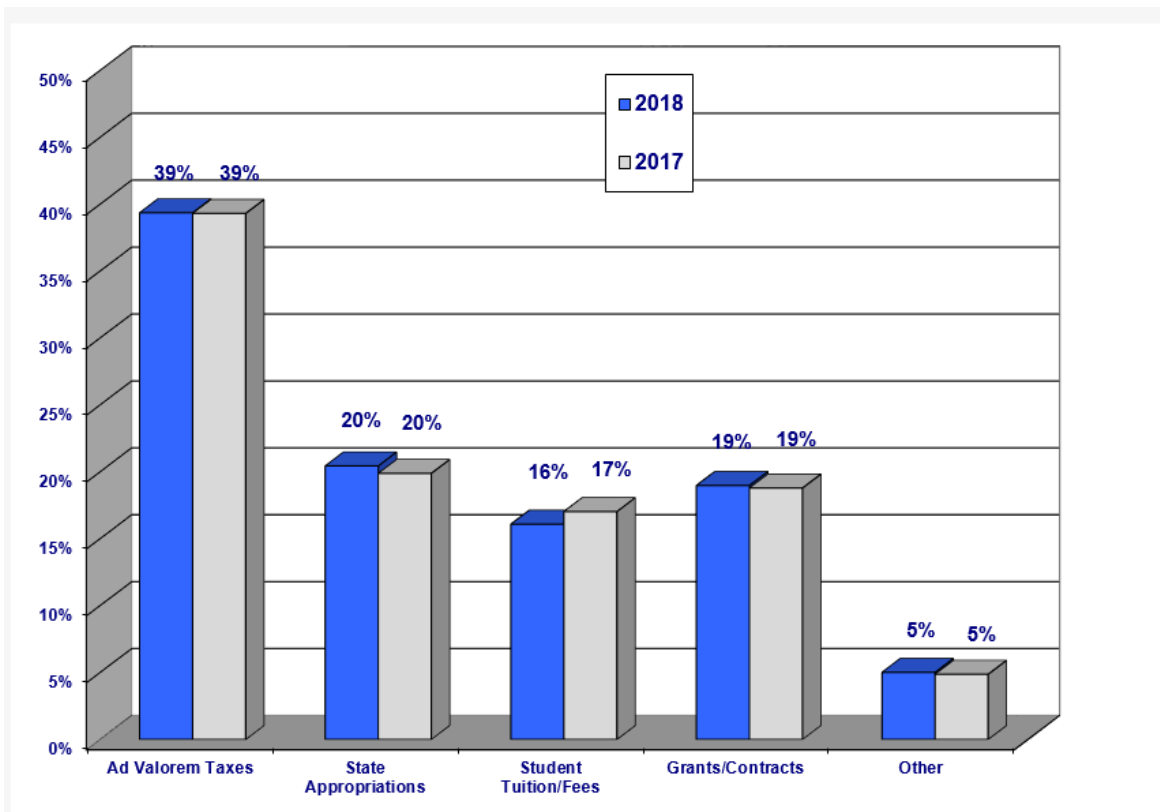
Tax revenues increased \$8.7 million in 2018 and \$9.9 million in 2017 due to an increase in appraised values and the addition of new properties. Investment income increased \$2.2 million in 2018 due to improved interest rates. In 2017 Investment income increased \$1.4 million following a slight improvement in interest rates combined with more investments due to new bond funds.

State appropriations increased \$7.1 million in 2018 as a result of additional growth funding received and increase in state contributions for health insurance. State appropriations decreased \$1.4 million in 2017 due to the lower state contributions for retirement.

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.

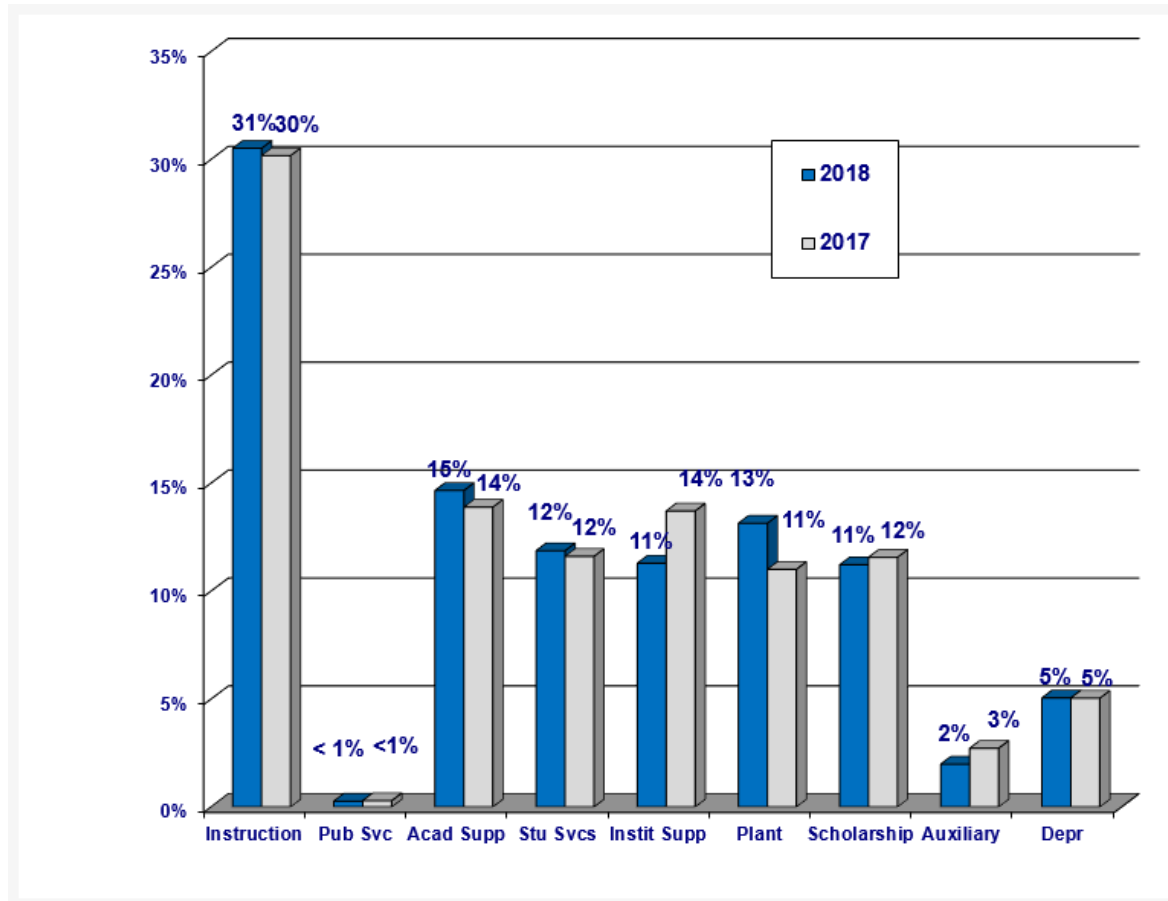


The largest source of revenue of the College in 2018 and 2017 was ad valorem taxes, accounting for 39% of total revenues for both years, followed by state appropriations, that represented 20% of total revenues for 2017 and 2018. Auxiliary income comprises the majority of other revenues.

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 31% and 30% of the total expenses for 2018 and 2017, respectively, instruction is by far the College's largest expense. The increase in instructional expenses in 2018 corresponds to the Kingwood Campus renovation and reconstruction work after the impact of Hurricane Harvey in August 2017. Also related to the Kingwood Campus buildback is the increase in plant expenses from 11% in 2017 to 13% in 2018. Institutional Support expenses decreased from 14% in 2017 to 11% in 2018 following a program review conducted by the Department of Education ("DOE") related to the administration of programs authorized by Title IV of the Higher Education Act from July 1, 2012 through June 30, 2016. As a result of this review, the College restated its 2017 financial statements to reflect a total liability of \$13.9 million (Refer to Note 22 in the Notes to Financial Statements for more details). All other expense categories remained relatively consistent.

Capital Assets and Long-Term Debt Activity

As depicted in Note 5 to the financial statements, capital assets increased \$39.3 million in 2018. 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, 2018

- Nearing completion of the 54,000 square foot renovation of LSC-CyFair Westway Park Technology Center.
- Entering initial contract phase of LSC-Kingwood Healthcare Instructional Building.
- Continued construction of the 65,000 square foot/\$26.7 million East Aldine Satellite Center at LSC-North Harris.
- Entering initial contract phase of 60,000 square foot LSC-Montgomery Student Services building.
- Entering initial programming phase of 40,000 square foot LSC-University Park Instructional Arts building.
- Nearing the end of completion of LSC Kingwood renovation and build back from the destruction caused in August of 2017 from Hurricane Harvey.

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.
- 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 Note 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 indicated in Note 21 to the financial statements, the noncurrent funds held for others relate to an interlocal agreement between the College and Aldine ISD ("AISD") approved by the Board of Trustees at their meeting in September 2016. As of August 31, 2018, AISD has deposited \$16.6 million of funds in an escrow account with the College, as prescribed by the interlocal agreement. These escrowed funds are being 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. As of November 30, 2018, the damaged buildings are nearly complete and, with the exception of the Library, anticipated to fully reopen in Spring 2019. The College continues working with Federal Emergency Management Agency ("FEMA") representatives to recover the eligible costs of damages incurred by the College.

The DOE conducted a program review of the College's administration of programs authorized by Title IV of the Higher Education Act for award years that spanned from July 1, 2012 through June 30, 2016, which resulted in the identification of instances of noncompliance with certain program requirements. At the request of the DOE in conjunction with this program review, during the year ended August 31, 2017, the College conducted an internal review of such noncompliance. This review identified potentially ineligible disbursements during the period under review aggregating to \$13,465,367. In a letter dated October 23, 2018, the DOE communicated its final determination that the College is obligated to repay this amount along with \$392,146 in interest, resulting in a total liability of \$13,857,513. The College's management is currently reviewing the DOE findings included in the final program review determination. As of November 30, 2018, the College has found evidence and supporting documentation to dispute certain facts underlying the DOE's assertions and, accordingly, the College plans to appeal the determination by the due date of December 13, 2018. The amount of \$13,857,513 is the estimated contingency with DOE at present and has been included in the financial statements at August 31, 2018 and 2017. This estimate remains subject to change upon the result of the appeal process to be initiated in December 2018 (Refer to Note 22 in the Notes to Financial Statements for more details).

The FY 2019 Approved Budget, approved during the August 2, 2018 Board of Trustees meeting, was based on the following revenue assumptions:

- 3.66% projected increase in assessed values for ad valorem tax, and \$3.5M in projected tax revenues for new property reflected on the tax rolls for Tax Year 2018
- Current tax rate of 10.78 cents per \$100 of taxable value unchanged
- \$10 per credit hour increase in Fall 2018 for out of district fees and \$30 per credit hour increase in Fall 2018 for out of state/international fees
- \$1 per credit hour average increase in differential fees



Financial Statements

Lone Star College
STATEMENTS OF NET POSITION
AUGUST 31, 2018 AND 2017

ASSETS	2018	2017 as restated
Current assets:		
Cash and cash equivalents (Note 4)	\$ 188,374,090	\$ 256,272,087
Short-term investments (Note 4)	24,466,170	27,815,730
Accounts receivable, net (Note 13)	25,320,938	34,985,288
Prepaid items	1,704,923	1,767,998
Total current assets	239,866,121	320,841,103
Noncurrent assets:		
Long-term investments (Note 4)	\$ 67,113,150	\$ 24,160,352
Capital assets, net (Note 5)	902,057,837	862,781,156
Total non-current assets	969,170,987	886,941,508
TOTAL ASSETS	1,209,037,108	1,207,782,611
Deferred outflows of resources		
Deferred outflows related to pensions (Note 10)	\$ 14,718,980	\$ 18,373,377
Deferred outflows related to OPEB (Note 20)	2,470,246	-
Deferred charge on refunding	26,039,922	28,188,385
TOTAL DEFERRED OUTFLOWS OF RESOURCES	43,229,148	46,561,762
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (Note 13)	\$ 61,944,029	\$ 41,025,415
Accrued compensable absences (Note 6 & 11)	5,794,549	5,533,752
Funds held for others	4,010,483	4,867,282
Unearned revenues	28,524,154	26,550,127
Bonds payable-current portion (Note 6 & 7)	43,259,576	34,229,182
Total current liabilities	143,532,791	112,205,758
Noncurrent liabilities:		
Accounts payable and accrued liabilities (Note 12)	-	13,857,513
Accrued compensable absences (Note 6 & 11)	4,757,305	3,987,710
Net pension liability (Note 6)	54,472,950	62,494,141
Net OPEB liability (Note 20)	82,036,384	-
Bonds payable-noncurrent portion (Note 6 & 7)	727,281,404	776,232,864
Local government liability (Note 21)	16,562,151	16,310,263
Total non-current liabilities	885,110,194	872,882,491
TOTAL LIABILITIES	1,028,642,985	985,088,249
Deferred inflows of resources		
Deferred inflows related to pensions (Note 10)	\$ 13,951,035	\$ 10,662,554
Deferred inflows related to OPEB (Note 20)	18,138,638	-
TOTAL DEFERRED INFLOWS OF RESOURCES	32,089,673	10,662,554
NET POSITION		
Net Investment in Capital Assets	\$ 275,144,614	\$ 233,665,188
Restricted:		
Expendable-		
Restricted	338,068	10,055,468
Debt service	26,732,726	26,774,548
Unrestricted	(110,681,810)	(11,901,634)
TOTAL NET POSITION (Schedule D)	\$ 191,533,598	\$ 258,593,570

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

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

<i>August 31,</i>	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 382,307	\$ 686,159
Pledges and contributions receivable	147,950	678,752
Prepaid expenses	1,740	2,142
<hr/>		
Total current assets	531,997	1,367,053
Long-term assets		
Pledges receivable, net current portion	20,000	123,334
Certificates of deposit	292,488	538,640
Investments, at fair value	27,197,006	23,551,832
<hr/>		
Total assets	\$ 28,041,491	\$ 25,580,859
Liabilities and net assets		
Current liabilities		
Unearned revenue	\$ 5,000	\$ 33,326
Commitments and contingencies		
Net assets		
Unrestricted		
Undesignated	1,555,163	1,256,492
Board designated	3,106,805	2,148,661
Temporarily restricted	8,844,318	8,413,671
Permanently restricted	14,530,205	13,728,709
<hr/>		
Total net assets	28,036,491	25,547,533
<hr/>		
Total liabilities and net assets	\$ 28,041,491	\$ 25,580,859

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, 2018 AND 2017

	2018	2017 as restated
OPERATING REVENUES		
Tuition and fees (net of discounts of \$48,441,416 in 2018 and \$43,158,263 in 2017)	\$ 81,366,561	\$ 82,415,623
Federal grants and contracts	5,565,319	4,536,292
State and local grants and contracts	7,528,476	8,412,910
Auxiliary enterprises	10,605,529	13,012,225
Other operating revenue	4,317,001	3,389,147
Total operating revenues (Schedule A)	109,382,886	111,766,197
OPERATING EXPENSES		
Instruction	137,567,408	133,085,660
Public service	1,200,693	1,279,409
Academic support	66,092,544	61,253,781
Student services	53,508,904	51,206,525
Institutional support	50,897,485	60,484,078
Operation and maintenance of plant	59,256,709	48,555,007
Scholarships and fellowships	50,574,385	50,994,227
Auxiliary enterprises	8,935,215	11,984,844
Depreciation	22,770,474	22,222,193
Total operating expenses (Schedule B)	450,803,817	441,065,724
Operating loss	(341,420,931)	(329,299,527)
NON-OPERATING REVENUE (EXPENSES)		
Ad-Valorem taxes		
Maintenance and operations	146,643,168	140,258,439
Debt service	51,201,174	48,875,112
State appropriations	102,753,058	95,681,136
Federal revenue, non-operating	82,323,906	77,449,276
Gifts	493,916	57,000
Investment income, net	4,848,309	2,609,230
Interest and fees on capital asset-related debt (net of capitalized interest costs of \$4,887,790 in 2018 and \$264,426 in 2017)	(23,116,180)	(24,844,466)
Gain on sale/donation of capital assets	228	1,735,360
Loss on disposal of capital assets	(408,553)	(720,765)
Other non-operating revenues	5,377,573	3,366,195
Total net non-operating revenue (Schedule C)	370,116,599	344,466,517
Increase (decrease) in net position	28,695,668	15,166,990
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	258,593,570	224,550,221
PRIOR PERIOD ADJUSTMENTS (Note 22)	(95,755,640)	18,876,359
NET POSITION, END OF YEAR, AS RESTATED	\$ 191,533,598	\$ 258,593,570

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

Lone Star College Foundation
Statement of Activities and Changes in Net Assets

<i>For the year ended August 31, 2018</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Donations	\$ 1,061,377	\$ 2,260,154	\$ 656,255	\$ 3,977,786
Fundraising donations [Ⓜ]	444,808	60,156	124,040	629,004
Net realized and unrealized gain on investments	156,545	1,628,260	-	1,784,805
Interest and dividends, net of investment fees	47,789	400,844	-	448,633
In-kind revenue	567,349	-	-	567,349
Total revenue and support	2,277,868	4,349,414	780,295	7,407,577
Restrictions released			-	-
Program expenditures	3,938,566	(3,938,566)		
Total revenue, support and releases	6,216,434	410,848	780,295	7,407,577
Expenses				
Program services				
Program enrichment	2,355,502	-	-	2,355,502
Student scholarships	1,444,738	-	-	1,444,738
Mini-grants	18,163	-	-	18,163
Institutional development	268,643	-	-	268,643
Total program services	4,087,046	-	-	4,087,046
Non-program services				
Fundraising	229,636	-	-	229,636
General and administrative	601,937	-	-	601,937
Total expenses	4,918,619	-	-	4,918,619
Change in net assets	1,297,815	410,848	780,295	2,488,958
Net asset transfers	(41,000)	19,799	21,201	-
Net assets at beginning of year	3,405,153	8,413,671	13,728,709	25,547,533
Net assets at end of year	\$ 4,661,968	\$ 8,844,318	\$ 14,530,205	\$ 28,036,491

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

Lone Star College Foundation
Statement of Activities and Changes in Net Assets

<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 loss 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 releases	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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2018 and 2017

	2018	2017 As restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 139,755,030	\$ 116,552,850
Receipts from grants and contracts	12,257,133	13,212,562
Payments to suppliers for goods and services	30,218,828	(97,976,053)
Payments to or on behalf of employees	(151,913,251)	(237,209,512)
Payments for scholarships and fellowships	(211,440,145)	(81,609,289)
Other receipts	4,919,109	2,777,120
Net cash used by operating activities	<u>(176,203,296)</u>	<u>(284,252,322)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	77,983,684	74,089,265
Receipts from ad-valorem taxes	148,721,950	142,483,264
Receipts from non-operating federal revenue	82,323,905	77,449,276
Payments for Federal loans issued to students	(37,622,502)	(52,544,877)
Receipts from Federal loans for students	37,623,828	52,564,440
Receipts from gifts	493,916	57,000
Net cash provided by non-capital financing activities	<u>309,524,781</u>	<u>294,098,368</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from ad-valorem taxes	53,359,997	49,285,883
Proceeds from capital debt	-	157,647,418
Paid for acquisition and construction of capital assets	(161,157,533)	(68,274,659)
Proceeds from sale of capital assets	228	1,678,361
Principal paid on capital debt and leases	(30,145,000)	(19,715,000)
Interest paid on capital debt and leases	(28,436,578)	(13,694,237)
Net cash provided by (used by) financing activities	<u>(166,378,886)</u>	<u>106,927,766</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	40,006,935	58,329,578
Interest on investments	4,892,884	2,621,598
Purchase of investments and related fees	(79,740,415)	(58,014,085)
Net cash provided by (used by) investing activities	<u>(34,840,596)</u>	<u>2,937,091</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(67,897,997)	119,710,902
Cash and Cash Equivalents, Beginning of Year	<u>256,272,087</u>	<u>136,561,185</u>
Cash and Cash Equivalents, End of Year (Exhibit 1 & Note 4)	<u>\$ 188,374,090</u>	<u>\$ 256,272,087</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, 2018 and 2017

	2018	2017 As restated
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss (Exhibit 2)	\$ (341,420,931)	\$ (329,299,527)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	22,770,474	22,222,193
Bad debt expense	1,507,233	1,662,986
Payments made directly by state for benefits	24,769,375	21,591,871
Changes in assets and liabilities		
Receivables, net	8,445,587	(11,449,965)
Prepaid items	63,077	(188,436)
Deferred outflows	1,184,151	(8,339,441)
Accounts payable and accrued liabilities	8,828,331	4,605,361
Unearned revenue	2,033,503	656,302
Funds held for others	(856,799)	512,453
Accrued compensable absences	1,030,392	4,076,788
Net pension/OPEB liability	74,015,193	11,331,537
Deferred inflows	21,427,119	(1,634,444)
Total adjustments	<u>165,217,635</u>	<u>45,047,205</u>
Net cash used by operating activities	<u>\$ (176,203,296)</u>	<u>\$ (284,252,322)</u>
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Payments made directly by state for benefits	\$ 24,769,375	\$ 21,591,871
Net pension/OPEB liability	(840,212)	(1,294,153)
Charge on refunding	<u>26,039,922</u>	<u>28,188,385</u>
Net Non-cash Investing, Capital, and Financing Activities	<u>\$ 49,969,085</u>	<u>\$ 48,486,103</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, 2018 and 2017

1. REPORTING ENTITY

Lone Star College (the “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. 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 building and other real estate 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, 2018 and 2017, related to the period after August, and therefore have been reported as unearned revenues at August 31, 2018 and 2017, 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. The most significant estimates in the College's financial statements relate to the net pension liability, the OPEB liability, the accrued liability to the Department of Education discussed in Note 12, and depreciation expense.

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, property tax collections, and Federal Title IV grant programs. 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 three 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, these deferred outflows result from differences between projections and actual results, changes in actuarial assumptions, and pension plan contributions made after the measurement date of the net pension. For additional information, see Note 10.
- Deferred outflows of resources for OPEB – Reported in the Statements of Net Position, these deferred outflows result from differences between projections and actual results and OPEB plan contributions made after the measurement date of the OPEB. For additional information, see Note 20.

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 two items that qualify 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.
- Deferred inflows of resources for OPEB – Reported in the Statements of net position, these deferred inflows represent the College's proportionate share of collective deferred inflows of the ERS OPEB plan. For additional information, see Note 20.

Pensions

The College participates in the Teacher Retirement System of Texas (TRS) pension plan, a multiple-employer cost-sharing benefit pension plan with special funding situations. The fiduciary net position of the TRS plan has been determined based on the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability: deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, and liabilities and additions to/deductions from the plan'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.

Other Post-Employment Benefits (OPEB)

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

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform with the 2018 financial statement presentation. Such reclassifications had no effect on increase in net position.

New GASB Pronouncements

Effective with fiscal year 2018, the College implemented the following:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The requirements of this statement will improve accounting and financial reporting for postemployment benefits other than pensions (OPEB). It will improve the information provided about financial support for OPEB that is provided by other entities.
- GASB Statement No. 85, *Omnibus 2017*. The objective is to address practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including postemployment benefits (OPEB).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this statement is to improve consistency in accounting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt.

3. AUTHORIZED INVESTMENTS

The College is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (PFIA) (Sec. 2256.001 Texas Government Code). The Board of Trustees has adopted a written investment policy regarding the investment of its funds as defined in the PFIA. This policy is reviewed and approved annually.

The College may invest in any investment authorized by Texas Government Code Chapter 2256 or its successor statute.

The College may not invest in the following:

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no interest.
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and pays no interest.
- Collateralized mortgage obligations with a stated final maturity greater than 10 years.
- Collateralized mortgage obligations with an interest rate determined by an index that adjusts opposite to the changes in a market index.

4. DEPOSITS AND INVESTMENTS

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

	2018	2017
Demand Deposits	\$ 3,646,546	\$ 6,023,059
Petty Cash on Hand	31,200	36,259
Other Investments	-	292,617
External Investment Pools	182,865,317	242,975,335
Money Market	1,831,027	6,944,817
Total Cash and Cash Equivalents	<u>\$ 188,374,090</u>	<u>\$ 256,272,087</u>

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

	Market Value at August 31,	
	2018	2017
U. S. Agency, Treasury Notes and Bonds > 1 Year Maturity	\$ 67,113,150	\$ 24,160,352
U. S. Agency, Treasury Notes and Bonds < 1 Year Maturity	21,466,170	20,815,730
Commercial Paper	3,000,000	7,000,000
Cash and Deposits	188,374,090	256,272,087
Total Deposits and Investments	<u>\$ 279,953,410</u>	<u>\$ 308,248,169</u>
Cash and Cash Equivalents (Exhibit 1)	188,374,090	\$ 256,272,087
Long Term Investments (Exhibit 1)	67,113,150	24,160,352
Short Term Investments (Exhibit 1)	24,466,170	27,815,730
Total Deposits and Investments	<u>\$ 279,953,410</u>	<u>\$ 308,248,169</u>

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

Investment Type	Carrying Value	Weighted Average Maturity (Years)
External Investment Pools	\$ 182,865,317	0.13
Money Market	1,831,027	0.09
U.S. Agency, Treasury Notes & Bonds	88,579,320	1.52
Commercial Paper	3,000,000	0.08
Total Carrying Value	<u>\$ 276,275,664</u>	<u>0.57</u>

The fair value hierarchy of investments at August 31, 2018 and 2017 follows:

	Total Fair Value	2018 Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<u>Investments</u>				
U.S. Agency, Treasury Notes & Bonds	\$ 88,579,320	\$ -	\$ 88,579,320	\$ -
Commercial Paper	3,000,000		3,000,000	
Total	\$ 91,579,320	\$ -	\$ 91,579,320	\$ -

	Total Fair Value	2017 Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
<u>Investments</u>				
U.S. Agency, Treasury Notes & Bonds	\$ 44,976,082	\$ -	\$ 44,976,082	\$ -
Commercial Paper	7,000,000		7,000,000	
Total	\$ 51,976,082	\$ -	\$ 51,976,082	\$ -

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, 2018. As of August 31, 2018, more than 5% of the College's investments are in Lone Star Investment Pool (61.2%) and Farmer Mac (11.2%).

Commercial Paper, US Agency, Treasury Notes and Bonds classified as Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices.

The credit quality (ratings) and concentration of the College's portfolio as of August 31, 2018 are as follows:

Security	Credit Rating	Concentration	
		Actual	Limit
External Investment Pools	AAA	66.19%	100%
U.S. Agencies, Treasury Notes and Bonds	AA+	32.06%	90%
Commercial Paper	A1/P1	1.09%	25%
Money Market	N/A	0.66%	100%
		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-m 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. 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. It 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 "Fund") was organized in conformity with the Inter-local Cooperation Act ("ICA"), Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The ICA and the PFIA provide for the creation of public funds investment pools (including LOGIC) and authorize eligible governmental entities ("Participants") to invest their public funds and funds under their control through the investment pools. Only eligible local governments and agencies of the State of Texas may become Participants. The Fund changed its Organizational structure to a trust effective December 20, 2015. The Cooperative's governing body is a five-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. The LOGIC Bylaws also permit a maximum of two Advisory Directors to serve in a non-voting advisory capacity to the Board. J.P. Morgan Investment Management Inc. ("JPMIM") provides investment management services to the Board and Hilltop Securities Inc. ("HTS") provides Participant administrative, marketing and distribution services to the Board. JPMIM and HTS act as Co-Administrators under an Amended and Restated Agreement for Investment Management and Related Services with the Board (the "Agreement"), which was amended and restated effective February 1, 2017. Pursuant to the Agreement, each Co-Administrator may provide services to the Board through the use of affiliates, subcontractors or delegates. JPMorgan Chase Bank, N.A. ("JPMCB") and/or its subcontractors or delegates provide custodial, fund accounting, and depository services, and DST Asset Manager Solutions, Inc. provides transfer agency services. In compliance with the Public Funds Investment Act, all portfolios will maintain a AAA-m or equivalent rating from at least one nationally recognized rating agency. LOGIC has been assigned a rating of AAA by Standard & Poor's.

TexPool, First Public and Logic investment pools are not registered with the Securities & Exchange Commission (SEC) as investment companies but operate in accordance with GASB 79 *Certain External Investment Pools and Pool Participants* and the SEC's Rule 2a7 of the Investment Company Act of 1940. The pools use amortized cost (which excludes unrealized gains and losses) rather than market value to report net positions to compute share price.

5. CAPITAL ASSETS

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

	Balance August 31, 2017 as restated	Increase	Decrease	Balance August 31, 2018
<u>Not Depreciated</u>				
Land	\$ 86,978,392	\$ -	\$ -	\$ 86,978,392
Construction-in-Progress	90,961,623	42,336,980	(85,606,035)	47,692,568
Subtotal	<u>177,940,015</u>	<u>42,336,980</u>	<u>(85,606,035)</u>	<u>134,670,960</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	757,284,645	87,014,744	-	844,299,389
Other Real Estate Improvements	<u>56,191,451</u>	<u>6,005,007</u>	<u>-</u>	<u>62,196,458</u>
Total Buildings & Other Real Estate Improvements	813,476,096	93,019,751	-	906,495,848
Library Books	13,553,703	346,499	(843,057)	13,057,144
Furniture, Machinery, Vehicles & Other	92,257,387	11,667,489	(3,738,698)	100,186,178
Total Buildings and Other Capital Assets	<u>919,287,186</u>	<u>105,033,739</u>	<u>(4,581,755)</u>	<u>1,019,739,170</u>
<u>Accumulated Depreciation</u>				
Buildings and Building Improvements	146,768,846	14,185,303	-	160,954,149
Other Real Estate Improvements	<u>7,598,789</u>	<u>1,051,417</u>	<u>-</u>	<u>8,650,206</u>
Total Buildings & Other Real Estate Improvements	154,367,635	15,236,720	-	169,604,355
Library Books	10,522,378	440,588	(843,057)	10,119,909
Furniture, Machinery, Vehicles & Other	<u>69,556,032</u>	<u>7,093,166</u>	<u>(4,021,169)</u>	<u>72,628,028</u>
Total Accumulated Depreciation	<u>234,446,045</u>	<u>22,770,474</u>	<u>(4,864,226)</u>	<u>252,352,292</u>
Net Capital Assets	<u>\$ 862,781,156</u>	<u>\$ 124,600,245</u>	<u>\$ (85,323,564)</u>	<u>\$ 902,057,837</u>

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 as restated
<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	(6,725,266)	757,284,645
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	(6,725,266)	813,476,096
Library Books	13,958,311	291,956	(696,564)	13,553,703
Furniture, Machinery, Vehicles & Other	90,293,694	3,664,079	(1,700,386)	92,257,387
Total Buildings and Other Capital Assets	<u>901,225,390</u>	<u>27,184,012</u>	<u>(9,122,216)</u>	<u>919,287,186</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>\$ (30,402,904)</u>	<u>\$ 862,781,156</u>

6. NON-CURRENT LIABILITIES

Non-Current Liabilities

Non-Current Liability activity for the fiscal year ended August 31, 2018 was as follows:

	Balance August 31, 2017 (Restated)	Additions	Reductions	Balance August 31, 2018	Current Portion
Bonds					
General Obligation bonds	\$ 620,695,000	\$ -	\$ (26,625,000)	\$ 594,070,000	\$ 30,115,000
Revenue bonds	86,305,000	-	(1,785,000)	84,520,000	1,590,000
Maintenance Tax Note bonds	21,215,000	-	(1,735,000)	19,480,000	1,840,000
Unamortized bond premium	82,247,046	-	(9,776,066)	72,470,980	9,714,576
Subtotal	810,462,046	-	(39,921,066)	770,540,980	43,259,576
Accrued compensable absences	9,521,462	2,045,821	(1,015,429)	10,551,854	5,794,549
Net pension liability	62,494,141	-	(8,021,191)	54,472,950	-
Net OPEB liability	98,016,036	-	(15,979,652)	82,036,384	-
Local governmental liability	16,310,263	271,636	(19,748)	16,562,151	-
Accounts payable and accrued liabilities	13,857,513	-	(13,857,513)	-	-
Total non-current liabilities	<u>\$ 1,010,661,461</u>	<u>\$ 2,317,457</u>	<u>\$ (78,814,599)</u>	<u>\$ 934,164,319</u>	<u>\$ 49,054,125</u>

Non-Current Liabilities Comparative

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

	Balance August 31, 2016 (Restated)	Additions	Reductions	Balance August 31, 2017 (Restated)	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	73,436,815	18,178,651	(9,368,420)	82,247,046	4,084,182
Subtotal	688,351,815	151,193,651	(29,083,420)	810,462,046	34,229,182
Accrued compensable absences	9,524,289	3,523,616	(3,526,443)	9,521,462	5,533,752
Net pension liability	51,162,604	16,586,036	(5,254,499)	62,494,141	-
Local governmental liability	-	16,310,263	-	16,310,263	-
Accounts payable and accrued liabilities	-	13,857,513	-	13,857,513	-
Total non-current liabilities	<u>\$ 749,038,708</u>	<u>\$ 201,471,079</u>	<u>\$ (37,864,362)</u>	<u>\$ 912,645,425</u>	<u>\$ 39,762,934</u>

Debt Obligations

Debt service requirements by type of bond at August 31, 2018 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
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	705,963	29,950,000	28,500,532
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	26,705,000	21,444,387	1,820,000	3,606,194	2,060,000	521,000	30,585,000	25,571,581
2024 - 2028	122,485,000	88,263,825	11,315,000	17,045,016	9,390,000	967,750	143,190,000	106,276,591
2029 - 2033	117,015,000	61,963,875	28,275,000	11,881,912	-	-	145,290,000	73,845,787
2034 - 2038	100,600,000	35,979,950	19,905,000	6,550,512	-	-	120,505,000	42,530,462
2039 - 2043	68,770,000	16,517,050	16,560,000	2,152,750	-	-	85,330,000	18,669,800
2044 - 2046	39,830,000	2,540,600	-	-	-	-	39,830,000	2,540,600
Sub Total	\$ 594,070,000	\$ 327,279,100	\$ 84,520,000	\$ 56,363,047	\$ 19,480,000	\$ 4,462,463	\$ 698,070,000	\$ 388,104,610
Net Premium	61,804,776	-	7,742,263	-	2,923,941	-	72,470,980	
Total	\$ 655,874,776	\$ 327,279,100	\$ 92,262,263	\$ 56,363,047	\$ 22,403,941	\$ 4,462,463	\$ 770,540,980	\$ 388,104,610

Debt service principal and interest requirements for all the bonds at August 31, 2018 were as follows:

For the Year Ended August 31,	Principal	Interest	Total
2019	\$ 33,545,000	\$ 32,430,494	\$ 65,975,494
2020	37,790,000	30,688,406	68,478,406
2021	29,950,000	28,500,532	58,450,532
2022	32,055,000	27,050,357	59,105,357
2023	30,585,000	25,571,581	56,156,581
2024 - 2028	143,190,000	106,276,591	249,466,591
2029 - 2033	145,290,000	73,845,787	219,135,787
2034 - 2038	120,505,000	42,530,462	163,035,462
2039 - 2043	85,330,000	18,669,800	103,999,800
2044 - 2046	39,830,000	2,540,600	42,370,600
	\$ 698,070,000	\$ 388,104,610	\$ 1,086,174,610
Net Premium	72,470,980	-	72,470,980
Total	\$ 770,540,980	\$ 388,104,610	\$ 1,158,645,590

7. BONDS PAYABLE

General information related to bonds payable is summarized below:

Series	Purpose	Issue Date	Original Issue Amount	Repayment Source	Amount Outstanding	
					8/31/2018	8/31/2017
2008 GO	Construction, Equip, Site Acquisition	9/10/2008	\$ 149,780,000	Ad Valorem Tax	\$ 23,540,000	\$ 26,915,000
2009 GO	Construction, Equip, Site Acquisition	9/16/2009	144,520,000	Ad Valorem Tax	8,580,000	12,580,000
2010A GO	Construction, Equip, Site Acquisition	6/17/2010	110,625,000	Ad Valorem Tax	37,100,000	54,600,000
2011 GO REF	Refunding	10/5/2011	25,305,000	Ad Valorem Tax	24,365,000	25,305,000
2012 GO REF	Refunding	6/14/2012	21,420,000	Ad Valorem Tax	7,495,000	8,305,000
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	127,415,000
Total General Obligation					\$ 594,070,000	\$ 620,695,000
2011 REV REF	Refunding	10/5/2011	7,980,000	Pledged Revenue	\$ 4,360,000	\$ 4,900,000
2012 REV REF	Refunding	6/14/2012	8,155,000	Pledged Revenue	3,045,000	4,290,000
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					\$ 84,520,000	\$ 86,305,000
2009 MTN	Construction for Energy Conservation	12/3/2009	30,740,000	Ad Valorem Tax	\$ 8,030,000	\$ 9,765,000
2016 MTN REF	Refunding	8/10/2016	11,450,000	Ad Valorem Tax	11,450,000	11,450,000
Total Tax Maintenance Note					\$ 19,480,000	\$ 21,215,000

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, 2018 and 2017 is \$127,415,000 and \$127,415,000, respectively.
 - 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, 2018 and 2017 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, 2018 and 2017 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, 2018 and 2017 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, 2018 and 2017 is \$7,495,000 and \$8,305,000, 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, 2018 and 2017 is \$24,365,000 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, 2018 and 2017 is \$37,100,000 and \$54,600,000, 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.

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, 2018 and 2017 is \$8,580,000 and \$12,580,000, 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, 2018 and 2017 is \$23,540,000 and \$26,915,000, 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, 2018 and 2017 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, 2018 and 2017 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, 2018 and 2017 is \$3,045,000 and \$4,290,000, 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
 - Outstanding principal balance as of August 31, 2018 and 2017 is \$4,360,000 and \$4,900,000, 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, 2018 and 2017 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, 2018 and 2017 is \$8,030,000 and \$9,765,000, 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 Years 2018 and 2017.

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 \$77,212,821 and \$72,940,505 for the years ended August 31, 2018 and 2017, respectively. The pledged revenue amount equates to 69.09% and 66.63% of the above total revenue streams, respectively. Debt service on the revenue bonds was \$5,719,694 and \$4,908,139 for the years ended August 31, 2018 and 2017, and the debt service coverage ratio was 13.50 and 14.86, respectively. Revenue bonds are payable in annual installments varying from \$1,190,000 to \$7,650,000 with interest rates from 2.50% 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, 2018 and 2017.

8. ISSUED, REFUNDED & DEFEASED BONDS OUTSTANDING

FY 2018 BONDS ISSUED

The College did not issue, refund, or defease any bonds during fiscal year 2018.

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. Series 2017A was issued on 2/16/2017 for \$150 million and was the second issue of the \$485 million authorization. The balance of \$185 million remains to be issued at a later date.

FY 2017 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.

FY 2016 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 \$582,399 in underwriter's discount and cost of issuance expense of \$438,671, 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 \$17,886,391 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 \$167,707 in underwriter's discount and cost of issuance expense of \$235,425, 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 \$1,492,393 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 \$47,841 in underwriter's discount and cost of issuance expense of \$99,864, 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 \$1,213,055 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 2018, Limited Tax General Obligation Bonds, Series 2008, refunded 2015 and 2016, were called or matured, resulting in an outstanding balance of \$0.

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.

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%.

DEFEASED BONDS OUTSTANDING

The liability for the bonds below do not appear on the College’s financial statement as of August 31, 2018 as these bonds are considered legally defeased.

Bond Issue	Year Refunded	Par Value Outstanding	Call Date/Final Maturity Date
General Obligation Bond, Series 2009	2015	\$25,000,000	8/15/2019
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, 2018 and 2017 was \$1,143,543 and \$1,175,673 respectively. Future minimum lease payments are as follows:

For the Year Ended	
<u>August 31,</u>	<u>Total</u>
2019	\$ 1,065,617
2020	1,004,168
2021	696,922
2022	678,922
2023	676,041
2024-2026	18,000
Total future minimum lease payments	<u>\$ 4,139,670</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 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rate for fiscal years 2016 and 2017.

	Contribution Rates	
	Plan Fiscal Year	
	2018	2017
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
	Fiscal Year	Measurement
	2018	Year 2017
	TRS	Contributions
	Contributions	Required and
		Made
College Contributions	\$ 6,195,754	\$ 5,624,823
Member Contributions	\$11,366,461	\$11,138,802
	Measurement	Measurement
	Year 2017	Year 2016
State of Texas (NECE) On-behalf Contributions	\$ 4,291,461	\$ 4,364,822

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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
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, 2017 are summarized below:

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Return
As of August 31, 2017

	Target Allocation ¹	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns ²
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%

¹Target allocations are based on the FY 2014 policy model. Infrastructure was moved from Real Assets to Energy and Natural Resources in FY 2017, but the reallocation does not affect the long-term expected geometric real rate of return or expected contribution to long-term portfolio returns.

²The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

G. Discount Rate Sensitivity Analysis

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

	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:	\$ 91,830,629	\$ 54,472,950	\$ 23,366,617

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

At August 31, 2018, the College reported a liability of \$54,472,949 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	\$ 54,472,950
State’s proportionate share that is associated with the College	<u>41,955,696</u>
Total	<u>\$ 96,428,646</u>

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

At August 31, 2017 the employer’s proportion of the collective net pension liability was .1703631238% which was an increase of .0049844551% from its proportion measured as of August 31, 2016.

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, 2018, the College recognized pension expense of \$3,200,214 and revenue of \$3,200,214 based on the State’s measurement date of August 31, 2017.

At August 31, 2018, 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	\$ 796,964	\$ 2,937,655
Changes in actuarial assumptions	2,481,329	1,420,503
Differences between projected and actual investment earnings	-	3,969,870
Changes in proportion and differences between the employer's contributions	<u>5,244,933</u>	<u>5,623,007</u>
Total as of August 31, 2017 measurement date	\$ 8,523,226	\$ 13,951,035
Contributions paid to TRS subsequent to the measurement date	<u>6,195,754</u>	<u>-</u>
Total as of fiscal year end	<u>\$ 14,718,980</u>	<u>\$ 13,951,035</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>
2019	\$ (2,174,229)
2020	\$ 1,302,920
2021	\$ (2,441,345)
2022	\$ (3,126,540)
2023	\$ 871,291
Thereafter	<u>\$ 140,094</u>
	<u>\$ (5,427,809)</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>2018</u>	<u>2017</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, 2018 and 2017.

<u>ORP Retirement Plan Expense</u>	<u>2018</u>	<u>2017</u>
Actual cost of ORP Retirement Benefits	\$3,226,010	\$3,441,873
College Contribution for ORP Retirement Benefits	2,189,598	2,313,433
State Legislative Appropriation Expended for ORP	1,076,412	1,128,440

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 \$10,551,854 and \$9,521,462 for the fiscal years ended August 31, 2018 and 2017, 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, 2018, 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.

The Department of Education (“DOE”) conducted a program review of the College’s administration of programs authorized by Title IV of the Higher Education Act for award years that spanned from July 1, 2012 through June 30, 2016, which resulted in the identification of instances of noncompliance with certain program requirements. At the request of the Department of Education in conjunction with this program review, during the year ended August 31, 2017, the College conducted an internal review of such noncompliance. This review identified potentially ineligible disbursements during the period under review aggregating to \$13,465,367. In a letter dated October 23, 2018, the Department of Education communicated its final determination that the College is obligated to repay this amount along with \$392,146 in interest, resulting in a total liability of \$13,857,513. The College’s management is currently reviewing the DOE findings included in the final program review determination. As of November 30, 2018, the College has found evidence and documentation that supports a lower amount of ineligible disbursements to dispute certain facts underlying the Department of Education’s assertions and, accordingly, the College plans to appeal the determination by the due date of December 7, 2018. The amount of \$13,857,513 is the estimated contingency with DOE at present and has been included in current and noncurrent liabilities at August 31, 2018 and 2017, respectively, in the accompanying statements of net position, and in operating expenses for the year ended August 31, 2017 in the accompanying statements of revenues, expenses and changes in net position. This estimate remains subject to change upon the result of the appeal process to be initiated in December 2018.

13. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2018 and 2017 were as follows:

	August 31	
	2018	2017
Students Receivable	\$ 20,120,328	\$ 20,008,827
Taxes Receivable	6,237,942	6,024,289
Federal Receivable	1,053,189	1,382,473
Accounts Receivable	5,129,467	2,169,443
Interest Receivable	85,668	-
Other Receivables	897,656	12,096,335
Subtotal	33,524,250	70,247,275
Allowance for Doubtful Accounts	(8,203,312)	(6,696,079)
Total Accounts Receivable, Net	\$ 25,320,938	\$ 34,985,288

Payables at August 31, 2018 and 2017 were as follows:

	August 31	
	2018	2017
Vendors Payable	\$ 32,595,560	\$ 26,930,723
Salaries and Benefits Payable	4,183,254	4,290,167
Students Payable	1,203,295	1,488,554
Accrued Interest	1,721,745	1,814,890
Accrued Liabilities	13,857,513	-
Other Payables	8,382,662	6,501,081
Total Accounts Payable and Accrued Liabilities	\$ 61,944,029	\$ 41,025,415

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 within Accounts Receivable 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 2018 and 2017 for which monies have not been received nor funds expended totaled \$61,690,996 and \$51,791,718, respectively. Of these amounts, \$56,601,509 and \$47,112,377 were from Federal Contract and Grant Awards; \$5,089,487 and \$4,679,341 were from State Contract and Grant Awards for the fiscal years ended 2018 and 2017, 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, 2018 and 2017.

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	2018 State/Employer Contribution	2018 Annualized Contribution	2017 State/Employer Contribution	2017 Annualized Contribution
Member Only	\$621.90	\$7,462.80	\$617.30	\$7,407.60

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

<u>Cost of Providing Health Care Insurance</u>	<u>2018</u>	<u>2017</u>
Number of Retirees	519	501
Cost of Health Benefits for Retirees	\$4,417,143	\$4,068,069
Number of Active Full Time Employees	2,924	2,569
Cost of Health Benefits for Active Full Time Employees	\$24,864,459	\$24,635,365
State Appropriation for Health Insurance	\$12,516,615	\$10,821,722
College Expense	\$16,764,987	\$17,881,712

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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Assessed Valuation of the College	\$204,014,743,316	\$ 196,054,317,147
Less: Exemptions	(15,813,061,393)	(15,500,453,924)
Net Assessed Valuation of the College	<u><u>\$188,201,681,923</u></u>	<u><u>\$180,553,863,223</u></u>

Tax rates for the years ending August 31, 2018 and 2017 are as follows:

	<u>2018</u>			<u>2017</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	\$0.0800	\$0.0278	\$0.1078

Taxes levied for the years ended August 31, 2018 and 2017 were approximately \$199,370,619 and \$191,597,489 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, 2018 and 2017 are as follows:

	<u>2018</u>			<u>2017</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	\$146,622,168	\$50,952,739	\$197,574,907	\$ 141,102,201	\$ 49,045,559	\$ 190,147,760
Delinquent Taxes	427,775	175,376	603,151	484,946	199,089	684,035
Penalties & Interest	1,639,444	599,118	2,238,562	1,421,280	546,731	1,968,011
Total Gross Collections	<u><u>\$148,689,387</u></u>	<u><u>\$51,727,233</u></u>	<u><u>\$200,416,620</u></u>	<u><u>\$ 143,008,427</u></u>	<u><u>\$ 49,791,379</u></u>	<u><u>\$ 192,799,806</u></u>
Tax Appraisal & Collection Fees	(1,736,413)	(615,205)	(2,351,618)	(1,537,857)	(550,443)	(2,088,300)
Total Net Collections	<u><u>\$146,952,974</u></u>	<u><u>\$51,112,028</u></u>	<u><u>\$198,065,002</u></u>	<u><u>\$ 141,470,570</u></u>	<u><u>\$ 49,240,936</u></u>	<u><u>\$ 190,711,506</u></u>

Tax collections for the years ended August 31, 2018 and 2017 were 99.10% and 99.24%, 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, 2018 or 2017.

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, 2018 and 2017.

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. 75)

A. Plan Description

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

B. OPEB Plan Fiduciary Net Position

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

C. Benefits Provided

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

D. Contributions

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

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

Maximum Monthly Employer Contribution
Retiree Health and Basic Life Premium
Fiscal Year 2018

Retiree only	\$	621.90
Retiree & Spouse	\$	1,334.54
Retiree & Children	\$	1,099.06
Retiree & Family	\$	1,811.70

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

Premium Contributions by Source
Group Benefits Program Plan
For the Fiscal Year Ended August 31, 2018

Employer Contributions	\$	2,445,958
Member Contributions	\$	-
2017 measurement year NECE on-behalf contributions	\$	1,803,119

E. Actuarial Assumptions

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

Actuarial Assumptions ERS Group Benefits Program Plan	
Valuation Date	August 31, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	N/A
Discount Rate	3.51%
Projected Annual Salary Increase (includes inflation)	2.5% to 9.5%
Inflation Assumption Rate	2.50%
Annual Healthcare Trend Rate	8.50% for FY 2019, decreasing 0.5% per year to 4.50% for FY 2027 and later years

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

F. Investment Policy

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

G. Discount Rate

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

H. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (2.51%)	Discount Rate (3.51%)	1% Increase in Discount Rate (4.51%)
College’s proportionate share of the net OPEB liability:	\$ 97,927,472	\$ 82,036,384	\$ 69,727,315

I. Healthcare Cost Trend Rates Sensitivity Analysis

The following schedule shows the impact on the College proportionate share of the collective net OPEB Liability if the healthcare cost trend rate used was 1 percent less than and 1 percent greater than the healthcare cost trend rate that was used in measuring the net OPEB Liability.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
College’s proportionate share of the net OPEB liability	\$ 68,965,530	\$ 82,036,384	\$ 98,996,571

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

At August 31, 2018, the College reported a liability of \$ 82,036,384 for its proportionate share of the ERS’s net OPEB liability. This liability reflects a reduction for State support provided to the College for OPEB. The amount recognized by the College as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the College were as follows:

The College’s Proportionate share of the collective net OPEB liability	\$ 82,036,384
State’s proportionate share that is associated with the College	<u>65,551,701</u>
Total	<u>\$ 147,588,085</u>

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

At August 31, 2017 the employer's proportion of the collective net OPEB liability was .2407664600%. Since this is the first year of implementation, the College does not have the proportion measure as of August 31, 2016.

For the year ended August 31, 2018, the College recognized OPEB expense of \$3,508,069 and revenue of \$3,508,069 for support provided by the State.

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

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

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

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

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ -	\$ 985,814
Changes in actuarial assumptions	-	17,152,824
Differences between projected and actual investment earnings	24,288	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	-	-
Total as of August 31, 2017 measurement date	\$ 24,288	\$ 18,138,638
Contributions paid to ERS subsequent to the measurement date	2,445,958	-
Total as of fiscal year end	<u>\$ 2,470,246</u>	<u>\$ 18,138,638</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended August 31:</u>	<u>OPEB Expense Amount</u>
2019	\$ (4,079,207)
2020	\$ (4,079,207)
2021	\$ (4,079,207)
2022	\$ (4,079,207)
2023	\$ (1,797,522)
Thereafter	\$ -
	<u>\$ (18,114,350)</u>

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 is being 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 are being used to pay for costs related to this facility upon approval by AISD. The College’s liability to AIS is reflected as ‘Local government liability’ on the accompanying Statements of Net Position. This agreement has no impact on the Net Position of the College.

22. PRIOR PERIOD ADJUSTMENTS

During the fiscal year 2018, the College adopted GASB Statement No. 75 for *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. With GASB 75, the College must assume its proportionate share of the Net OPEB liability of the Employees Retirement System of Texas. Adoption of GASB 75 required a restatement to beginning net position in the fiscal year 2018 financial statements as a cumulative effect of change in accounting principle. The adjustment to net position as of August 31, 2017 totaled \$95,755,640.

The College reflected the impairment of capital assets resulted from the impact of Hurricane Harvey as of August 31, 2017. The initial amount recorded as reflected in the fiscal year 2017 financial statements did not contemplate the carrying value of the assets at the date of impairment as required under the restoration cost approach as per *GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The application of GASB 42 resulted in a reduction of the impairment and an increase in net position as at August 31, 2017 of \$12,948,281.

During the implementation of the module of Deal Management (DM) in PeopleSoft, under-amortized bond premiums were identified and affected the net position of the College in the amount of \$24,554,786 as of August 31, 2017 and \$16,343,976 as of August 31, 2016. A comparison of the manual calculation used prior to implementation of the new module versus the DM system-generated calculation demonstrated that, historically, the manual calculation only included the current portion of premium/discount as opposed to the full value through maturity. Respectively, a review of refunded debt, recalculated using the new system-generated values for unamortized premium/discount at the time of refunding, required an adjustment to the previously reported amounts of deferred charge on refunding with an effect of \$5,748,652 on the net position at August 31, 2017 and \$6,611,998 at August 31, 2016.

The Department of Education conducted a program review of the College's administration of programs authorized by Title IV of the Higher Education Act for award years that spanned from July 1, 2012 through June 30, 2016, which resulted in the identification of instances of noncompliance with certain program requirements. At the request of the Department of Education in conjunction with this program review, during the year ended August 31, 2017, the College conducted an internal review of such noncompliance. This review identified potentially ineligible disbursements during the period under review aggregating to \$13,465,367. In a letter dated October 23, 2018, the Department of Education communicated its final determination that the College is obligated to repay this amount along with \$392,146 in interest, resulting in a total liability of \$13,857,513. This amount has been reflected in current and noncurrent liabilities at August 31, 2018 and 2017, respectively, in the accompanying statements of net position, and in operating expenses for the year ended August 31, 2017 in the accompanying statements of revenues, expenses and changes in net position.

In order to accurately reflect the total accrued compensable absences due to employees, the College restated the vacation liability with prior period adjustments that had a net position effect of \$4,895,701 at August 31, 2017 and \$4,079,615 at August 31, 2016.

PRIOR PERIOD ADJUSTMENTS (Cont)

The following is a summary of the effects of the prior period adjustments:

	Effect on Net Position as of August 31, 2017	Effect on Increase in Net Position for the Year Ended August 31, 2017	Effect on Net Position as of August 31, 2016
Impairment of capital assets	\$ 12,948,281	\$ 12,948,281	\$ -
Deferred charge on refunding	5,748,652	(863,346)	6,611,998
DOE liability	(13,857,513)	(13,857,513)	-
Accrued compensable absences	(4,895,701)	(816,086)	(4,079,615)
Unamortized bond premium	<u>24,554,786</u>	<u>8,210,810</u>	<u>16,343,976</u>
	<u>\$ 24,498,505</u>	<u>\$ 5,622,146</u>	<u>\$ 18,876,359</u>



Required Supplementary Information

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

Measurement year ended August 31 *	2017 **	2016	2015	2014
College's proportionate share of the net pension liability (%)	0.1703631%	0.1653787%	0.1447370%	0.1819112%
College's proportionate share of net pension liability (\$)	\$ 54,472,950	\$ 62,494,141	\$ 51,162,603	\$ 48,590,997
State's proportionate share of net pension liability associated with the college	41,955,696	51,809,767	54,836,429	36,082,142
Total	\$ 96,428,646	\$ 114,303,908	\$ 105,999,032	\$ 84,673,139
College's covered employee payroll	\$ 144,659,771	\$ 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	37.66%	44.62%	39.05%	42.48%
TRS net position as a percentage of total pension liability ***	82.17%	78.00%	78.43%	83.25%
Plan's net pension liability as a percentage of covered employee payroll ***	75.93%	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 PENSIONS CONTRIBUTIONS
Last Five Fiscal Years ****

<u>Fiscal year ended August 31 *</u>	<u>2018**</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Legally required contributions	\$ 6,195,754	\$ 5,624,823	\$ 5,320,500	\$ 4,954,156	\$ 4,021,984
Actual contributions	<u>(6,195,754)</u>	<u>(5,624,823)</u>	<u>(5,320,500)</u>	<u>(4,954,156)</u>	<u>(4,021,984)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered employee payroll	\$ 149,612,332	\$ 144,659,771	\$ 140,070,767	\$ 131,015,965	\$ 114,391,840
Contributions as a percentage of covered employee payroll	4.14%	3.89%	3.80%	3.78%	3.52%

* In accordance with GASB 68, Paragraph 138, 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 for Pensions

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

There were no changes in reporting method that affected measurement of the total pension liability during the measurement period.

**LONE STAR COLLEGE
SCHEDULE OF COLLEGE'S SHARE OF NET OPEB LIABILITY
For the Fiscal Year Ended August 31, 2018**

Measurement year ended August 31 *	2017 **
College's proportionate share of the net OPEB liability (%)	0.2407665%
College's proportionate share of net OPEB liability (\$)	\$ 82,036,384
State's proportionate share of net OPEB liability associated with the college	<u>65,551,701</u>
Total	<u>\$ 147,588,085</u>
College's covered employee payroll	\$ 92,960,220
College's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	88.25%
ERS net position as a percentage of total OPEB liability ***	2.04%

* The amounts presented above are as of the measurement date of the collective net OPEB 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 ERS CAFR

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

**LONE STAR COLLEGE
SCHEDULE OF COLLEGE'S OPEB CONTRIBUTIONS
For the Fiscal Year Ended August 31, 2018**

Fiscal year ended August 31 *	2018**
Legally required contributions	\$ 2,445,958
Actual contributions	<u>(2,445,958)</u>
Contributions deficiency (excess)	<u>\$ -</u>
College's covered employee payroll	\$ 92,960,220
Contributions as a percentage of covered employee payroll	2.63%

* In accordance with GASB 75, Paragraph 245, the amounts presented above are as of the Collegee'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 for OPEB

Changes in Benefit Terms

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

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

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

Changes in Assumptions

Demographic Assumptions

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

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

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

Economic Assumptions

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

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

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

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



Supplementary Schedules

SCHEDULE A

**LONE STAR COLLEGE
SCHEDULE OF OPERATING REVENUES
YEAR ENDED AUGUST 31, 2018 (With Memorandum Totals for the Year Ended August 31, 2017)**

	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises	2018 Total	2017 Total
Tuition						
State funded courses						
In-district resident tuition	\$ 46,060,116	\$ -	\$ 46,060,116	\$ -	\$ 46,060,116	\$ 48,699,282
Out-of-district resident tuition	22,751,180	-	22,751,180	-	22,751,180	20,388,035
Non-resident tuition	8,424,186	-	8,424,186	-	8,424,186	7,822,757
TPEG -credit (set aside)*	(5,147,934)	-	(5,147,934)	-	(5,147,934)	(4,815,035)
State-funded continuing education	2,648,229	-	2,648,229	-	2,648,229	2,847,625
TPEG -non-credit (set aside)*	(211,165)	-	(211,165)	-	(211,165)	(224,007)
Non-state funded continuing education	3,674,490	-	3,674,490	-	3,674,490	3,296,598
Total tuition	<u>78,199,102</u>	<u>-</u>	<u>78,199,102</u>	<u>-</u>	<u>78,199,102</u>	<u>78,015,255</u>
Fees						
Registration fee	2,165,196	-	2,165,196	-	2,165,196	2,143,620
Student activity fee	2,752,689	-	2,752,689	-	2,752,689	2,752,337
Laboratory fee	1,240,615	-	1,240,615	-	1,240,615	1,241,970
Technology fee	15,117,542	-	15,117,542	-	15,117,542	12,374,396
General use fee	9,619,313	-	9,619,313	-	9,619,313	9,603,474
Distance learning fee	5,946,453	-	5,946,453	-	5,946,453	5,220,255
Infrastructure fee	2,340,759	-	2,340,759	-	2,340,759	2,582,024
Differential tuition fee	12,106,929	-	12,106,929	-	12,106,929	11,246,101
Incidental fee	56,893	-	56,893	-	56,893	60,924
Other fees	262,486	-	262,486	-	262,486	333,530
Total fees	<u>51,608,875</u>	<u>-</u>	<u>51,608,875</u>	<u>-</u>	<u>51,608,875</u>	<u>47,558,631</u>
Scholarship allowances and discounts						
Scholarship allowances	(2,978,085)	-	(2,978,085)	-	(2,978,085)	(2,377,488)
Remissions and exemptions - state	(10,765,735)	-	(10,765,735)	-	(10,765,735)	(9,962,398)
Remissions and exemptions - local	(2,803,331)	-	(2,803,331)	-	(2,803,331)	(2,580,803)
TPEG allowances	(1,174,443)	-	(1,174,443)	-	(1,174,443)	(1,346,363)
State grants to students	(1,051,747)	-	(1,051,747)	-	(1,051,747)	(1,382,604)
Federal grants to students	(29,668,075)	-	(29,668,075)	-	(29,668,075)	(25,508,607)
Total scholarship allowances and discounts	<u>(48,441,416)</u>	<u>-</u>	<u>(48,441,416)</u>	<u>-</u>	<u>(48,441,416)</u>	<u>(43,158,263)</u>
Total net tuition and fees	<u>81,366,561</u>	<u>-</u>	<u>81,366,561</u>	<u>-</u>	<u>81,366,561</u>	<u>82,415,623</u>

SCHEDULE A (Continued)

LONE STAR COLLEGE

SCHEDULE OF OPERATING REVENUES

YEAR ENDED AUGUST 31, 2018 (With Memorandum Totals for the Year Ended August 31, 2017)

	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises	2018 Total	2017 Total
Additional operating revenues						
Federal grants and contracts	-	5,565,319	5,565,319	-	5,565,319	4,536,292
State grants and contracts	-	3,481,497	3,481,497	-	3,481,497	4,662,678
Local grants and contracts	2,049,382	1,997,597	4,046,979	-	4,046,979	3,750,232
Other operating revenue	3,218,742	1,098,259	4,317,001	-	4,317,001	3,389,147
Total additional operating revenues	<u>5,268,124</u>	<u>12,142,672</u>	<u>17,410,796</u>	<u>-</u>	<u>17,410,796</u>	<u>16,338,349</u>
Auxiliary enterprises						
Food service	-	-	-	588,306	588,306	696,918
Bookstore	-	-	-	1,901,186	1,901,186	1,542,838
Child care fees	-	-	-	17,185	17,185	1,644,480
Special events	-	-	-	321,543	321,543	1,019,564
Tenant Related	-	-	-	6,922,968	6,922,968	7,315,009
Other	-	-	-	854,341	854,341	793,416
Total auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,605,529</u>	<u>10,605,529</u>	<u>13,012,225</u>
Total operating revenues	<u>\$ 86,634,685</u>	<u>\$ 12,142,672</u>	<u>\$ 98,777,357</u>	<u>\$ 10,605,529</u>	<u>\$ 109,382,886</u>	<u>\$ 111,766,197</u>
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.033, \$5,359,099 and \$5,039,042 was set aside for Texas Public Education Grants in 2018 and 2017, respectively.

LONE STAR COLLEGE

SCHEDULE OF OPERATING EXPENSES BY OBJECT

YEAR ENDED AUGUST 31, 2018 (with Memorandum Totals for the Year Ended August 31, 2017)

	Operating Expenses			2018 Total	2017 Total as restated	
	Salaries and Wages	Benefits State	Local			Other Expenses
Unrestricted educational activities						
Instruction	\$ 101,114,313	-	\$ 10,880,279	\$ 11,355,849	\$ 123,350,441	\$ 122,650,267
Public service	422,695	-	75,147	13,680	511,522	722,407
Academic support	37,362,519	-	5,591,698	15,060,853	58,015,070	55,264,253
Student services	31,608,891	-	4,876,583	12,018,744	48,504,218	46,640,165
Institutional support	23,609,238	-	8,522,623	12,227,936	44,359,797	56,005,156
Operation and maintenance of plant	15,130,934	-	5,100,286	30,438,813	50,670,033	48,221,111
Total unrestricted educational activities	<u>209,248,590</u>	<u>-</u>	<u>35,046,616</u>	<u>81,115,875</u>	<u>325,411,081</u>	<u>329,503,359</u>
Restricted educational activities						
Instruction	1,489,663	9,534,292	194,672	2,998,340	14,216,967	10,435,393
Public service	235,416	66,422	32,974	354,359	689,171	557,002
Academic support	1,159,059	5,009,445	167,110	1,741,860	8,077,474	5,989,528
Student services	375,039	4,362,817	57,472	209,358	5,004,686	4,566,360
Institutional support	-	5,249,764	-	1,287,924	6,537,688	4,478,922
Operation and maintenance of plant	140,777	546,702	-	7,899,197	8,586,676	333,896
Scholarships and fellowships	-	-	-	50,574,385	50,574,385	50,994,227
Total restricted educational activities	<u>3,399,954</u>	<u>24,769,442</u>	<u>452,228</u>	<u>65,065,423</u>	<u>93,687,047</u>	<u>77,355,328</u>
Total educational activities	212,648,544	24,769,442	35,498,844	146,181,298	419,098,128	406,858,687
Auxiliary enterprises	617,790	-	701,401	7,616,024	8,935,215	11,984,844
Depreciation expense - buildings	-	-	-	14,185,303	14,185,303	13,362,518
Depreciation expense - equip & furn	-	-	-	8,585,171	8,585,171	8,859,675
Total operating expenses	<u>\$ 213,266,334</u>	<u>\$ 24,769,442</u>	<u>\$ 36,200,245</u>	<u>\$ 176,567,796</u>	<u>\$ 450,803,817</u>	<u>\$ 441,065,724</u>
				(Exhibit 2)	(Exhibit 2)	

LONE STAR COLLEGE
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
YEAR ENDED AUGUST 31, 2018 (With Memorandum Totals for the Year Ended August 31, 2017)

	Unrestricted	Restricted	Auxiliary Enterprises	2018 Total	2017 Total as restated
Non-Operating revenues					
State appropriations					
Education and general state support	\$ 77,983,684	\$ -	\$ -	\$ 77,983,684	\$ 74,089,265
State group insurance	-	16,024,684	-	16,024,684	10,821,722
State retirement matching	-	8,744,690	-	8,744,690	10,770,149
Total state appropriations	<u>77,983,684</u>	<u>24,769,374</u>	<u>-</u>	<u>102,753,058</u>	<u>95,681,136</u>
Maintenance ad valorem taxes	146,643,168	-	-	146,643,168	140,258,439
General obligation ad valorem taxes	-	51,201,174	-	51,201,174	48,875,112
Federal revenue, non-operating	-	82,323,906	-	82,323,906	77,449,276
Gifts	493,916	-	-	493,916	57,000
Investment income, net	4,848,309	-	-	4,848,309	2,609,230
Gain on Sale/Donation of capital asset	228	-	-	228	1,735,360
Other non-operating revenues	<u>2,183,357</u>	<u>3,194,216</u>	<u>-</u>	<u>5,377,573</u>	<u>3,366,195</u>
Total non-operating revenues	<u>232,152,662</u>	<u>161,488,670</u>	<u>-</u>	<u>393,641,332</u>	<u>370,031,748</u>
Non-Operating expenses					
Interest on capital related debt	-	23,116,180	-	23,116,180	24,844,466
Loss on disposal of capital assets	<u>408,553</u>	<u>-</u>	<u>-</u>	<u>408,553</u>	<u>720,765</u>
Total non-operating expenses	<u>408,553</u>	<u>23,116,180</u>	<u>-</u>	<u>23,524,733</u>	<u>25,565,231</u>
Net non-operating revenues	<u>\$ 231,744,109</u>	<u>\$ 138,372,490</u>	<u>\$ -</u>	<u>\$ 370,116,599</u>	<u>\$ 344,466,517</u>
				(Exhibit 2)	(Exhibit 2)

LONE STAR COLLEGE
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
YEAR ENDED AUGUST 31, 2018 (with Memorandum Totals for the Year Ended August 31, 2017)

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets (Net)	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ (121,287,339)	\$ -	\$ -	\$ -	\$ (121,287,339)	\$ (121,287,339)	\$ -
Restricted	-	338,068	-	-	338,068	-	338,068
Auxiliary enterprises	10,605,529	-	-	-	10,605,529	10,605,529	-
Plant:							
Debt service	-	26,732,726	-	-	26,732,726	-	26,732,726
Investment in Plant	-	-	-	275,144,614	275,144,614	-	275,144,614
Total Net Position - August 31, 2018	(110,681,810)	27,070,794	-	275,144,614	191,533,598 (Exhibit 1)	(110,681,810)	302,215,408
Prior Period Adjustment GASB 75 restatement	(95,755,640)				(95,755,640)	-	(95,755,640)
Total Net Position - August 31, 2017 as originally reported	(23,451,858)	67,133,455	-	190,413,468	234,095,065	(23,451,858)	257,546,923
Prior Period Adjustments	11,550,224	(30,303,439)	-	43,251,720	24,498,505	11,550,224	12,948,281
Total Net Position - August 31, 2017 as restated	(11,901,634)	36,830,016	-	233,665,188	258,593,570 (Exhibit 1)	(11,901,634)	270,495,204
Net Increase (Decrease) in Net Position	\$ (3,024,536)	\$ (9,759,222)	\$ -	\$ 41,479,426	\$ 28,695,668 (Exhibit 2)	\$ (98,780,176)	\$ 127,475,844

SCHEDULE E

LONE STAR COLLEGE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED August 31, 2018

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(16-17)	84.007	P007A164084	\$ 76,346.00
Federal Supplemental Educational Opportunity Grants-FSEOG(17-18)	84.007	P007A174084	<u>1,741,116</u>
Total Federal Supplemental Educational Opportunity Grants			<u>1,817,462</u>
Federal Work-Study Program (17-18)	84.033	P033A174084	574,525
Federal Work-Study Program (18-19)	84.033	P033A184084	<u>88,526</u>
Total Federal Work-Study Program			<u>663,052</u>
Federal Pell Grant Program (16-17)	84.063	P063P163422	24,812
Federal Pell Grant Program (17-18)	84.063	P063P173422	<u>79,818,580</u>
Total Federal Pell Grant Program			<u>79,843,392</u>
Direct Loan Program (16-17)	84.268	P268K173422	(41,849)
Direct Loan Program (17-18)	84.268	P268K183422	<u>37,664,351</u>
Total Direct Loan Program			<u>37,622,502</u>
TOTAL FINANCIAL AID CLUSTER			<u>119,946,408</u>
TRIO Cluster			
TRIO - Student Support Services - North Harris	84.042A	P042A150892-17	222,753
TRIO - Student Support Services - Tomball	84.042A	P042A151021-17	<u>227,138</u>
Total TRIO - Student Support Services			<u>449,891</u>
TRIO - Talent Search	84.044A	P044A160416-17	<u>270,877</u>
TRIO - Upward Bound ACE	84.047A	P047A170277	245,110
TRIO - Upward Bound MAC	84.047A	P047A170276	<u>288,403</u>
Total TRIO - Upward Bound			<u>533,513</u>
TOTAL TRIO CLUSTER			<u>1,254,281</u>
Higher Education Institutional Aid Title V CLASS - North Harris	84.031S	P031S160059	401,829
Higher Education Institutional Aid Title V CLASS - Tomball	84.031S	P031S160060	<u>317,536</u>
Total Higher Education Institutional Aid Title V CLASS			<u>719,365</u>
<u>Pass-Through:</u>			
Texas Higher Education Coordinating Board			
Career and Technical Education - Basic Grants to States	84.048	184-202067120001	988,846
Education Research, Development and Dissemination - RAND RCT TSI			
Research	84.305H	16439	<u>947</u>
Total Texas Higher Education Coordinating Board			<u>989,793</u>

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

**LONE STAR COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED August 31, 2018**

Texas Workforce Commission			
<u>Pass-Through:</u>			
Houston Galveston Area Council			
Adult Education - Basic Grants to States 2017	84.002A	214-17	103,426
Adult Education - Basic Grants to States 2018	84.002A	214-18	826,210
Adult Education - Basic Grants to States 2019	84.002A	214-19	41,564
Total Adult Education and Literacy			<u>971,200</u>
<u>Pass-Through:</u>			
University of Houston - Downtown			
Pathways to Teaching Careers Program	84.031S	P031S150206.2	<u>103,477</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>123,984,524</u>
	Federal	Pass-Through	Pass Through
Federal Grantor/Pass Through Grantor/ Program Title	CFDA Number	Grantor's Number	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	<u>219</u> 219
Texas Workforce Commission			
<u>Pass-Through:</u>			
Houston Galveston Area Council			
Temporary Assistance for Needy Families	93.558	214-18	60,041
Temporary Assistance for Needy Families	93.558	214-19	<u>2,213</u>
Total Texas Workforce Commission			<u>62,254</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>62,473</u>
U.S. DEPARTMENT OF LABOR			
<u>Pass-Through:</u>			
Texas Workforce Commission			
WIOA Adult Program - Building Construction Trades Training Demonstration Project	17.258	2817WOS003	211,238
WIOA NTL Dislocated Worker/WIANTL Emergency	17.277	2818NDW004	<u>629,117</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>840,355</u>
U. S. SMALL BUSINESS ADMINISTRATION			
<u>Pass-Through from:</u>			
University of Houston			
Small Business Development Centers	59.037	R-17-0032-53813	37,225
Small Business Development Centers	59.037	R-18-0051-53813	<u>253,953</u>
TOTAL U.S. SMALL BUSINESS DEVELOPMENT CENTER			<u>291,178</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
<u>Pass-Through from:</u>			
OneStar National Service Commission			
AmeriCorps - College Knowledge Corps FY17	94.006	16AFHTX0010002	(6,145)
AmeriCorps - College Knowledge Corps FY18	94.006	16AFHTX0010002	<u>225,151</u>
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>219,006</u>

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

**LONE STAR COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED August 31, 2018**

INSTITUTE OF MUSEUM AND LIBRARY SERVICES

Pass-Through from:

Texas State Library and Archives Commission (TSLAC)	45.31	ERC-18019	5,000
Rebuilding Texas Libraries			

NATIONAL SCIENCE FOUNDATION

Direct Program:

Advanced Programmable Logic Controllers, Robotics and Networking	47.076	DUE-1665201	68,516
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Pass-Through from:

Collin County Community College District			
National Convergence Technology Center	47.076	DUE-1700530	14,205

Pass-Through from:

The Regents of the University of New Mexico			
Scaling Microsystems Support	47.076	394-084-87AQ	26,470

TOTAL NATIONAL SCIENCE FOUNDATION			109,191
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TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 125,511,727
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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, 2018**

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, 2018.

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)	\$	5,565,319
Federal Revenue, Non-Operating - per Schedule of Non-Operating Revenues and Expenses (Schedule C)		82,323,906
Federal Direct Student Loan Program		37,622,502
 Total Federal Revenues per Schedule of Expenditures of Federal Awards (Schedule E)	 \$	 <u>125,511,727</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, 2018**

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 (17-18)	N/A	N/A	\$ 244,577
Mentorship Program (17-18)			144,711
Texas Educational Opportunity Grant Program (16-17)	N/A	N/A	(9,558)
Texas Educational Opportunity Grant Program (17-18)	N/A	N/A	946,760
Texas Educational Opportunity Grant Renewal Program (17-18)	N/A	N/A	531,329
			1,468,531
Fifth Year Accounting Scholarship	N/A	N/A	3,000
Accelerate Texas: Scaling and Sustaining Success	N/A	14936	(1,135)
Nursing Innovation Grant Program - Building Simulation and Skills Lab Capacity-KWFY17		18024	11,952
Nursing Innovation Grant Program - Building Simulation and Skills Lab Cap	N/A	19553	93,942
Total Nursing Innovation Grant Program - Nursing and Allied Health			105,894
Nursing Shortage Reduction Plan - Regular Programs	N/A	N/A	101,977
Nursing Shortage Reduction Plan - Under 70 Programs	N/A	N/A	226,619
Total Nursing Shortage Reduction Plan			328,597
T-STEM Challenge Scholarship Program	N/A	19046	99,085
			2,393,259
TEXAS WORKFORCE COMMISSION:			
<u>Direct Programs:</u>			
Lone Star College in Partnership with Webber, LLC	N/A	2817SDF000	206,998
Lone Star College in Partnership with Cypress Fairbanks Medical Center I	N/A	2817SDF004	205,867
Lone Star College in Partnership with A Manufacturing Consortium	N/A	2818SDF004	320,336
Lone Star College in Partnership with Tomball Texas Hospital	N/A	2817SDF007	114,491
Skills for Small Business Program	N/A	2817SSD003	8,786
Total Skills Development Fund			856,478
<u>Pass-Through:</u>			
Houston Galveston Area Council			
Adult Education - Basic Grants to States 2018	N/A	214-18	163,332
Adult Education - Basic Grants to States 2019	N/A	214-19	68,428
			231,760
			1,088,238
TOTAL STATE FINANCIAL ASSISTANCE			\$ 3,481,497

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, 2018**

1 Significant Accounting Policies used in Preparing the Schedule

The expenditures included in the schedule are reported for the College'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 College 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)	\$	3,481,497
Reconciling items:		
None		-
Total expenditures per Schedule of State Awards		\$ 3,481,497



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)

	2018 **	2017 as restated	2016	2015 *	2014	2013	2012	2011	2010	2009
Net Investment in Capital Assets	\$275,144	\$233,665	\$216,841	\$198,560	\$178,160	\$178,498	\$195,090	\$190,949	\$178,172	\$153,534
Restricted - expendable	27,071	36,830	52,157	48,250	44,889	37,800	13,886	7,574	492	7,652
Unrestricted	(110,682)	(11,902)	(44,448)	(28,218)	52,534	56,314	60,189	47,563	45,022	45,996
Total net position	\$ 191,533	\$ 258,593	\$ 224,550	\$ 218,592	\$ 275,583	\$ 272,612	\$ 269,165	\$ 246,086	\$ 223,686	\$ 207,182
Net increase (decrease) in net position	\$ (67,060)	\$ 34,043	\$ 5,958	\$ (56,991)	\$ 2,971	\$ 3,447	\$ 23,079	\$ 22,400	\$ 16,504	\$ 13,920

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

** Net position in 2018 was impacted by GASB 75, *Accounting and Financial Reporting for Post Employment Benefits other than 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)

	2018	2017 as restated	2016	2015	2014	2013	2012	2011	2010	2009
Tuition and Fees (Net of Discounts)	\$ 81,367	\$ 82,416	\$ 77,531	\$ 77,565	\$ 61,961	\$ 59,682	\$ 58,864	\$ 54,089	\$ 46,330	\$ 42,325
Governmental Grants and Contracts										
Federal Grants and Contracts	5,565	4,536	4,208	4,823	5,775	5,583	6,636	5,016	7,803	7,213
State Grants and Contracts	3,481	4,663	4,851	4,657	3,456	3,901	2,657	3,271	2,744	2,215
Local Grants and Contracts	4,047	3,750	4,771	5,574	4,612	4,000	4,423	5,791	3,656	3,388
Auxiliary enterprises	10,606	13,012	14,690	14,963	14,335	9,850	8,570	7,313	6,737	5,663
Other Operating Revenues	4,317	3,389	2,897	2,780	2,239	1,467	1,757	1,547	1,326	1,694
Total Operating Revenues	\$ 109,383	\$ 111,766	\$ 108,948	\$ 110,361	\$ 92,378	\$ 84,483	\$ 82,907	\$ 77,027	\$ 68,596	\$ 62,498
Ad Valorem Taxes:										
Maintenance and Operations	146,643	140,258	125,089	112,203	109,041	104,875	101,461	96,232	89,416	86,540
General Obligation Bonds	51,201	48,875	54,177	46,633	43,663	40,884	39,020	38,486	39,416	38,050
State Appropriations	102,753	95,681	97,052	90,002	85,709	75,962	75,418	73,405	74,594	71,148
Federal Revenue, Non-Operating	82,324	77,449	77,853	91,112	91,369	90,757	89,175	74,414	50,747	23,243
Investment income	4,848	2,609	1,163	663	451	556	500	732	967	3,434
Other non-operating revenues	5,872	5,159	6,225	3,525	4,568	4,871	4,183	3,868	4,601	1,120
Total Non-Operating Revenues	393,641	370,031	361,559	344,139	334,801	317,905	309,757	287,137	259,741	223,535
Total Revenues	\$ 503,024	\$ 481,797	\$ 470,507	\$ 454,500	\$ 427,179	\$ 402,388	\$ 392,664	\$ 364,164	\$ 328,337	\$ 286,033

Statistical Supplement 2 (Cont)

For the Year Ended August 31,

	2018	2017 as restated	2016	2015	2014	2013	2012	2011	2010	2009
Tuition and Fees (Net of Discounts)	16.18%	17.11%	16.48%	17.07%	14.50%	14.83%	14.99%	14.85%	14.11%	14.80%
Governmental Grants and Contracts										
Federal Grants and Contracts	1.11%	0.94%	0.89%	1.06%	1.35%	1.39%	1.69%	1.38%	2.38%	2.52%
State Grants and Contracts	0.69%	0.97%	1.03%	1.02%	0.81%	0.97%	0.68%	0.90%	0.84%	0.77%
Local Grants and Contracts	0.80%	0.78%	1.01%	1.23%	1.08%	0.99%	1.13%	1.59%	1.11%	1.18%
Auxiliary enterprises	2.11%	2.70%	3.12%	3.29%	3.36%	2.45%	2.18%	2.01%	2.05%	1.98%
Other Operating Revenues	0.86%	0.70%	0.62%	0.61%	0.52%	0.36%	0.45%	0.42%	0.40%	0.59%
Total Operating Revenues	21.75%	23.20%	23.16%	24.28%	21.63%	21.00%	21.11%	21.15%	20.89%	21.85%
Ad Valorem Taxes:										
Maintenance and Operations	29.15%	29.11%	26.59%	24.69%	25.53%	26.06%	25.84%	26.43%	27.23%	30.26%
General Obligation Bonds	10.18%	10.14%	11.51%	10.26%	10.22%	10.16%	9.94%	10.57%	12.00%	13.30%
State Appropriations	20.43%	19.86%	20.63%	19.80%	20.06%	18.88%	19.21%	20.16%	22.72%	24.87%
Federal Revenue, Non-Operating	16.37%	16.08%	16.55%	20.05%	21.39%	22.55%	22.71%	20.43%	15.46%	8.13%
Investment income	0.96%	0.54%	0.25%	0.15%	0.11%	0.14%	0.13%	0.20%	0.29%	1.20%
Other non-operating revenues	1.17%	1.07%	1.32%	0.78%	1.07%	1.21%	1.07%	1.06%	1.40%	0.39%
Total Non-Operating Revenues	78.25%	76.80%	76.84%	75.72%	78.37%	79.00%	78.89%	78.85%	79.11%	78.15%
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)

	2018	2017 as restated	2015	2014	2013	2012	2011	2010	2009	2008
Instruction	\$ 137,567	\$ 133,086	\$ 128,276	\$ 123,466	\$ 113,233	\$ 108,314	\$ 104,578	\$ 99,673	\$ 92,039	\$ 88,102
Research		-	-	-	-	-	-	-	-	-
Public service	1,201	1,279	1,364	1,340	1,048	1,163	1,252	1,805	1,757	1,510
Academic support	66,093	61,254	60,595	55,928	54,998	47,383	47,497	44,995	44,796	36,140
Student services	53,509	51,207	47,340	41,840	38,498	34,101	30,101	29,942	24,065	18,469
Institutional support	50,897	60,484	40,664	37,230	32,744	29,227	29,908	30,207	27,105	33,961
Operation and maintenance of plant	59,257	48,555	49,375	43,688	42,416	42,230	36,497	35,753	38,258	31,868
Scholarships and fellowships	50,574	50,994	65,330	55,840	56,215	60,374	51,120	33,743	14,092	10,662
Auxiliary enterprises	8,935	11,985	14,088	12,307	8,621	6,772	5,748	5,297	4,952	5,696
Depreciation	22,770	22,222	25,473	23,588	22,346	19,368	12,666	10,682	9,369	8,492
Total Operating Expenses	<u>\$ 450,803</u>	<u>\$ 441,066</u>	<u>\$ 432,505</u>	<u>\$ 395,227</u>	<u>\$ 370,119</u>	<u>\$ 348,932</u>	<u>\$ 319,367</u>	<u>\$ 292,097</u>	<u>\$ 256,433</u>	<u>\$ 234,900</u>
Interest on capital related debt	23,116	24,844	23,738	27,106	22,792	19,614	20,959	19,731	15,582	10,419
Loss on disposal of capital assets	409	721	196	1,876	6,030	666	1,439	5	97	347
Total Non-Operating Expenses	<u>23,525</u>	<u>25,565</u>	<u>23,934</u>	<u>28,982</u>	<u>28,822</u>	<u>20,280</u>	<u>22,398</u>	<u>19,736</u>	<u>15,679</u>	<u>10,766</u>
Total Expenses	<u>\$ 474,328</u>	<u>\$ 466,631</u>	<u>\$ 456,438</u>	<u>\$ 424,209</u>	<u>\$ 398,941</u>	<u>\$ 369,212</u>	<u>\$ 341,765</u>	<u>\$ 311,833</u>	<u>\$ 272,112</u>	<u>\$ 245,666</u>

Statistical Supplement 3 (Cont)

	For the Year Ended August 31,									
	2018	2017 as restated	2015	2014	2013	2012	2011	2010	2009	2008
Instruction	29.00%	28.51%	28.10%	29.10%	28.38%	29.34%	30.60%	31.96%	33.83%	35.87%
Research	-	-	-	-	-	-	-	-	-	-
Public service	0.25%	0.27%	0.30%	0.32%	0.26%	0.31%	0.37%	0.58%	0.65%	0.61%
Academic support	13.95%	13.15%	13.28%	13.18%	13.79%	12.83%	13.90%	14.43%	16.46%	14.71%
Student services	11.28%	10.97%	10.37%	9.86%	9.65%	9.24%	8.81%	9.60%	8.84%	7.52%
Institutional support	10.73%	12.96%	8.91%	8.78%	8.21%	7.92%	8.75%	9.69%	9.96%	13.82%
Operation and maintenance of plant	12.49%	10.41%	10.82%	10.30%	10.63%	11.43%	10.67%	11.46%	14.05%	12.97%
Scholarships and fellowships	10.66%	10.93%	14.31%	13.16%	14.09%	16.35%	14.96%	10.82%	5.18%	4.34%
Auxiliary enterprises	1.88%	2.57%	3.09%	2.90%	2.16%	1.83%	1.68%	1.70%	1.82%	2.32%
Depreciation	4.80%	4.76%	5.58%	5.56%	5.60%	5.25%	3.71%	3.43%	3.44%	3.46%
Total Operating Expenses	95.04%	94.53%	94.76%	93.16%	92.77%	94.50%	93.45%	93.67%	94.23%	95.62%
Interest on capital related debt	4.87%	5.32%	5.20%	6.39%	5.71%	5.31%	6.13%	6.33%	5.73%	4.24%
Loss on disposal of capital assets	0.09%	0.15%	0.04%	0.44%	1.51%	0.18%	0.42%	0.00%	0.04%	0.14%
Total Non-Operating Expenses	4.96%	5.47%	5.24%	6.83%	7.22%	5.49%	6.55%	6.33%	5.77%	4.38%
Total Expenses	100.00%	100.00%	100.0%	100.0%	100.0%	99.99%	100.00%	100.00%	100.00%	100.00%

**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	Increase from Prior Year	
2018	\$12	\$44	\$129	\$11	\$2	\$7	\$20	\$800	\$1,820	0.00%	7.06%	
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	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	
2018	\$12	\$144	\$144	\$11	\$2	\$7	\$20	\$2,000	\$2,000	6.38%	6.38%	
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	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)
2017-18	204,014,743	(15,813,061)	188,201,682	92.25%	0.0800	0.0278	0.1078
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

Source: Harris and Montgomery 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	
2017-18	\$ 77,984	37,294	\$ 2,091	22,016	4,836	26,852	\$ 2.90
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

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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Palmetto Transoceanic LLC	General Industrial	\$ 1,296,880	\$ 1,289,093	\$ 1,130,070	\$ 534,150	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
United Airlines Inc	Airline	785,506	897,152	868,505	669,438	315,198	269,573	240,493	234,462	-	-
Centerpoint Energy Inc	Utility	779,708	768,270	593,230	697,677	726,301	627,931	612,353	607,492	631,661	634,424
Hewlett Packard	Manufacturing	735,567	958,710	999,045	970,506	923,268	950,638	966,995	773,400	951,681	851,026
National Oilwell Inc	Oil and Gas	727,283	822,446	1,148,101	831,228	750,757	953,362	853,978	1,029,299	542,361	344,584
Halliburton	Oil and Gas	612,107	504,152	761,259	689,307	637,090	602,119	417,115	243,305	251,237	264,056
Baker Hughes	Oil and Gas	552,156	605,697	825,106	612,975	549,693	329,148	316,406	-	244,222	-
Liberty Property	Real Estate	460,219	411,386	369,225	-	-	-	-	-	-	-
HEB Grocery Co LP	Retail grocery	431,788	378,851	-	-	-	252,711	223,180	-	-	-
Anadarko Realty Co	Real Estate	368,611	387,529	377,015	367,015	-	-	-	-	-	-
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
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	-	-	-
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
Houston Pipeline Co LP	Utility	-	-	-	-	-	-	-	-	355,074	324,603
Schlumberger Technology	Oil and Gas	-	-	-	-	-	-	-	-	-	269,686
AT&T/Southwestern Bell	Utility	-	-	-	-	-	-	-	-	-	236,936
Totals		\$ 6,749,825	\$ 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
Total Taxable Assessed Value		\$ 188,201,682	\$ 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

Statistical Supplement 7 (cont)

Taxpayer	Type of Business	% of Taxable Assessed Value (TAV) by Fiscal Year									
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Palmetto Transoceanic LLC	General Industrial	0.69%	0.71%	0.67%	0.36%	-	-	-	-	-	-
United Airlines Inc	Airline	0.42%	0.50%	0.51%	0.45%	0.24%	0.22%	0.20%	0.20%	-	-
Centerpoint Energy Inc	Utility	0.41%	0.43%	0.35%	0.47%	0.55%	0.51%	0.52%	0.53%	0.54%	0.56%
Hewlett Packard	Manufacturing	0.39%	0.53%	0.59%	0.65%	0.69%	0.77%	0.82%	0.67%	0.81%	0.76%
National Oilwell Inc	Oil and Gas	0.39%	0.46%	0.68%	0.56%	0.56%	0.78%	0.73%	0.89%	0.46%	0.31%
Halliburton	Oil and Gas	0.33%	0.28%	0.45%	0.46%	0.48%	0.49%	0.35%	0.21%	0.21%	0.23%
Baker Hughes	Oil and Gas	0.29%	0.34%	0.49%	0.41%	0.41%	0.27%	0.27%	-	0.21%	-
Liberty Property	Real Estate	0.24%	0.23%	0.22%	-	-	-	-	-	-	-
HEB Grocery Co LP	Retail grocery	0.23%	0.21%	-	-	-	0.21%	0.19%	-	-	-
Anadarko Realty Co	Real Estate	0.20%	0.21%	0.22%	0.25%	-	-	-	-	-	-
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%
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%	-	-	-
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%
Houston Pipeline Co LP	Utility	-	-	-	-	-	-	-	-	0.30%	0.29%
Schlumberger Technology	Oil and Gas	-	-	-	-	-	-	-	-	-	0.24%
AT&T/Southwestern Bell	Utility	-	-	-	-	-	-	-	-	-	0.21%
Total % of TAV		3.59%	3.89%	4.43%	4.15%	4.03%	4.05%	3.78%	3.54%	3.47%	3.35%

Source: Harris County and Montgomery County Appraisal District Reports
 Note: Fiscal Year corresponds to prior Tax Year

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
2018	\$ 188,838	\$ 10,533	\$ 199,371	\$ 197,575	99.10%	\$ 603	\$ 2,239	\$ 200,417	100.52%
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%

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 for current and prior years

**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)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Bonded Debt										
General Obligation Bonds	\$ 594,070	\$ 620,695	\$ 504,865	\$ 545,285	\$ 444,660	\$ 461,635	\$ 477,330	\$ 496,455	\$ 511,070	\$ 276,300
Net General Bonded Debt	\$ 594,070	\$ 620,695	\$ 504,865	\$ 545,285	\$ 444,660	\$ 461,635	\$ 477,330	\$ 496,455	\$ 511,070	\$ 276,300
Other Debt										
Revenue bonds	\$ 84,520	\$ 86,305	\$ 87,210	\$ 113,555	\$ 116,445	\$ 61,610	\$ 43,860	\$ 46,500	\$ 48,780	\$ 51,015
Maintenance Tax Notes	19,480	21,215	22,840	25,565	26,995	28,330	29,580	30,740	30,740	-
Total Outstanding Debt	\$ 698,070	\$ 728,215	\$ 614,915	\$ 684,405	\$ 588,100	\$ 551,575	\$ 550,770	\$ 573,695	\$ 590,590	\$ 327,315
General Bonded Debt Ratios										
Per Capita	\$ 237.39	\$ 253.02	\$ 209.94	\$ 231.31	\$ 192.41	\$ 203.76	\$ 214.92	\$ 228.01	\$ 239.43	\$ 134.39
Per FTSE	15,929	14,599	12,512	13,512	11,124	11,533	12,707	13,642	15,909	9,743
As a percentage of Taxable Assessed Value	0.32%	0.34%	0.30%	0.37%	0.33%	0.38%	0.41%	0.43%	0.43%	0.25%
Total Outstanding Debt Ratios										
Per Capita	\$ 278.95	\$ 296.85	\$ 255.70	\$ 290.32	\$ 254.48	\$ 243.46	\$ 247.98	\$ 263.49	\$ 276.69	\$ 159.21
Per FTSE	18,718	17,128	15,240	16,959	14,712	13,779	14,663	15,765	18,385	11,542
As a percentage of Taxable Assessed Value	0.37%	0.40%	0.36%	0.46%	0.44%	0.45%	0.47%	0.50%	0.50%	0.29%

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 Fiscal Year Ended August 31 (amounts expressed in thousands)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
		(Restated)	(Restated)	(Restated)						
Taxable Assessed Value	\$ 188,201,682	\$ 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
General Obligation Bonds										
Statutory Tax Levy Limit for Debt Service	\$ 941,008	\$ 902,769	\$ 844,676	\$ 744,208	\$ 665,264	\$ 613,923	\$ 587,519	\$ 578,467	\$ 589,647	\$ 563,376
Less: Funds Restricted for Repayment of General Obligation Bonds	(28,724)	(26,531)	(20,626)	(16,841)	(8,565)	(37,687)	(13,400)	(6,351)	(6)	(7,166)
Net Statutory Limit for Debt Service	912,285	876,238	824,050	727,366	656,699	576,236	574,119	572,116	589,641	556,210
Current Year Debt Service Requirements	55,626	43,797	45,538	59,360	52,946	46,496	45,493	47,201	46,679	36,300
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 856,659	\$ 832,441	\$ 778,511	\$ 668,006	\$ 603,753	\$ 529,740	\$ 528,626	\$ 524,915	\$ 542,962	\$ 519,910
Net Current Requirements as a % of Statutory Limit	2.86%	1.91%	2.95%	5.71%	6.67%	1.43%	5.46%	7.06%	7.92%	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	
2018	\$ 11,515	\$ 21,383	\$ 2,165	\$ 1,241	\$ 6,112	\$ 9,619	\$ 12,107	\$ 2,341	\$ 6,923	\$ 1,541	\$ 365	\$ 1,901	\$ 77,213	\$ 1,785	\$ 3,935	\$ 5,720	13.50	
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	14.86	
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	

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)
2018	2,502,497	\$ 82,985,416	\$ 33,161	4.3%
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%

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 System
Statistical Supplement 13
Principal Employers (a)
(unaudited)

Principal Employment Sectors (a)	2016 (b)		2007 (b)	
	Number of Employees	Percentage of Total Employment	Number of Employees	Percentage of Total Employment
State and local	360,489	8.87%	317,928	9.52%
Retail trade	376,697	9.26%	322,642	9.66%
Construction	311,369	7.66%	284,531	8.52%
Health care and social assistance	377,159	9.28%	269,671	8.08%
Professional, scientific, and technical services	(c)		266,745	7.99%
Manufacturing	241,777	5.95%	247,491	7.41%
Administrative and waste services	(c)		255,390	7.65%
Accommodation and food services	303,615	7.47%	219,383	6.57%
Other services, except public administration	255,628	6.29%	199,141	5.96%
Finance and insurance	203,095	5.00%	150,242	4.50%
Total	2,429,829	59.76%	2,533,164	75.87%
 Total Employment	 4,065,842		 3,338,743	

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 District.
- (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									
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Faculty											
Full-Time		917	865	878	875	918	842	833	742	780	756
Part-Time		2,935	3,101	2,222	2,382	2,039	1,999	1,894	1,900	2,271	2,118
Total		3,852	3,966	3,100	3,257	2,957	2,841	2,727	2,642	3,051	2,874
Percent											
Full-Time		23.8%	21.8%	28.3%	26.9%	31.0%	29.6%	30.5%	28.1%	25.6%	26.3%
Part-Time		76.2%	78.2%	71.7%	73.1%	69.0%	70.4%	69.5%	71.9%	74.4%	73.7%
Staff and Administrators											
Full-Time		1,832	1,744	1,855	1,852	1,673	1,581	1,479	1,431	1,408	1,340
Part-Time		1,475	1,401	1,356	1,376	1,483	1,642	1,476	1,297	1,334	1,472
Total		3,307	3,145	3,211	3,228	3,156	3,223	2,955	2,728	2,742	2,812
Percent											
Full-Time		55.4%	55.5%	57.8%	57.4%	53.0%	49.1%	50.1%	52.5%	51.3%	47.7%
Part-Time		44.6%	44.5%	42.2%	42.6%	47.0%	50.9%	49.9%	47.5%	48.7%	52.3%
FTSE per Full-time Faculty		78.79	83.34	81.97	74.42	71.22	77.75	79.03	88.03	83.35	86.38
FTSE per Full-Time Staff Member		39.44	41.34	38.80	35.16	39.08	41.41	44.51	45.65	46.17	48.73
Average Annual Faculty Salary		\$ 72,249	\$ 72,088	\$ 71,972	\$ 65,114	\$ 65,376	\$ 65,462	\$ 65,835	\$ 65,321	\$ 65,012	\$ 65,301

Statistical Supplement 15 (Cont)

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

Fall 2011		Fall 2010		Fall 2009	
Number	Percent	Number	Percent	Number	Percent
2791	3.69%	702	1.01%	232	0.39%
14476	19.13%	13,089	18.88%	11,974	20.07%
21164	27.97%	17,940	25.87%	15,455	25.91%
16553	21.87%	13,851	19.98%	11,442	19.18%
17612	23.27%	19,948	28.77%	16,917	28.36%
2797	3.70%	3,377	4.87%	3,213	5.39%
287	0.38%	432	0.62%	426	0.71%
75,680	100.00%	69,339	100.00%	59,659	100.00%

8.4 8.4 8.7

Fall 2011		Fall 2010		Fall 2009	
Number	Percent	Number	Percent	Number	Percent
64901	85.76%	61,054	88.05%	54,138	90.75%
7224	9.55%	4,839	6.98%	3,965	6.65%
3555	4.70%	3,446	4.97%	1,556	2.61%
75,680	100.00%	69,339	100.00%	59,659	100.00%

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

Gender	Fall 2018		Fall 2017		Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Female	53,993	60.56%	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%
Male	35,157	39.44%	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%
Total	89,150	100.00%	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%

Ethnic Origin	Fall 2018		Fall 2017		Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	27,478	30.82%	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%
Hispanic	13,157	14.76%	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%
African American	35,886	40.25%	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%
Asian	6,879	7.72%	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%
Foreign		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%	735	1.23%
Native American	181	0.20%	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%
Other	5,569	6.25%	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%
Total	89,150	100.00%	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%

Age	Fall 2018		Fall 2017		Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 20	36,913	41.41%	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%
20-24	27,005	30.29%	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%
25-29	10,058	11.28%	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%
30-39	9,553	10.72%	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%
40-49	3,983	4.47%	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%
50 & over	1,638	1.84%	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%
Total	89,150	100.00%	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%

Average Age	23.4	23.7	23.8	24.1	24.4	25.5	25.3	24.8	25.6	25.2
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Source: AIR Official Day

Lone Star College
Statistical Supplement 17
Transfers to Senior Institutions
Academic Year 2016-2017 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	4,405	99		4,504	23.9%
Sam Houston State University	3,490	135		3,625	19.2%
Texas A&M University	2,398	40		2,438	12.9%
University of Houston - Downtown	1,807	101		1,908	10.1%
The University of Texas at Austin	1,113	12		1,125	6.0%
Texas State University	1,048	18		1,066	5.7%
Texas Tech University	623	25		648	3.4%
Stephen F. Austin State University	467	13		480	2.5%
Prairie View A&M University	388	19		407	2.2%
The University of Texas at San Antonio	293	5		298	1.6%
The University of Texas at Arlington	290	50		340	1.8%
Texas Southern University	270	18		288	1.5%
University of Houston - Victoria	263	17		280	1.5%
The University of Texas at Tyler	212	4		216	1.1%
Lamar University	181	16		197	1.0%
University of North Texas	170	8		178	0.9%
The University of Texas at Dallas	168	6		174	0.9%
Texas Woman's University	114	3		117	0.6%
Texas A&M University - Corpus Christi	105	1		106	0.6%
University of Houston - Clear Lake	89	5		94	0.5%
Texas A&M University at Galveston	81	2		83	0.4%
Tarleton State University	52	3		55	0.3%
Midwestern State University	42	1		43	0.2%
Texas A&M University - Kingsville	31	4		35	0.2%
West Texas A&M University	28	8		36	0.2%
Texas A&M University - Commerce	17	8		25	0.1%
The University of Texas of the Permian Basin	16			16	0.1%
Texas A&M University - San Antonio	14	7		21	0.1%
The University of Texas - Rio Grande Valley	12			12	0.1%
The University of Texas at El Paso	12	5		17	0.1%
Texas A&M International University	12			12	0.1%
Texas A&M University - Texarkana	6			4	0.0%
Texas A&M University - Central Texas	4			4	0.0%
Angelo State University	3			3	0.0%
Sul Ross State University	2			2	0.0%
University of North Texas at Dallas		2		2	0.0%
Grand Total	18,226	635		18,859	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>2018</u>	<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	3,444	3,277	3,258	3,140	3,106	2,994	2,969	2,969	2,080	2,080	1,814	
Safety, Facilities Systems	106	104	104	103	103	103	103	103	95	58	41	
Libraries	351	351	351	351	351	351	351	351	351	351	351	
Public Service	105	105	105	105	105	105	105	105	105	105	105	
Auxiliary Services	37	37	37	36	36	36	36	36	29	29	29	
Institutional Support	145	145	145	145	145	145	145	145	145	145	145	
Mixed Use	222	222	222	222	222	222	222	222	222	222	0	
Dining Facilities												
Square footage (in thousands)	91	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	4,550	4,300	4,100	3,900	3,900	
Athletic Facilities												
Square footage (in thousands)	112	112	112	112	112	112	112	112	112	112	112	
Stadiums (number of buildings)	-	-	-	-	-	-	-	-	-	-	-	
Gymnasiums (number of buildings)	-	-	-	-	-	-	-	-	-	-	-	
Fitness Centers (number of buildings)	7	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	32	
Transportation												
Cars	33	41	38	24	27	25	26	15	15	15	15	
Light Trucks/Vans	63	55	50	50	42	37	33	20	20	20	20	
Buses	-	-	-	-	-	-	-	-	-	-	-	



SINGLE AUDIT SECTION



Austin | Conroe | Dallas | Fort Worth | Houston Los Angeles | Midland | New York City | San Antonio

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

The Board of Trustees of
Lone Star College

We have audited, 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, the financial statements of Lone Star College (the College) as of and for the year ended August 31, 2018 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 14, 2018. 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 (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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001 to be a material weakness.

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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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-002, 2018-003, and 2018-004 to be significant deficiencies.

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*.

The College's Responses to Findings

The College's responses to the findings identified in our audit are described in the accompanying corrective action plan. The College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
December 14, 2018

Independent Auditor's Report on Compliance for Each Major Federal and State Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance and State of Texas Single Audit Circular

The Board of Trustees of
Lone Star College

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 the *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, 2018. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) 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 the 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.

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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, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-006 and 2018-007.

The College's responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 the 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-005 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-006 to be a significant deficiency.

The Board of Trustees of
Lone Star College

The College's responses to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 the State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
December 14, 2018



Schedule of Findings and Questions Cost

Lone Star College

Schedule of Findings and Questioned Costs For the Fiscal Year Ended August 31, 2018

Section 1. Summary of Auditor's Results

Financial Statements

1. Type of auditor's report issued	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	Yes
b. Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes
3. Noncompliance material to financial statements noted?	No

Federal Awards

4. Internal control over major programs:	
a. Material weakness(es) identified?	Yes
b. Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes
5. Type of auditor's report issued on compliance with major programs	Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	Yes
7. Identification of Major Programs	
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
8. Dollar threshold used to distinguish between Type A and Type B federal programs	\$3,000,000
9. Auditee qualified as a low-risk auditee?	No

Lone Star College

Schedule of Findings and Questioned Costs For the Fiscal Year Ended August 31, 2018

State Awards

10. Internal control over major programs:
- a. Material weakness(es) identified? No
 - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported
11. Type of auditor's report issued on compliance with major programs Unmodified
12. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the Uniform Grant Management Standards Single Audit Circular? No
13. Identification of Major Programs
- Texas Education Opportunity Grant Program
 - Texas Education Opportunity Grant Renewal Program Nursing Shortage Reduction Plan – Regular Programs Nursing Shortage Reduction Plan – Under 70 Programs
14. Dollar threshold used to distinguish between Type A and Type B federal programs \$300,000
15. State Single Audit - Auditee qualified as a low-risk auditee? No

Section 2. Financial Statement Findings

2018-001: Inadequate Interdepartmental Communication

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria

The College is responsible for effective interdepartmental communication to ensure all significant matters and transactions are properly recorded in the financial statements on a timely basis.

Condition

The College's financial statements as of and for the year ended August 31, 2017 were restated to accrue a liability related to findings by a Department of Education program review.

Cause

Inadequate interdepartmental communication between the College's Financial Aid office and Financial Reporting & Operations departments contributed to this understatement of liabilities in the College's 2017 financial statements. The College's written response to the program review year during the year ended August 31, 2017 indicates that a probable loss related to noncompliance was known at the date of the financial statements, however, it appears that communication between the departments was not sufficient to ensure that the financial statements were complete, accurate, and in accordance with applicable provisions of GAAP.

Lone Star College

Schedule of Findings and Questioned Costs For the Fiscal Year Ended August 31, 2018

Effect

The College's financial statements as of and for the year ended August 31, 2017 improperly excluded an estimated expense and liability of the College in the amount of \$13,857,513. Failure to establish effective interdepartmental communication procedures could result in additional errors or omissions in the College's financial statements.

Recommendation

We recommend that the College ensure that the methods and frequency of interdepartmental communication are adequate to ensure that affected stakeholders possess all relevant information needed to prepare financial statements that are complete and accurate.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

2018-002: Improper Application of Generally Accepted Accounting Principles Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Criteria

GAAP requires governmental entities to record a liability for compensated absences when earned by employees if such compensated absence is earned on the basis of services already performed and it is probable that the compensated absence will be paid (whether in the form of paid time off, cash payments at termination or retirement, or some other means) in a future period.

Condition

The College's accruals for compensated absences recorded as of August 31, 2018, 2017 and 2016 were understated by \$5,400,118, \$4,895,701 and \$4,079,615, respectively.

Cause

The College did not adequately evaluate and properly apply the provisions of GAAP related to compensated absences.

Effect

Misstatements of the College's financial statements were not prevented, or detected and corrected timely, by the College's system of internal control.

Recommendation

We recommend that the College review its internal control procedures over financial reporting to ensure that applicable GAAP for all material transactions has been adequately evaluated and properly applied.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

Lone Star College

Schedule of Findings and Questioned Costs For the Fiscal Year Ended August 31, 2018

2018-003: Inadequate Secondary Review of Certain Accounts

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Criteria

A sound system of internal control over financial reporting includes adequate secondary review of all significant account balances and closing processes.

Condition

In the course of performing our audit procedures, we noted certain areas for which secondary review did not appear to be adequate. Examples of such include:

- Completed capital projects were misclassified as construction in progress despite being completed in the previous fiscal year;
- Cutoff of construction in progress was not appropriately established, resulting in an understatement of capital assets and liabilities;
- Construction period interest was not appropriately allocated to certain projects within construction in progress; and
- Allowance for doubtful accounts balances were not properly reviewed and evaluated.

Cause

The College's system of internal control over financial reporting did not provide for secondary review that was adequate to detect misstatements in certain financial statement areas.

Effect

Inadequate secondary review of certain financial statement areas resulted in undetected misstatements in the financial statements, which required correcting audit adjustments.

Recommendation

We recommend the College evaluate its procedures and controls over secondary review of financial statement areas to ensure that such is adequate to detect misstatements.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

2018-004: Lack of Review of Inputs and Changes Made to Employee Pay Rates Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Criteria

A sound system of internal control over financial reporting includes policies and procedures to ensure that inputs and changes entered into the system related to payroll are accurate.

Condition

During the year ended August 31, 2018, the College was required to make certain corrections to employee pay rates as a result of errors made during the original input or updating of employee information.

Cause

Inadequate review of inputs or changes to employee pay rates entered into the system allowed errors in such to exist.

Lone Star College

Schedule of Findings and Questioned Costs For the Fiscal Year Ended August 31, 2018

Effect

Incorrectly entered employee pay rates resulted in errors in amounts paid to employees, which required correction when subsequently brought to the College's attention.

Recommendation

We recommend that the College implement policies and procedures to ensure that review of inputs and changes made to employee pay rates are accurate.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

Section 3. Federal Award Findings and Questioned Costs

2018-005: Override of Satisfactory Academic Progress Determinations Type of Finding: Material Weakness in Internal Control over Compliance

Criteria

Management must have proper internal controls in place to ensure that the Satisfactory Academic Progress (SAP) provisions of Title IV programs have been satisfied by all students receiving such aid.

Condition

The College had numerous instances of financial aid personnel performing an override of the system's SAP determination for which a secondary review of the override was not performed.

Cause

The College's internal controls over SAP determinations are not adequately designed to sufficiently address risks presented by the override process.

Effect

Grant funds could be disbursed to students who do not meet SAP requirements.

Recommendation

We recommend that all overrides of SAP determinations require the approval of an appropriate level of financial aid management.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

2018-006: Satisfactory Academic Progress Determinations Not Conducted Timely Type of Finding: Significant Deficiency in Internal Control over Compliance and Noncompliance Finding

Criteria

The federal government requires the College to review a student's SAP for each semester before continuing to disburse financial aid.

Lone Star College

Schedule of Findings and Questioned Costs For the Fiscal Year Ended August 31, 2018

Condition

During our audit, we identified 2 of 60 students for which the SAP determinations were not performed timely.

Cause

For one student, the software used to perform the SAP determination did not recognize the student as needing an SAP determination due to student changing majors during the academic year. For the other student, the system failed to recognize that the student needed an SAP determination.

Effect

The College disbursed financial aid totaling \$3,927 to students for which SAP was not performed on a timely basis.

Recommendation

We recommend that policies and procedures be put into place to ensure SAP determinations are being performed for all students each semester.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

2018-007: Untimely Return of Title IV Funds

Type of Finding: Noncompliance Finding

Criteria

Return of Title IV funds are required to be deposited or transferred into the student financial aid account or electronic funds transfers initiated to the Department of Education as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew.

Condition

During our audit, we identified 1 of 40 students for which the College did not have a Return of Title IV funds initiated within 45 days of the College's determination of the students withdrawal.

Cause

Return of Title IV funds was calculated for this student; however, accounting personnel were not notified by the Financial Aid office that the funds needed to be returned.

Effect

The College did not return \$463 of Title IV funds within the required timeline.

Recommendation

We recommend policies and procedures be put into place to ensure that Title IV funds are returned on a timely basis.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

Prior Year Findings

None Reported

**LONE STAR COLLEGE
CORRECTIVE ACTION PLAN**

Finding Number and Description
Type of Finding
Views of Responsible Officials and
Planned Corrective Actions

2018-001: Inadequate Interdepartmental Communication
Material weakness in Internal Control over Financial Reporting
The College agrees with the audit finding.

Planned Corrective actions:

- Specific to the Financial Aid office, in March 2018 the administration of the College was restructured, and Financial Aid now reports to the Chief Financial Officer. With this change, interdepartmental communication between the College's Financial Aid office and Financial Reporting & Operations will be significantly stronger.
- To systematically ensure the financial statements will be complete, accurate and in accordance with applicable provisions of GAAP, the CFO will be responsible for:
 - Annually sending a general communication to the College's senior leadership emphasizing the importance of timely communication regarding events or occurrences that may have an effect on the accounting records to the Financial Reporting & Operations department, and
 - Developing a list of questions for the College's senior leadership to answer quarterly to identify events that could impact the College's financial records.

Finding Number and Description
Type of Finding
Views of Responsible Officials and
Planned Corrective Actions

2018-002: Improper application of Generally Accepted Accounting Principles
Significant Deficiency in Internal Control over Financial Reporting
The College monthly liability for compensable absences is created within PeopleSoft through a general deduction. The general deduction calculates an amount to charge based upon a special accumulator. The College annually evaluated the special accumulator rate, along with the compensable absences liability balances, and adjusted as necessary. Compensable absences pay out for an eligible departing employee relieving the compensable absences liability. Historical trends showed that the College's actual compensable absences payout per year was 1% of salary. Due to the College not experiencing actual payouts anywhere close to the maximum accrued leave in a fiscal year, the liability for compensable absences was maintained to reflect the historical trend of payouts, not the maximum accrued leave balances. The College evaluated the criteria applied in previous years and agrees with the audit finding.

Planned Corrective actions:

The compensable absences liability was adjusted to reflect the maximum accrued leave balance as of August 31, 2018. Going forward, the accrued leave balances will be evaluated quarterly by the Accounting and Payroll departments to ensure the compensable absences liability maintains the maximum accrued leave balance as per GAAP.

Finding Number and Description
Type of Finding
Views of Responsible Officials and
Planned Corrective Actions

2018-003: Inadequate Secondary Review of Certain Accounts
Significant Deficiency in Internal Control over Financial Reporting
The closing process for capital projects and construction in progress requires coordination between the Fixed Assets and Facilities & Construction departments, and over the past two years there has been significant turnover of personnel in the Facilities & Construction department.

Planned Corrective actions:

- **Capital projects misclassified:** The Fixed Assets department will begin monitoring the Construction Application for Payment's percentage of completion to prompt outreach to the Facilities & Construction department at 85% of completion.
- **Cutoff of construction in progress not appropriately established:** The Fixed Assets department will begin monitoring the Construction Application for Payment's percentage of completion to prompt outreach to the Facilities & Construction department at 85% of completion. The cutoff for construction in progress payments to Asset Management will be July 31st and any projects with a completion percentage of 85% or greater after July 31st will be reviewed on a case-by-case basis by both the Fixed Assets and Facilities & Construction departments.
- **Construction period interest not appropriately allocated to certain projects:** The Fixed Assets department will begin monitoring the Construction Application for Payment's percentage of completion to prompt outreach to the Facilities & Construction department at 85% of completion and operational processes will be changed to include processing capital interest on a monthly basis.
- **Allowance for doubtful accounts balances were not properly reviewed and evaluated:** On an annual basis, Treasury will re-evaluate the need - or lack thereof - of a tax allowance by reviewing prior year tax collections for efficiency and the Texas Tax Code for any changes on taxpayers' responsibility of delinquent property.

Finding Number and Description
Type of Finding
Views of Responsible Officials and
Planned Corrective Actions

2018-004: Lack of Review of Inputs and Changes made to Employee Pay Rates
 Significant Deficiency in Internal Control over Financial Reporting
 The College agrees with the audit finding.

Planned Corrective actions:

The Office of Human Resources has developed this step-by-step system for auditing new hire salaries within the first 30 working days. It will be effective January 15, 2019.

1. HR Records will conduct a new hire audit within 30 days of hire.
 - All documents will be checked for accuracy.
 - Date and Salary from offer documents will be cross-referenced to ensure accurate payment.
 - HR Records will report completed findings in Spreadsheet that is stored in HR SharePoint.
 - Human Resources>All-HR Workspace>Shared Documents(Live working files)>New Hire Audit Reports
 - These folders will be named:
 - 2018-11 New Hire Audit Version 1
 - 2018-11 New Hire Audit Version 2 (if a re-audit is needed after Campus review.)
2. If there is a discrepancy
 - A SNOW Ticket will be created and sent to the appropriate Campus Team for corrections.
 - HR Director (HRD) will identify who made the error, coach the employee, and the employee will make any corrections needed.
 - After this has taken place, the HRD and Employee will communicate through the SNOW Ticket to document the discrepancy.
 - Records will then conduct a second audit and communicate the results within the SharePoint Spreadsheet.

<p><i>Finding Number and Description</i></p> <p><i>Type of Finding</i></p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i></p>	<p>2018-005: Override of Satisfactory Academic Progress Determinations</p> <p>Material weakness in Internal Control over Compliance</p> <p>The College agrees with the audit finding.</p> <p><i>Planned Corrective Actions:</i></p> <p>Queries will be created to identify any SAP determinations that have been overridden. Campus Directors will review a pre-selected amount to check for accuracy and any potential issues. The Campus Directors will send reports to System Office Financial Aid weekly to be reviewed by the Director of Financial Aid Quality Assurance.</p>
<p><i>Finding Number and Description</i></p> <p><i>Type of Finding</i></p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i></p>	<p>2018-006: Satisfactory Academic Progress Determinations Not Conducted Timely</p> <p>Significant Deficiency in Internal Control over Compliance and Noncompliance Finding</p> <p>The College agrees with the audit finding.</p> <p><i>Planned Corrective Actions:</i></p> <ul style="list-style-type: none"> • Beginning Fall 2018, the system configuration was changed to automatically run SAP determinations nightly. This will allow the system to catch any students for which a SAP determination was not completed during the large batch processing due to incomplete information.
<p><i>Finding Number and Description</i></p> <p><i>Type of Finding</i></p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i></p>	<p>2018-007: Untimely Return of Title IV Funds</p> <p>Noncompliance Finding</p> <p>The incomplete return of Title IV (R2T4) funds was an anomaly resulting from the resignation of a staff member.</p> <p><i>Planned Corrective Actions:</i></p> <p>The College will further automate the process to eliminate the potential for errors and omissions. The PeopleSoft system currently has the capabilities to include workflows. Implementation of a workflow process will eliminate the following:</p> <ul style="list-style-type: none"> • Need to manually run multiple queries and manual lock of Financial Aid Term, • Create a real-time data feed from Student Records automatically populating the R2T4 Worksheet at the time of Withdrawal, significantly reducing errors due to manual entry, and • Create a tool for oversight and secondary review through completion.



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.

CFO – Chief Financial Officer.

CIP – Capital Improvement Projects.

College 7 – Working title for new college, anticipated to open 2019 as LSC-Houston North.

COO – Chief Operating Officer.

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.

iStar – LSC’s PeopleSoft enterprise application suite of products consisting of Financials, Campus Solutions, Human Capital Management and Enterprise Portal.

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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