

LONE STAR COLLEGE SYSTEM

Nationally recognized, globally connected, locally focused.



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended August 31, 2013 The Woodlands, Texas





COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

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

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 FOR THE FISCAL YEAR ENDED AUGUST 31, 2013**

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To the Board of Trustees:

I am pleased to submit to the Lone Star College System (LSCS) Board of Trustees and the citizens of the LSCS service area our Comprehensive Annual Financial Report for the most recent fiscal year, September 1, 2012 through August 31, 2013.



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

Enrollment remained steady from Fall 2012 to Fall 2013 for a total of 77,688 credit students, with a 1% increase in course enrollments and credit hours.

Prudent fiscal management, along with a strengthening of the local economy has enabled us to lower the tax rate for 2013-2014 and invest in several strategic initiatives in support of the System's commitment to student success to emphasize student outcomes and accountability for those outcomes. In addition, several improvements in the compensation structure reflect the System's

commitment to the recruitment and retention of high quality employees.

Highlights include:

- ◊ An increase in the number of sections offered for the recently revised Student Success Course.
- ◊ Development and implementation of non course-based options.
- ◊ Improvements to technology tools in reporting student outcomes and accountability for those outcomes.
- ◊ Adding 17 full time faculty positions to improve the System's current ratio of full time to part time faculty.

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 LSCS Board of Trustees, we look forward to continuing to operate in a fiscally sound manner with a continued focus on student success.

Sincerely,

A handwritten signature in black ink that reads "Richard G. Carpenter".

Dr. Richard G. Carpenter
Chancellor



December 5, 2013

To: Chancellor Richard Carpenter
Members of the Board of Trustees
Taxpayers of Harris and Montgomery Counties
Citizens of the Lone Star College System Community

Respectfully submitted for your review is the comprehensive annual financial report of the Lone Star College System (the "System") for the fiscal year ended August 31, 2013. The purpose of this report is to provide detailed information about the financial condition and performance of the System. 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

The Lone Star College System's comprehensive annual financial report (CAFR) for the fiscal year ended August 31, 2013 was prepared by the Administration and Finance Department. The financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as established by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) and comply with the Annual Financial Reporting Requirements for Texas Public Community and Junior 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 System is reporting as a special purpose government engaged solely in business-type activities (BTA). In accordance with GASB Statements 34 and 35, this reporting model is intended to make government financial statements more similar to corporate financial statements.

SYSTEM PROFILE

In 1972, residents in the Aldine, Humble and Spring Independent School Districts elected to create a junior college district, which became known as North Harris County College. The college opened its doors in the fall of 1973 and the 16-member staff welcomed 613 students to the first classes held at Aldine High School.

Fast forward 41 years and Lone Star College System has grown to six colleges, multiple centers and two University Centers with 78,000 credit students and a total of more than 90,000 students. In 2008, Lone Star College System became the new name for the North Harris Montgomery Community College District. The System is now the largest institution of higher education in the Houston area and the fastest-growing community college system in the nation. The original three school districts have been joined by eight others: New Caney in 1981, Tomball in 1982, Conroe in 1991, Willis and Splendora in 1996, Klein in 1998, and Cypress-Fairbanks and Magnolia in 2000.

Located in the North Houston metro area of Texas, the System serves 1,400 square miles and continues to be one of the largest and fastest growing community college systems in Texas, with six distinct colleges:

- Lone Star College-Cy-Fair
- Lone Star College-Kingwood
- Lone Star College-Montgomery
- Lone Star College-North Harris
- Lone Star College-Tomball
- Lone Star College-University Park



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

MISSION

Lone Star College System, as a publicly-supported, two-year, comprehensive community college system, involves diverse individuals, businesses, and the community in quality educational opportunities for the successful development of knowledge, skills, and attitudes for a rapidly changing world.

Through its colleges and centers, Lone Star College System develops learning communities for:

- Workforce programs, leading to associate degrees or certificates, designed to develop marketable skills and support economic development.
- Academic courses in the arts and sciences to transfer to senior institutions.
- Continuing adult education programs for academic, professional, workforce, and cultural enhancement.
- Developmental education and literacy programs designed to improve the basic skills of students.
- A program of student support services, including counseling and learning resources, designed to assist individuals in achieving their educational and career goals.
- Workforce, economic, and community development initiatives designed to meet local and statewide needs.
- Other purposes as may be directed by the Board of Trustees and/or the laws of the State of Texas.

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 from which the System operates.

The System’s geographic area is comprised of portions of Harris and Montgomery Counties. Harris County is a major component of the Houston-Sugar Land-Baytown Metropolitan Statistical Area (MSA). Houston is the fourth largest city in the U.S. With a 2010 Census of 5,946,800 residents, the Houston MSA is expected to increase 12.6% to 6,697,000 by 2017.

U.S. Comparative Population Growth Trends

	<u>1990 – 2000</u>	<u>2000 – 2010</u>	<u>2010-2017</u>
Houston	25.2%	26.1%	12.6%
Texas	22.8%	20.6%	11.0%
U.S.	13.2%	9.7%	4.9%

Houston has 25 Fortune 500 companies headquartered locally, with many other companies maintaining U.S. administrative headquarters in the Houston MSA. In 2013, Houston ranked third among U.S. cities with the most Fortune 500 headquarters, behind New York and Chicago.

Sources: U.S. Census Bureau, November 2013; Esri forecasts for 2012 and 2017, November 2013; *Fortune Magazine*, May 2013

LONG TERM FINANCIAL PLANNING

The System's financial planning is comprised of three planning processes:

- Strategic Plan
- Facilities Master Plan
- Annual Budget

The System's 2012-2015 strategic plan includes outcome measures to move the System forward toward its goals of student success and achievement. The plan outlines ten major goals.

1. Increase completion and achievement of all students
2. Provide high quality academic instruction
3. Provide quality student focused service
4. Maintain affordability and accessibility
5. Recruit and retain talented full and part time faculty, administrators and staff
6. Enhance internal and external systems of communication
7. Strengthen efficiencies in operations
8. Develop and sustain mutually beneficial partnerships
9. Leverage technology to increase and enhance education, operation, and innovation competitiveness
10. Plan and manage sustainable, quality growth



A five year master plan was updated in 2013 to accommodate the System'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 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 system-wide projects

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

ACCOUNTABILITY MEASURES

In 2011, the Board of Trustees adopted seven accountability measures to maintain the finances of the System in a fiscally sound manner. These seven measures focus on:

- Student Success
- Program Reviews
- Diversity
- Technology
- Administrative Costs
- Cost Containment



INDEPENDENT AUDIT

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

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 System for its comprehensive annual financial report for the fiscal year ended August 31, 2012. This was the ninth consecutive year the System has achieved this prestigious award. 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 comprehensive annual financial report 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 professionalism in the System'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 Administration and Finance.

Respectfully submitted,

Cynthia F. Gilliam
Vice Chancellor, Administration & Finance/Chief Financial Officer



Government Finance Officers Association

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

Presented to

**Lone Star College System
Texas**

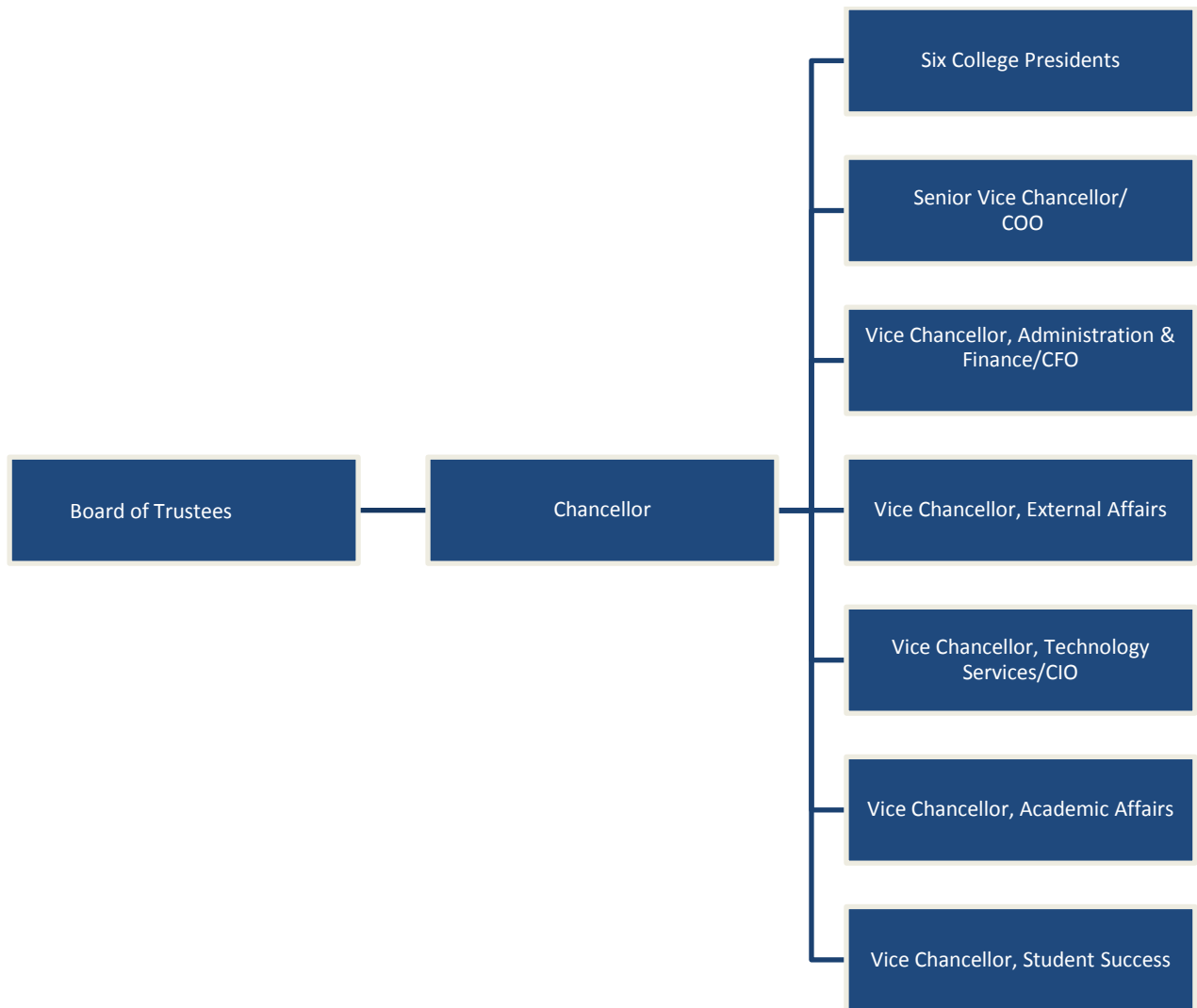
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2012

Executive Director/CEO



**LONE STAR COLLEGE SYSTEM
ORGANIZATIONAL CHART**





**ORGANIZATIONAL DATA
For the Fiscal Year 2013**

Board of Trustees

Term Expires May

David Holsey, D.D.S.	Chair	2019
Bob Wolfe, J.D., CPA	Vice Chair	2017
Priscilla Kelly	Secretary	2015
David A. Vogt	Assistant Secretary	2017
Robert Adam, J.D.		2015
Kyle A. Scott, Ph.D		2019
Linda S. Good, J.D.		2017
Stephanie Marquard		2015
Ron Trowbridge, Ph.D		2019

Principal Administrative Officers

Dr. Richard Carpenter	Chancellor
Dr. Stephen Head	President, Lone Star College – North Harris
Dr. Katherine Persson	President, Lone Star College – Kingwood
Dr. Susan Karr	President, Lone Star College – Tomball
Dr. Austin Lane	President, Lone Star College – Montgomery
Dr. Audre Levy	President, Lone Star College – CyFair
Shah Ardalan	President, Lone Star College – University Park
Rand W. Key	Senior Vice Chancellor/COO
Cynthia Gilliam	Vice Chancellor, Administration & Finance/CFO
Ray Laughter	Vice Chancellor, External Affairs
Link Alander	Vice Chancellor, Technology Services/CIO
Keri Rogers	Vice Chancellor, Academic Affairs
Juanita Chrysanthou	Vice Chancellor, Student Success

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees Lone Star College System

We have audited the accompanying financial statements of Lone Star College System (the "System") as of and for the year ended August 31, 2013 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents. The prior year summarized information was audited by other auditors.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System, as of August 31, 2013, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from the System's 2012 financial statements, which were audited by other auditors. In their report, dated December 6, 2012, they expressed an unmodified opinion on those audited financial statements.

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

Other Information

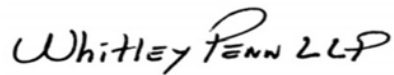
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The Supplemental Schedules A through D as required by the Texas Higher Education Coordinating Board's (THECB) *Budget Requirements and Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Schedule of Expenditures of State Awards as required by the State of Texas Single Audit Circular contained in the Governor's Office of Budget and Planning *Uniform Grant Management Standards*, and other information such as the introductory and statistical sections are also presented for additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013 on our consideration of the System'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 System's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, professional style.

Houston, Texas
December 5, 2013

Lone Star College System

The purpose of the annual report is to provide readers with financial information about the activities and financial condition of Lone Star College System (the "System"). The report consists of three basic financial statements that provide information on the System as a whole: the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. These reports should be read in conjunction with the notes to the financial statements. The following summary and management discussion of the results is intended to provide the readers with an overview of the System's financial activities. For purposes of the summary and discussion, the terms "2013", "2012", and "2011" refer to fiscal years ending August 31, 2013, August 31, 2012, and August 31, 2011, respectively.

Accounting Standards

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities", which applies the new reporting standards to public colleges and universities.

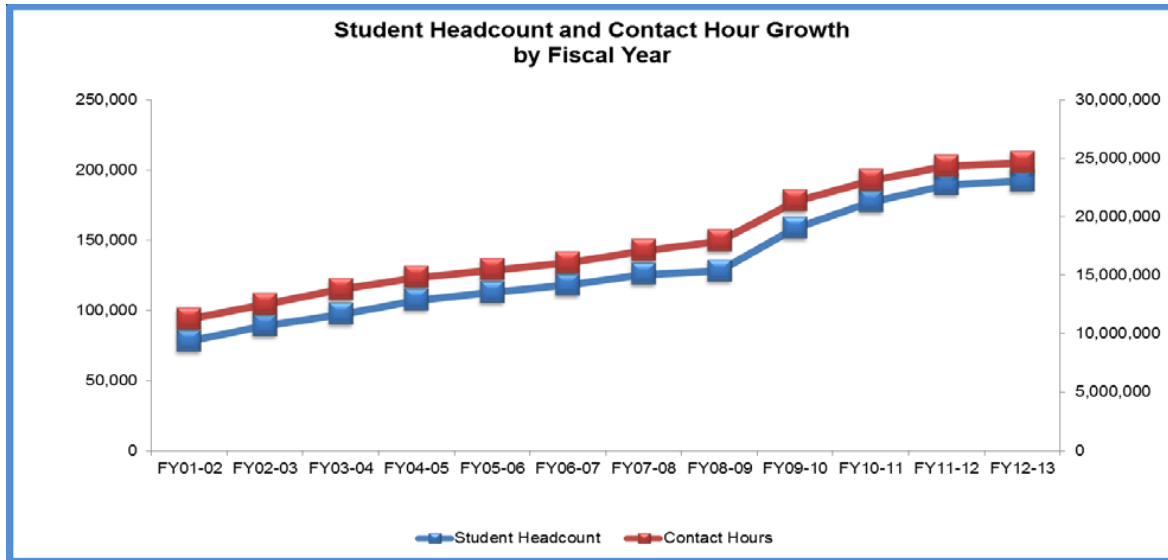
Financial and Enrollment Highlights - 2013

- Net position increased \$3 million, which represents a 1% increase over 2012.
- Construction in progress balances decreased to approximately \$32 million as various projects funded with proceeds from the 2009 and 2010 general obligation bonds were completed.
- The System maintained its AAA rating from Standard & Poor's on its general obligation debt.
- Operating expenses for educational activities increased \$16 million, which represents a 5% increase. The increases were related to the addition of new full time faculty positions and the System's continued emphasis on student success and completion.
- Fundable contact hours, the basis on which community colleges in Texas are appropriated state funds, increased 1%.

Financial and Enrollment Highlights – 2012

- Net position increased \$23 million, which represents a 9% increase over 2011.
- Construction in progress balances increased to approximately \$171 million as various projects funded with proceeds from the 2009 and 2010 general obligation bonds were completed.
- The System maintained its AAA rating from Standard & Poor's on its general obligation debt.
- Operating expenses for educational activities increased \$22 million, which represents a 7% increase. The increases were related to growth in financial aid program expenses.
- Fundable contact hours, the basis on which community colleges in Texas are appropriated state funds, increased 1%.

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: LSCS Office of Research & Institutional Effectiveness

The Statements of Net Position

The Statements of Net Position includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net position – the difference between assets and liabilities – is one way to measure the financial health of the System. Net position increased 1% for 2013 and 9% for 2012.

	<u>2013</u>	<u>August 31 2012</u>	<u>2011</u>
Current Assets:			
Cash and short-term investments	\$ 137,564,574	\$ 136,852,407	\$ 168,586,705
Receivables	45,245,178	49,666,171	48,286,782
Inventory, prepaid expenses & other	119,196	119,009	91,487
Total current assets	<u>182,928,948</u>	<u>186,637,587</u>	<u>216,964,974</u>
Non-Current Assets:			
Capital assets, net of accumulated depreciation	767,525,376	754,114,824	735,084,688
Total assets	<u>\$ 950,454,324</u>	<u>\$ 940,752,411</u>	<u>\$ 952,049,662</u>
Current Liabilities:			
Accounts payable & accrued liabilities	\$ 45,070,952	\$ 40,181,113	\$ 57,425,752
Unearned revenues	43,720,399	42,541,316	40,395,713
Bonds payable-current portion	21,386,811	19,989,601	20,003,089
	<u>110,178,162</u>	<u>102,712,030</u>	<u>117,824,554</u>
Non-Current Liabilities:			
Accrued compensable absences	5,994,855	6,105,069	6,035,594
Bonds payable-noncurrent portion	561,668,624	562,770,436	582,102,714
Total liabilities	<u>\$ 677,841,641</u>	<u>\$ 671,587,535</u>	<u>\$ 705,962,862</u>
Net Position:			
Net investment in capital assets	178,498,298	195,090,503	190,949,160
Restricted	37,799,941	13,885,559	7,574,071
Unrestricted	56,314,444	60,188,814	47,563,569
Total net position	<u>\$ 272,612,683</u>	<u>\$ 269,164,876</u>	<u>\$ 246,086,800</u>

The decrease in total current assets of \$3.7 million in 2013 was due to a decrease in accounts receivable at year end. Net investment in capital assets increased \$13 million during 2013 as construction projects funded from the bonds were completed.

Total liabilities increased \$6.3 million during 2013. The increase is primarily related to an increase in accounts payable.

The increases in total net position of \$3.4 million for 2013 and \$23 million for 2012 represent a 10% increase in the past two years. Of significance is the mix of reserves and the purposes for which they may be used. The largest increase since 2011 is in restricted net position of \$30 million. Restricted net position represents assets that cannot be used for current operations because they are subject to restrictions imposed by creditors, grantors or statute. Unrestricted net position covers 55 days of operating expenses, or 15%, in 2013.

Statements of Revenues, Expenses and Changes in Net Position

	August 31		
	2013	2012	2011
Operating Revenues			
Student tuition and fees	\$ 59,682,149	\$ 58,863,971	\$ 54,089,193
Grants & contracts	13,484,181	13,716,779	14,078,349
Auxiliary enterprises	9,849,775	8,569,915	7,312,944
Other	1,467,289	1,757,129	1,546,851
Total operating revenues	<u>84,483,394</u>	<u>82,907,794</u>	<u>77,027,337</u>
Operating Expenses			
Educational Activities	339,152,298	322,791,517	300,952,537
Auxiliary Activities	8,621,387	6,772,432	5,748,363
Depreciation Expense	22,345,642	19,367,658	12,665,955
Total operating expenses	<u>370,119,327</u>	<u>348,931,607</u>	<u>319,366,855</u>
Net Operating Expenses	(285,635,933)	(266,023,813)	(242,339,518)
Non-Operating Revenues			
Ad-valorem taxes	145,759,393	140,481,231	134,718,767
State Appropriations	75,961,961	75,417,972	73,405,288
Federal Revenue, Non-Operating	90,756,771	89,174,691	74,413,134
Investment income	556,004	499,774	732,471
Capital appropriations	(22,791,859)	(19,614,225)	(20,958,652)
Other	(1,158,530)	3,142,446	2,428,750
Total non-operating revenues-net	289,083,740	289,101,889	264,739,758
Increase in Net Position	3,447,807	23,078,076	22,400,240
Net Position, Beginning of Year	<u>269,164,876</u>	<u>246,086,800</u>	<u>223,686,560</u>
Net Position, End of Year	<u>\$ 272,612,683</u>	<u>\$ 269,164,876</u>	<u>\$ 246,086,800</u>

The Statements of Revenues, Expenses and Changes in Net Position present the operating results of the System, as well as the non-operating revenues and expenses. Ad valorem taxes for maintenance and operations, and state appropriations, while budgeted for operations, are not considered to be exchange transactions and are, therefore, classified as non-operating revenues according to generally accepted accounting principles.

Student tuition and fees increased nearly \$1 million for 2013, due to the increase in differential fees. Differential fees are a student fee added to base tuition to offset the higher educational costs associated with specific disciplines. For 2012, student tuition and fees increased \$4.8 million due to the addition of new infrastructure and differential tuition fees. The System's \$40 per credit hour tuition rate remains below the Texas average tuition rate for community colleges.

Auxiliary enterprise revenues increased 15% for 2013. Most of the increase is related to an increase in tenant revenue.

Expenses for educational activities increased \$16 million (5%) in 2012 and \$22 million (7%) in 2012. The most significant increases were in the instruction, academic support, and student services categories. The System added new full time faculty positions to maintain the current full time/part time ratio. In addition, enhancements were made to technology tools in reporting student outcomes and accountability for those outcomes as the System continues to place emphasis on student success and completion.

Tax revenues increased \$5.3 million in 2013 (\$5.8 million in 2012) as a result of a strengthening of the local economy and the addition of new properties. Investment income increased only slightly in 2013 due to a flat interest rate environment. The System continues its focus on maintaining a short-term investment portfolio.

State appropriations increased \$.5 million in 2013. The 82nd legislature revised the allocation method for community college contact hour funding in the second year. As a result of increased enrollments, the System received an additional \$3.9 million in contact hour funding. However, during the 82nd legislature the state also decreased funding for employees considered to be eligible for state supported health and retirement plans which reduced the state's on behalf contribution for the System by \$3.4 million. For fiscal year 2012, a mid-biennium adjustment based on the 82nd Legislature, Rider 8 increased the State appropriations by \$1.2 million.

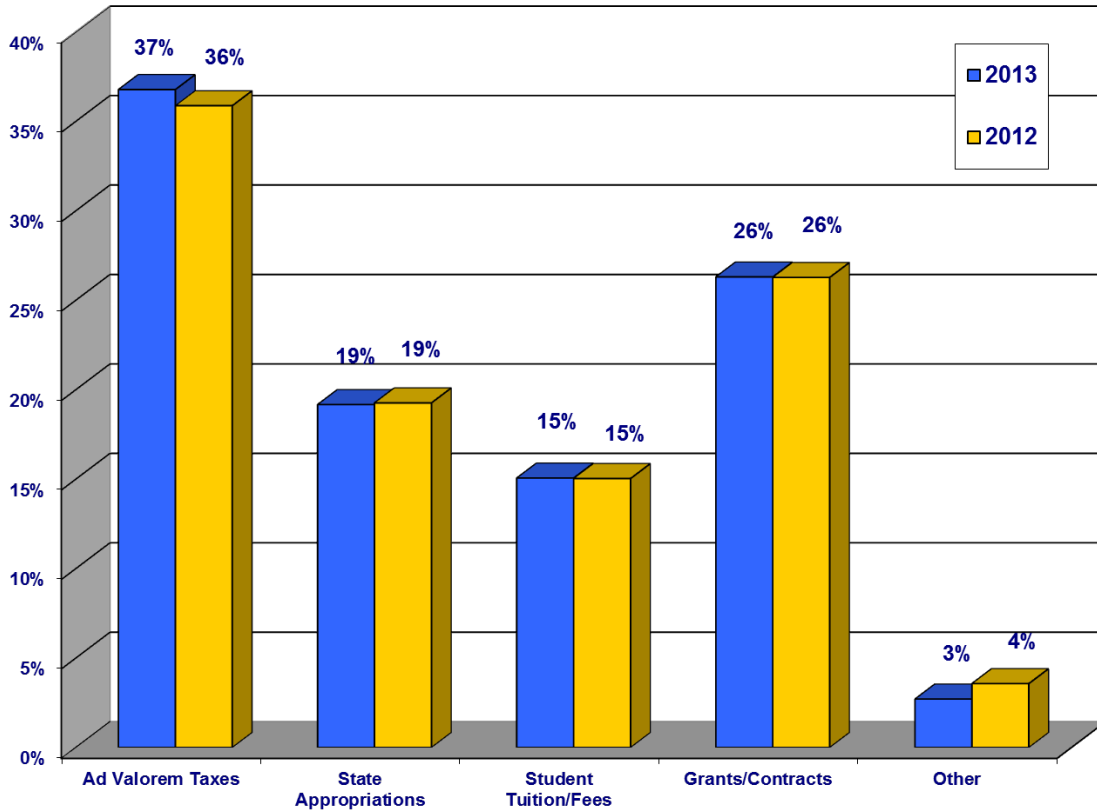
Federal revenue, non-operating, increased by \$1.6 million due to an increase in federal financial aid (Pell) grant funding.

Capital appropriations consist of interest and fees on capital asset-related debt. Expenses in this category increased \$3 million (16%) due to an increase in interest expense. As the bond program projects wind down less interest is capitalized resulting in more interest being expensed.

Total Revenues

The System 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 System.

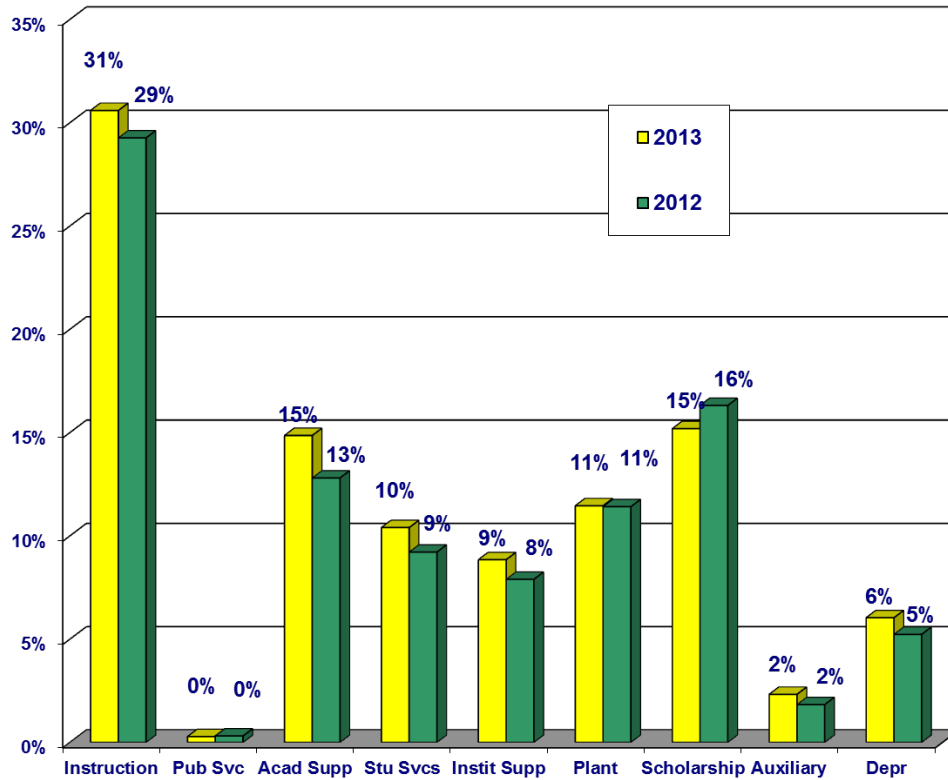


The largest source of revenue for both 2013 and 2012 for the System is ad valorem taxes at 37% and 36% for 2013 and 2012, respectively. Grants and contracts are second place in 2013 at 26%, which remained relatively level from 2012. State appropriations were the third largest revenue source at 19% in 2013. Student tuition and fees were at 15% for both 2013 and 2012. Auxiliary and investment income comprise the majority of other revenues.

Total Expenses

Expenses for the System 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 System.



At 31% and 29% of the total expenses for 2013 and 2012, respectively, instruction is by far the System's largest expense category. The academic support and scholarship category tie for second place in 2013 at 15% of total expenses. Plant support is next highest at 11% but remained relatively level from 2012. All other categories remained relatively the same.

Capital Assets and Long-Term Debt Activity

As depicted in Footnote 5 to the financial statements, capital assets increased from \$754 million in 2012 to \$767 million in 2013. The following lists some of the major projects and changes that occurred during 2013 and 2012:

2013 Projects

Bond Projects

- Completed construction of the \$14.5 million Cypress Satellite Center.
- Completed \$6.8 million of renovation projects across the System.
- Construction is underway on the \$16 million Energy and Manufacturing Institute Building (EMI) on the University Park Campus.

Real Estate Transactions

- A 5 acre tract of land was acquired in the Creekside area of The Woodlands on December 26, 2012.
- A 0.3 acre tract of land adjacent to the Tomball campus was acquired on December 3, 2012.
- A 0.4 acre tract of land from the Fairbank Satellite Center site was sold to the Texas Department of Transportation on April 12, 2013 for the widening of Highway 290.

2012 Projects

Bond Projects

- Completed \$8.1 million in renovations on the Cy-Fair, Kingwood, Montgomery, Tomball and University Park campuses.
- Construction is underway on the Cypress Center project valued at \$14.5 million.

Real Estate Transactions

- A 4.23 acre tract of land on the Cy-Fair campus was sold to MUD #172 on Dec 16, 2011 for \$0.4 million.
- A 5.0 acre tract of land adjacent to the Kingwood campus was acquired by the System on April 30, 2012 for \$1.0 million.
- A 4.0 acre tract of land adjacent to the Kingwood campus was donated to the System on April 30, 2012. The donation is valued at \$0.8 million.

As detailed in Footnote 7 to the financial statements, financing for the above projects has been achieved through the issuance of long-term bonds.

Subsequent Events

Enrollment remained steady from fall 2012 to fall 2013 for a total of 77,688 credit students, with a 1% increase in course enrollments and credit hours.

In October 2013, the System issued \$58,145,000 of revenue bonds to construct the Creekside Center and fund various infrastructure and safety projects.

Lone Star College System
STATEMENTS OF NET POSITION
AUGUST 31, 2013 AND 2012

ASSETS	2013	2012
Current assets:		
Cash and cash equivalents	\$ 137,564,574	\$ 134,851,517
Short-term investments	-	2,000,890
Accounts receivable, net	45,245,178	49,666,171
Inventories	47,474	41,447
Prepaid items	71,722	77,562
Total current assets	182,928,948	186,637,587
Noncurrent assets:		
Capital assets, net	767,525,376	754,114,824
Total non-current assets	767,525,376	754,114,824
TOTAL ASSETS	950,454,324	940,752,411
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 40,525,087	\$ 34,878,283
Accrued compensable absences	635,000	520,000
Funds held for others	3,910,865	4,782,830
Unearned revenues	43,720,399	42,541,316
Bonds payable-current portion	21,386,811	19,989,601
Total current liabilities	110,178,162	102,712,030
Noncurrent liabilities:		
Accrued compensable absences	5,994,855	6,105,069
Bonds payable-noncurrent portion	561,668,624	562,770,436
Total non-current liabilities	567,663,479	568,875,505
TOTAL LIABILITIES	677,841,641	671,587,535
NET POSITION		
Net Investment in Capital Assets	178,498,298	195,090,503
Restricted:		
Expendable-		
Restricted	112,524	-
Loan	-	485,631
Debt service	37,687,417	13,399,928
Unrestricted	56,314,444	60,188,814
TOTAL NET POSITION (Schedule D)	\$ 272,612,683	\$ 269,164,876

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

Lone Star College System
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Tuition and fees (net of discounts of \$42,952,582 in 2013 and \$36,605,339 in 2012)	\$ 59,682,149	\$ 58,863,971
Federal grants and contracts	5,582,770	6,636,571
State and local grants and contracts	7,901,411	7,080,208
Auxiliary enterprises	9,849,775	8,569,915
Other operating revenue	1,467,289	1,757,129
Total operating revenues (Schedule A)	<u>84,483,394</u>	<u>82,907,794</u>
OPERATING EXPENSES		
Instruction	113,232,477	108,314,417
Public service	1,048,188	1,162,959
Academic support	54,998,124	47,382,543
Student services	38,498,235	34,101,045
Institutional support	32,744,317	29,226,723
Operation and maintenance of plant	42,416,012	42,230,188
Scholarships and fellowships	56,214,945	60,373,642
Auxiliary enterprises	8,621,387	6,772,432
Depreciation	22,345,642	19,367,658
Total operating expenses (Schedule B)	<u>370,119,327</u>	<u>348,931,607</u>
Operating loss	<u>(285,635,933)</u>	<u>(266,023,813)</u>
NON-OPERATING REVENUE (EXPENSES)		
Ad-Valorem taxes		
Maintenance and operations	104,875,620	101,461,010
General obligation bonds	40,883,773	39,020,221
State appropriations	75,961,961	75,417,972
Federal revenue, non-operating	90,756,771	89,174,691
Gifts	204,042	1,953,695
Investment income, net	556,004	499,774
Interest and fees on capital asset-related debt (net of capitalized interest costs of \$230,922 in 2013 and \$5,009,183 in 2012)	(22,791,859)	(19,614,225)
Loss on disposal of capital assets	(6,029,891)	(665,646)
Other non-operating revenues	4,667,319	1,854,397
Total non-operating revenue (Schedule C)	<u>289,083,740</u>	<u>289,101,889</u>
Increase in net position	3,447,807	23,078,076
NET POSITION, BEGINNING OF YEAR	<u>269,164,876</u>	<u>246,086,800</u>
NET POSITION, END OF YEAR	<u>\$ 272,612,683</u>	<u>\$ 269,164,876</u>

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

Lone Star College System
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 106,030,759	\$ 96,170,724
Receipts from grants and contracts	16,438,476	15,222,437
Payments to suppliers for goods and services	(74,185,488)	(85,628,007)
Payments to or on behalf of employees	(200,238,113)	(185,469,007)
Payments for scholarships and fellowships	(93,146,451)	(91,946,427)
Payments for internal loans issued to students	-	-
Receipts from internal loans for students	-	-
Other receipts	1,220,108	5,019,762
Net cash used by operating activities	<u>(243,880,709)</u>	<u>(246,630,518)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	66,839,742	65,285,594
Receipts from ad-valorem taxes	105,446,475	102,611,898
Receipts from non-operating Federal Revenue	92,100,893	90,694,436
Payments for Federal loans issued to students	(92,470,060)	(93,939,973)
Receipts from Federal loans for students	94,266,965	92,283,344
Net cash provided by non-capital financing activities	<u>266,184,015</u>	<u>256,935,299</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from ad-valorem taxes	41,184,770	40,108,809
Proceeds from capital debt	20,285,000	67,257,225
Paid for acquisition and construction of capital assets	(40,813,824)	(43,871,072)
Proceeds from sale of capital assets	3,774	375,347
Principal paid on capital debt and leases	(19,480,000)	(85,785,000)
Interest paid on capital debt and leases	(23,326,863)	(20,624,050)
Net cash used by capital and related financing activities	<u>(22,147,143)</u>	<u>(42,538,741)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,000,000	12,000,000
Interest on investments	556,894	499,774
Purchase of investments and related fees	-	(10,000,000)
Net cash provided by investing activities	<u>2,556,894</u>	<u>2,499,774</u>
Net Decrease in Cash and Cash Equivalents	2,713,057	(29,734,186)
Cash and Cash Equivalents, Beginning of Year	134,851,517	164,585,703
Cash and Cash Equivalents, End of Year	<u>\$ 137,564,574</u>	<u>\$ 134,851,517</u>

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

Lone Star College System
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (285,635,933)	\$ (266,023,813)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	22,345,642	19,367,658
Bad debt expense	615,597	660,000
Payments made directly by state for benefits	9,122,219	10,132,378
Changes in assets and liabilities		
Receivables, net	604,490	(4,083,796)
Inventories	(6,027)	2,748
Prepaid items	5,842	(30,272)
Accounts payable and accrued liabilities	7,973,555	(11,118,937)
Unearned revenue	1,309,936	2,145,603
Funds held for others	(220,816)	2,128,438
Accrued compensable absences	4,786	189,475
Total adjustments	<u>41,755,224</u>	<u>19,393,295</u>
Net cash used by operating activities	<u>\$ (243,880,709)</u>	<u>\$ (246,630,518)</u>

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

LONE STAR COLLEGE SYSTEM

Notes to Financial Statements

For the Fiscal Years Ended
August 31, 2013 and 2012

1. REPORTING ENTITY

Lone Star College System (the "System") 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 System encompasses the Aldine, Conroe, Cypress-Fairbanks, Humble, Klein, Magnolia, New Caney, Splendora, Spring, Tomball and Willis Independent School Districts. The System 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 System.

The System is considered to be a special-purpose government engaged in business-type activities. While the System 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.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* (an amendment of GASB Statements No. 14 and No. 34), was effective for financial statements for periods beginning after June 15, 2012. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. GASB Statement No. 61 has been applied as required in the preparation of these financial statements and no component unit information is required to be included.

The Lone Star College Foundation (the "Foundation") is a legally separate not-for-profit corporation controlled by a separate board of trustees, whose sole purpose is to advance and assist in the development, growth and operation of the System. The System does not fund; nor is the System obligated to pay debt related to the Foundation. The financial position of the Foundation as of August 31, 2013 and 2012 and the cost of services provided by the System to the Foundation during the years then ended are not significant to the System. The Foundation has therefore not been included as a component unit in the financial statements of the System.

The University Center is a partnership of four year universities and the colleges of the System providing bachelor's degrees, master's degrees and continuing professional studies. The universities are responsible for their degrees and support the instructional, facilities and shared support services costs. The operational costs of instruction, facilities and services are shared pro-rata by the four-year universities based on enrollment. A cost sharing arrangement exists between the parties in order to provide a particular service to the community. A cost sharing arrangement does not qualify as a component unit under GASB Statement No. 61.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

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

Basis of Accounting

The financial statements of the System 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.

Tuition Discounting

Texas Public Education Grants

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

Certain Title IV HEA Program funds are received by the System to pass through to the student. These funds are initially received by the System 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 System 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.

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 System'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.

Cash and Cash Equivalents

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

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity date greater than three months but less than one year at time of purchase. The System has designated public funds investment pools comprised of \$68,910,664 and \$90,796,249 at 2013 and 2012, respectively, to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase. The System had no long-term investments at August 31, 2013 and 2012.

Inventories

Inventories consist of food service supplies. Inventories are valued at cost under the “first-in, first-out” method and are charged to expense as consumed.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the System’s capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovations of \$100,000 to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 50 years for land improvements, 15 years for library books, 10 years for furniture, machinery, vehicles and other equipment and 5 years for telecommunications and peripheral equipment.

Unearned Revenues

A portion of tuition and fee revenue and federal, state, and local grants at August 31, 2013 and 2012, related to the period after August, and therefore have been reported as unearned revenues at August 31, 2013 and 2012, respectively.

Estimates

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

Operating and Non-Operating Revenue and Expense Policy

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

Presentation of State Benefit Payments on Cash Flows Statement

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

New Accounting Standards

In the current fiscal year, the System implemented the following new standards: GASB Statement 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements ("GASB 62"), which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board Opinions; 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Implementation of GASB 62 is reflected in the financial statements and notes to the financial statements.

GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position ("GASB 63"), amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position rather than net assets. Implementation of GASB 63 is reflected in the financial statements.

GASB Statement 65, Items Previously Reported as Assets and Liabilities ("GASB 65"), establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 will be implemented in fiscal year 2014.

3. AUTHORIZED INVESTMENTS

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

4. DEPOSITS AND INVESTMENTS

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

	<u>2013</u>	<u>2012</u>
Demand Deposits	1,700,289	\$ 2,212,622
Petty Cash on Hand	37,513	40,752
Short-Term Securities	-	142,983
External Investment Pools	68,910,664	90,796,248
Certificates of Deposit	<u>66,916,108</u>	<u>41,658,912</u>
Total Cash and Cash Equivalents	<u>\$ 137,564,574</u>	<u>\$ 134,851,517</u>

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

	<u>Fair Value at August 31,</u>	
	<u>2013</u>	<u>2012</u>
U. S. Agency Notes and Bonds	\$ -	\$ 2,000,890
Certificates of Deposit	66,916,108	41,658,912
Cash and Deposits	<u>70,648,466</u>	<u>93,192,605</u>
Total Deposits and Investments	<u>\$ 137,564,574</u>	<u>\$ 136,852,407</u>
Cash and Cash Equivalents (Exhibit 1)	\$ 137,564,574	\$ 134,851,517
Short Term Investments (Exhibit 1)	-	2,000,890
Total Deposits and Investments	<u>\$ 137,564,574</u>	<u>\$ 136,852,407</u>

As of August 31, 2013, the System had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
External Investment Pools	\$ 68,910,664	0.15
Certificates of Deposit	<u>66,916,108</u>	3.61
Total Investments at Fair Value	<u>\$ 135,826,772</u>	1.85

Interest Rate Risk - In accordance with State of Texas law and the System's investment policy, the System does not purchase any investments with maturities greater than three years. The System 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 System'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 System has established portfolio diversification requirements by issuer and/or type of investment. The System's portfolio is within the stated parameters at August 31, 2013.

The credit quality (ratings) and concentration of the System's portfolio as of August 31, 2013 are as follows:

Security	Credit Rating	Concentration	
		Actual	Limit
Cash and External Investment Pools	AAA	50.73%	100%
Certificates of Deposit		49.27%	90%

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 AAAM by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information is submitted to both Standard & Poor's and the Office of the State of Texas Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the Securities and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than fair value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same value as the value in TexPool shares.

The First Public (Lone Star Investment Pool) is a public funds investment pool established in accordance with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 225, Texas Government Code. First Public is governed by trustees comprised of active participants in First Public. The Board of Trustees for First Public has the responsibility for adopting and monitoring compliance with the investment policy, of appointing investment officers, of overseeing the selection of an investment advisor, custodian, investment consultant, administrator and other service providers. First Public is rated AAA by Standard & Poor's.

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

5. CAPITAL ASSETS

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

	Balance August 31, 2012	Increase	Decrease	Balance August 31, 2013
<u>Not Depreciated</u>				
Land	\$ 75,066,407	\$ 1,717,994	\$ -	\$ 76,784,401
Construction-in-Progress	170,839,852	10,443,522	(149,552,098)	31,731,276
Subtotal	<u>245,906,259</u>	<u>12,161,516</u>	<u>(149,552,098)</u>	<u>108,515,677</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	520,991,169	160,722,274	(5,014,291)	\$ 676,699,152
Other Real Estate Improvements	<u>31,513,508</u>	<u>11,372,588</u>	-	<u>42,886,096</u>
Total Buildings & Other Real Estate Improvements	552,504,677	172,094,862	(5,014,291)	719,585,248
Library Books	13,808,532	518,889	(223,693)	14,103,728
Furniture, Machinery, Vehicles & Other	60,560,502	7,750,579	(4,108,599)	64,202,482
Total Buildings and Other Capital Assets	<u>626,873,711</u>	<u>180,364,330</u>	<u>(9,346,583)</u>	<u>797,891,458</u>
<u>Accumulated Depreciation</u>				
Buildings and Building Improvements	84,385,731	11,425,539	(151,359)	95,659,911
Other Real Estate Improvements	<u>3,250,816</u>	<u>737,380</u>	-	<u>3,988,196</u>
Total Buildings & Other Real Estate Improvements	87,636,547	12,162,919	(151,359)	99,648,107
Library Books	9,529,862	588,068	(223,693)	9,894,237
Furniture, Machinery, Vehicles & Other	<u>21,498,737</u>	<u>9,594,655</u>	<u>(1,753,977)</u>	<u>29,339,415</u>
Total Accumulated Depreciation	<u>118,665,146</u>	<u>22,345,642</u>	<u>(2,129,029)</u>	<u>138,881,759</u>
Net Capital Assets	<u>\$ 754,114,824</u>	<u>\$ 170,180,204</u>	<u>\$ (156,769,652)</u>	<u>\$ 767,525,376</u>

5. CAPITAL ASSETS (Cont)

Capital assets activity for the year ended August 31, 2012 was as follows:

	Balance August 31, 2011	Increase	Decrease	Balance August 31, 2012
<u>Not Depreciated</u>				
Land	\$ 75,083,912	\$ 40,930	\$ (58,435)	\$ 75,066,407
Construction-in-Progress	179,568,073	27,276,822	(36,005,043)	170,839,852
Subtotal	<u>254,651,985</u>	<u>27,317,752</u>	<u>(36,063,478)</u>	<u>245,906,259</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	486,484,287	34,506,882	-	520,991,169
Other Real Estate Improvements	<u>30,995,827</u>	<u>2,453,748</u>	<u>(1,936,067)</u>	<u>31,513,508</u>
Total Buildings & Other Real Estate Improvements	517,480,114	36,960,630	(1,936,067)	552,504,677
Library Books	13,463,602	547,513	(202,583)	13,808,532
Furniture, Machinery, Vehicles & Other	52,632,712	10,617,936	(2,690,146)	60,560,502
Total Buildings and Other Capital Assets	<u>583,576,428</u>	<u>48,126,079</u>	<u>(4,828,796)</u>	<u>626,873,711</u>
<u>Accumulated Depreciation</u>				
Buildings and Building Improvements	75,418,037	8,967,694	-	84,385,731
Other Real Estate Improvements	<u>4,433,685</u>	<u>559,591</u>	<u>(1,742,460)</u>	<u>3,250,816</u>
Total Buildings & Other Real Estate Improvements	79,851,722	9,527,285	(1,742,460)	87,636,547
Library Books	9,138,507	593,938	(202,583)	9,529,862
Furniture, Machinery, Vehicles & Other	<u>14,153,496</u>	<u>9,246,435</u>	<u>(1,901,194)</u>	<u>21,498,737</u>
Total Accumulated Depreciation	<u>103,143,725</u>	<u>19,367,658</u>	<u>(3,846,237)</u>	<u>118,665,146</u>
Net Capital Assets	<u>\$ 735,084,688</u>	<u>\$ 56,076,173</u>	<u>\$ (37,046,037)</u>	<u>\$ 754,114,824</u>

6. LONG-TERM LIABILITIES

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

	Balance August 31, 2012	Additions	Reductions	Balance August 31, 2013	Current Portion
Bonds					
General obligation bonds	\$ 506,771,634	\$ -	\$ (16,072,831)	\$ 490,698,803	\$ 17,514,726
Revenue bonds	44,872,562	20,285,000	(2,553,956)	62,603,606	2,423,195
Maintenance tax note bonds	<u>31,115,841</u>	<u>-</u>	<u>(1,362,815)</u>	<u>29,753,026</u>	<u>1,448,890</u>
Subtotal	582,760,037	20,285,000	(19,989,602)	583,055,435	21,386,811
Accrued compensable absences	6,625,069	928,490	(923,704)	6,629,855	635,000
Total long-term liabilities	<u>\$ 589,385,106</u>	<u>\$ 21,213,490</u>	<u>\$ (20,913,306)</u>	<u>\$ 589,685,290</u>	<u>\$ 22,021,811</u>

Long-term liability activity for the year ended August 31, 2012 was as follows:

	Balance September 1, 2011	Additions	Reductions	Balance August 31, 2012	Current Portion
Bonds					
General obligation bonds	\$ 523,011,239	\$ 52,793,157	\$ (69,032,762)	\$ 506,771,634	\$ 16,072,831
Revenue bonds	46,708,358	16,941,886	(18,777,682)	44,872,562	2,553,955
Maintenance tax note bonds	<u>32,386,206</u>	<u>-</u>	<u>(1,270,365)</u>	<u>31,115,841</u>	<u>1,362,815</u>
Subtotal	602,105,803	69,735,043	(89,080,809)	582,760,037	19,989,601
Accrued compensable absences	6,435,594	1,022,545	(833,070)	6,625,069	520,000
Total long-term liabilities	<u>\$ 608,541,397</u>	<u>\$ 69,924,518</u>	<u>\$ (89,080,809)</u>	<u>\$ 589,385,106</u>	<u>\$ 20,509,601</u>

7. BONDS PAYABLE

General information related to bonds payable is summarized below:

Series	Purpose	Maturity Date	Interest Rate	Original Issue Amount	Repayment Source	Amount Outstanding	
						8/31/2013	8/31/2012
Revenue Bonds							
2003 Rev	Construction	2004 - 2028	2.50% - 5.00%	10,000,000	Pledged Rev	43,814	531,841
2003A Rev	Construction	2004 - 2018	2.00% - 4.25%	10,390,000	Pledged Rev	739,834	1,458,801
2007 Rev	Construction	2008 - 2038	4.00% - 5.00%	29,900,000	Pledged Rev	25,661,211	26,468,022
2011 Rev	Refunding	2012 - 2025	1.75% - 4.00%	7,980,000	Pledged Rev	7,182,756	7,682,507
2012 Rev	Refunding	2013 - 2028	2.00% - 4.00%	8,155,000	Pledged Rev	8,690,991	8,731,391
2012B1&B2 Rev	Construction	2020 - 2031	1.125% - 1.250%	20,285,000	Pledged Rev	20,285,000	-
Total Revenue						\$ 62,603,606	\$ 44,872,562
General Obligation Bonds							
2003 GO	Constr/Refunding	2004 - 2028	2.50% - 5.00%	36,464,997	Ad Val Tax	1,743,590	2,858,829
2005 Ref GO	Refunding	2006 - 2013	3.00% - 5.00%	6,915,000	Ad Val Tax	-	467,615
2005A Ref GO	Refunding	2006 - 2026	3.00% - 5.00%	50,244,217	Ad Val Tax	35,516,392	39,226,580
2008 GO	Construction	2009 - 2038	3.50% - 5.25%	149,780,000	Ad Val Tax	134,789,181	137,598,008
2009 GO	Construction	2009 - 2034	2.50% - 5.00%	144,520,000	Ad Val Tax	140,571,625	142,444,908
2010A GO	Construction	2010 - 2025	2.00% - 5.00%	110,625,000	Ad Val Tax	123,526,373	123,826,373
2010B Ref GO	Refunding	2010 - 2025	2.00% - 5.00%	8,470,000	Ad Val Tax	7,533,579	7,556,163
2011 GO	Refunding	2018 - 2027	3.00% - 5.00%	25,305,000	Ad Val Tax	29,186,397	29,186,397
2012 GO	Refunding	2013 - 2028	1.50% - 5.00%	21,420,000	Ad Val Tax	17,831,666	23,606,760
Total General Obligation						\$ 490,698,803	\$506,771,633
Maintenance Tax Note Bond							
Maintenance Tax Note Bond	Construction /Energy Management Contract	2009 - 2027	2.00% - 5.00%	30,740,000	Ad Val Tax	29,753,026	31,115,841
Total Maintenance Tax Note						\$ 29,753,026	\$ 31,115,841

Debt service requirements at August 31, 2013 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
2014	\$ 17,514,726	\$ 22,097,965	\$ 2,423,195	\$ 1,858,962	\$ 1,448,890	\$ 1,152,630	\$ 21,386,811	\$ 25,109,557
2015	\$ 21,323,397	\$ 21,465,741	\$ 2,494,847	\$ 1,787,838	\$ 1,544,239	\$ 1,116,163	\$ 25,362,483	\$ 24,369,742
2016	\$ 24,236,526	\$ 20,734,529	\$ 2,579,604	\$ 1,716,963	\$ 1,639,502	\$ 1,071,838	\$ 28,455,632	\$ 23,523,330
2017	\$ 27,643,975	\$ 19,759,969	\$ 2,691,162	\$ 2,712,869	\$ 1,739,647	\$ 1,022,556	\$ 32,074,784	\$ 23,495,394
2018	\$ 29,688,077	\$ 18,575,365	\$ 2,771,013	\$ 2,619,969	\$ 1,848,705	\$ 961,450	\$ 34,307,795	\$ 22,156,784
2019-2023	\$ 144,909,568	\$ 71,705,656	\$ 10,961,797	\$ 11,864,231	\$ 10,868,848	\$ 3,677,313	\$ 166,740,213	\$ 87,247,200
2024-2028	\$ 97,378,166	\$ 44,438,388	\$ 13,142,945	\$ 9,481,309	\$ 10,663,195	\$ 1,061,238	\$ 121,184,306	\$ 54,980,935
2029-2033	\$ 77,342,833	\$ 24,875,000	\$ 18,304,056	\$ 4,145,325	\$ -	\$ -	\$ 95,646,889	\$ 29,020,325
2034-2038	\$ 50,661,535	\$ 6,896,750	\$ 7,234,987	\$ 984,600	\$ -	\$ -	\$ 57,896,522	\$ 7,881,350
2039+	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ 490,698,803	\$ 250,549,363	\$ 62,603,606	\$ 37,172,066	\$ 29,753,026	\$ 10,063,188	\$ 583,055,435	\$ 297,784,617

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. During the current year, the System performed calculations of excess investment earnings on various bonds and financings and at August 31, 2013 does not expect to incur a liability.

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 \$59,102,052 and \$52,934,858 for the years ended August 31, 2013 and 2012, respectively. The pledged revenue amount equates to 63.7% and 61.3% of the above total revenue streams, respectively. Debt service on the revenue bonds was \$6,862,930 and \$6,573,292 for the years ended August 31, 2013 and 2012, and the debt service coverage ratio was 8.61 and 8.05, respectively. Revenue bonds are payable in annual installments varying from \$240,000 to \$1,545,000 with interest rates from 1.125% to 6.50% and the final installment due in 2038. The System was in compliance with all bond covenants for the years ended August 31, 2013 and 2012.

8. REFUNDING BONDS AND DEFEASED BONDS OUTSTANDING

REFUNDING BONDS

On October 5, 2011 the System issued \$25,305,000 of Limited Tax General Obligation Refunding Bonds, Series 2011. The issue consisted solely of Refunding Bonds with a reoffering premium of \$3,881,397. The bonds mature serially through February 15, 2027. Interest rates on the bonds range from 3.0% to 5.0%. The net refunding proceeds were applied to refund \$28,150,000 of outstanding Limited Tax General Obligation Bonds, Series 2002 with an average interest rate of 4.98%. The Series 2002 Bonds were callable, in part or in whole, on February 15, 2012 or any date thereafter. The aggregate debt service payments of the refunding bonds (\$38,626,925) are \$2,201,724 less than the aggregate debt service payments of the refunded bonds (\$40,828,649). The net present value savings of the refunding transactions is \$3,142,841. 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 System's liabilities in fiscal year 2012.

Also on October 5, 2011 the System issued \$7,980,000 of Revenue Refunding Bonds, Series 2011. The issue consisted solely of Refunding Bonds with a reoffering premium of \$230,495. The bonds mature serially through February 15, 2025. Interest rates on the bonds range from 1.75% to 4.0%. The net refunding proceeds were applied to refund \$7,960,000 of outstanding Revenue Bonds, Series 2000 with an average interest rate of 5.80%. At issuance, the System reserved the right to defease the Series 2000 Revenue Bonds in any manner thereafter permitted by law. The aggregate debt service payments of the refunding bonds (\$9,787,502) are \$1,825,673 less than the aggregate debt service payments of the refunded bonds (\$11,613,175). The net present value savings of the refunding transactions is \$1,522,407. 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 System's liabilities in fiscal year 2012.

On June 14, 2012 the System issued \$21,420,000 of Limited Tax General Obligation Refunding Bonds, Series 2012. The issue consisted solely of Refunding Bonds with a reoffering premium of \$2,186,760. The bonds mature serially through February 15, 2028. Interest rates on the bonds range from 3.0% to 5.375%. The net refunding proceeds were applied to refund \$23,030,000 of outstanding Limited Tax General Obligation Bonds, Series 2002 and 2003 with an average interest rate of 4.68%. The Series 2002 and 2003 Bonds were callable, in part or in whole, on February 15, 2012 or any date thereafter. The aggregate debt service payments of the refunding bonds (\$26,329,094) are \$2,578,086 less than the aggregate debt service payments of the refunded bonds (\$28,907,180). The net present value savings of the refunding transactions is \$2,216,298. 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 System's liabilities in fiscal year 2012.

Also on June 14, 2012 the System issued \$8,155,000 of Revenue Refunding Bonds, Series 2012. The issue consisted solely of Refunding Bonds with a reoffering premium of \$576,391. The bonds mature serially through February 15, 2028. Interest rates on the bonds range from 2.0% to 4.0%. The net refunding proceeds were applied to refund \$8,330,000 of outstanding Revenue Bonds, Series 2003 and 2003A with an average interest rate of 4.60%. The Series 2003 and 2003A Revenue Bonds were callable, in part or in whole, on February 15, 2012 or any date thereafter. The aggregate debt service payments of the refunding bonds (\$9,940,442) are \$1,105,567 less than the aggregate debt service payments of the refunded bonds (\$11,046,009). The net present value savings of the refunding transactions is \$950,868. 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 System's liabilities in fiscal year 2012.

DEFEASED BONDS OUTSTANDING

The liability for the bonds below does not appear on the System's financial statements as these bonds are considered legally defeased as of August 31, 2013 and 2012.

Bond Issue	Year Refunded	2013 Par Value Outstanding	2012 Par Value Outstanding
General Obligation Bonds Series 2003	2012	\$-0-	\$12,120,000
Revenue Bonds Series 2003A	2012	\$-0-	\$ 3,310,000
Total		\$-0-	\$15,430,000

9. OPERATING LEASES

The System leases certain of its educational facilities, offices and other equipment. These lease agreements have clauses which allow the System to terminate the agreement if funding becomes unavailable or the Board does not approve funding. Rent expense for the years ended August 31, 2013 and 2012 was \$712,824 and \$529,280, respectively. Future minimum lease payments are as follows:

For the Year Ended	
<u>August 31,</u>	<u>Total</u>
2014	\$ 672,571
2015	601,456
2016	601,456
2017	595,000
2018	595,000
2019-2023	2,776,666
Total future minimum lease payments	<u>\$ 5,842,149</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). The total payroll for all System employees was \$172,931,087, \$162,116,233 and \$158,099,752 for fiscal years 2013, 2012 and 2011 respectively.

Teacher Retirement System (Defined Benefit Plan)

Plan Description. The System contributes to TRS. TRS is a cost-sharing multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan. TRS issues a publicly available financial report with required supplementary information which can be obtained from www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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. State law provides for a member contribution rate 6.4% for fiscal years 2013, 2012, and 2011, and a state contribution rate of 6.4 % for fiscal year 2013, 6.0% for fiscal year 2012 and 6.644% for fiscal year 2011. In certain instances the reporting district is required to make all or a portion of the State's contribution.

The percentages of participant salaries currently contributed by the state and by each participant are 6.0% and 6.4%, respectively, of annual compensation. The total payroll of employees covered by TRS for fiscal years 2013, 2012, and 2011 was \$101,999,182, \$93,999,285 and \$87,941,549, respectively. The retirement expense to the state for System employees was \$6,628,953, \$4,548,577 and \$5,292,675 for the fiscal years ended August 31, 2013, 2012, and 2011, respectively, and for all years are 100% of required contributions. This amount represents the portion of expended appropriations made by the state legislature on behalf of the System. These amounts are recorded by the System as on behalf revenue and expense.

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. The percentages of participant salaries currently contributed by the state and each participant are 6.4% and 6.65%, respectively. The System contributes 2.10% for employees who were participating in the ORP prior to September 1, 1995. 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.

The total payroll of employees covered by the ORP was \$32,945,598, \$34,521,307 and \$35,439,517 for fiscal years 2013, 2012, and 2011 respectively. The retirement expense to the state for the System was \$1,976,967, \$2,367,349 and \$2,355,276 for the fiscal years ended August 31, 2013, 2012 and 2011, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the System. These amounts are recorded by the System as on-behalf revenue and expense.

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 System'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 System is terminated. The System recognizes an accrued liability for the unpaid compensated absences in the amounts of \$6,629,855 and \$6,625,069 for the fiscal years ended August 31, 2013 and 2012, 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 System'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, 2013, various lawsuits and claims involving the System were pending. The ultimate liability with respect to litigation and other claims asserted against the System 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 System.

13. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2013 and 2012 were as follows:

	August 31	
	2013	2012
Student Receivables	\$34,342,229	\$31,319,675
Taxes Receivable	6,203,603	6,241,898
Federal Receivable	2,584,052	8,147,313
Accounts Receivable	1,922,251	2,617,090
Other Receivables	2,287,749	2,819,304
Subtotal	47,339,884	51,145,280
Allowance for Doubtful Accounts	(2,094,706)	(1,479,109)
Total Accounts Receivable, Net	\$45,245,178	\$49,666,171

Payables at August 31, 2013 and 2012 were as follows:

	August 31	
	2013	2012
Vendors Payable	\$30,604,203	\$24,424,647
Salaries and Benefits Payable	1,234,718	2,722,709
Students Payable	1,021,704	1,092,138
Accrued Interest	1,542,930	1,568,333
Other Payables	6,121,532	5,070,456
Total Accounts Payable and Accrued Liabilities	\$40,525,087	\$34,878,283

14. FEDERAL AND STATE CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are disclosed on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2013 and 2012 for which monies have not been received nor funds expended totaled \$88,127,478 and \$82,255,944, respectively. Of these amounts, \$83,362,622 and \$78,161,028 were from Federal Contract and Grant Awards; \$4,764,856 and \$4,094,916 were from State Contract and Grant Awards for the fiscal years ended 2013 and 2012, respectively.

15. RISK MANAGEMENT

The System 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 System did not maintain or operate a self-insured insurance plan during the years ended August 31, 2013 and 2012.

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.

The state's contribution per full-time employee was \$470.38 per month for the fiscal year ended August 31, 2013 (\$438.30 per month for 2012) and totaled \$5,886,360 for 2013 (\$5,583,801 for 2012). The cost of providing those benefits for 342 retirees for the year ended August 31, 2013 was \$2,251,568 (retiree benefits for 329 retirees cost \$1,932,131 in 2012). For 2,304 active employees, the cost of providing benefits was \$17,159,375 for the fiscal year ended August 31, 2013 (active employee benefits for 2,312 employees cost \$17,284,536 in 2012).

17. AD VALOREM TAX

The System'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 System's taxable values at August 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Assessed Valuation of the System	\$134,231,553,824	\$ 127,768,523,283
Less: Exemptions	(11,446,861,624)	(10,264,805,520)
Less: Abatements	-	-
Net Assessed Valuation of the System	<u>\$122,784,692,200</u>	<u>\$117,503,717,763</u>

Tax rates for the years ending August 31, 2011 and 2010 are as follows:

	<u>2013</u>			<u>2012</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	\$0.0863	\$0.0335	\$0.1198	\$0.0875	\$0.0335	\$0.1210

Taxes levied for the year ended August 31, 2013 and 2012 amounted to \$147,096,061 and \$140,021,432, respectively (which includes 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.

Taxes collected for the years ended August 31, 2013 and 2012 are as follows:

	<u>2013</u>			<u>2012</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	\$ 103,809,422	\$ 40,298,921	\$ 144,108,343	\$ 100,707,439	\$ 38,581,296	\$ 139,288,735
Delinquent Taxes	1,528,141	590,326	2,118,467	1,493,940	574,918	2,068,859
Penalties & Interest	<u>245,128</u>	<u>97,611</u>	<u>342,739</u>	<u>425,863</u>	<u>164,056</u>	<u>589,919</u>
Total	<u>\$ 105,582,691</u>	<u>\$40,986,858</u>	<u>\$ 146,569,549</u>	<u>\$ 102,627,242</u>	<u>\$ 39,320,270</u>	<u>\$ 141,947,512</u>

Tax collections for the years ended August 31, 2013 and 2012 were 97.97% and 99.48%, respectively, of the current tax levy. The use of tax proceeds is restricted for the use of maintenance and general obligation debt service.

18. INCOME TAXES

The System 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 System had no unrelated business income tax liability for the years ended August 31, 2013 and 2012.

19. RELATED PARTIES

The Lone Star College Foundation (the Foundation) is a nonprofit organization with the purpose of supporting the educational and other activities of the Lone Star College System. The System does not fund; nor is the System obligated to pay debt related to the Foundation. However, the System does have the ability to significantly influence the policies of the Foundation. The Foundation solicits donations and acts as coordinator of gifts made by other parties. It remitted restricted gifts of \$994,613 and \$1,044,373 to the System during the years ended August 31, 2013 and 2012, respectively. The System furnished certain services, such as office space, utilities and some staff assistance, to the Foundation which totaled \$313,732 and \$282,584 for 2013 and 2012, respectively. The System had related receivables from the Foundation in the amount of \$50,000 as of August 31, 2013. There were no related receivables for the year ended August 31, 2012.

20. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

(In accordance with GASB Statement No. 45)

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

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

Funding Policy. Section 1551.055 of Chapter 1551, Texas Insurance Code provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. Plan members or beneficiaries receiving benefits pay any premium over and above the employer contribution.

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

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

The System's contributions to SRHP for the years ended August 31, 2013, 2012 and 2011 were \$2,251,568, \$1,932,131 and \$1,514,872 respectively. This equaled the required contributions each year and no employee contributions were required.

21. SUBSEQUENT EVENTS

The System issued \$58,145,000 of revenue bonds. Bond closing and delivery of proceeds took place October 17, 2013. These funds will be used to construct the Creekside Center and fund various infrastructure and safety projects. The Creekside Center will accommodate student growth in the fast growing area between Tomball and The Woodlands and help meet the rising demand for training in the workforce sector. The infrastructure projects include critical building infrastructure at multiple locations and traffic infrastructure at the Tomball and Montgomery campuses made necessary by the Texas Department of Transportation's plans to extend and widen State Highway 249 and construct a flyover for State Highway 242.

No changes are necessary to be made to the financial statements as a result of these events. Management has evaluated subsequent events through December 5, 2013, the date which the financial statements were available to be issued.

LONE STAR COLLEGE SYSTEM
 SCHEDULE OF OPERATING REVENUES
 YEAR ENDED AUGUST 31, 2013 (With Memorandum Totals for the Year Ended August 31, 2012)

	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises	2013 Total	2012 Total
Tuition						
State funded courses						
In-district resident tuition	\$ 44,961,725	\$ -	\$ 44,961,725	\$ -	\$ 44,961,725	\$ 44,155,724
Out-of-district resident tuition	13,244,848	-	13,244,848	-	13,244,848	11,798,613
Non-resident tuition	5,210,537	-	5,210,537	-	5,210,537	5,213,400
TPEG -credit (set aside)*	(4,085,443)	-	(4,085,443)	-	(4,085,443)	(4,017,129)
State-funded continuing education	3,878,806	-	3,878,806	-	3,878,806	2,850,771
TPEG -non-credit (set aside)*	(170,678)	-	(170,678)	-	(170,678)	(164,879)
Non-state funded continuing education	3,159,111	-	3,159,111	-	3,159,111	4,424,173
Total tuition	66,198,906	-	66,198,906	-	66,198,906	64,260,673
Fees						
Registration fee	1,910,107	-	1,910,107	-	1,910,107	1,884,906
Student activity fee	2,560,588	-	2,560,588	-	2,560,588	2,506,523
Laboratory fee	1,266,132	-	1,266,132	-	1,266,132	1,221,081
Technology fee	8,916,421	-	8,916,421	-	8,916,421	8,747,114
General use fee	8,911,164	-	8,911,164	-	8,911,164	8,744,178
Distance learning fee	4,203,318	-	4,203,318	-	4,203,318	3,830,965
Infrastructure fee	2,536,263	-	2,536,263	-	2,536,263	2,522,789
Differential tuition fee	4,543,745	-	4,543,745	-	4,543,745	957,628
Incidental fee	804,313	-	804,313	-	804,313	533,181
Other fees	783,773	-	783,773	-	783,773	260,272
Total fees	36,435,824	-	36,435,824	-	36,435,824	31,208,637
Scholarship allowances and discounts						
Scholarship allowances	(802,634)	-	(802,634)	-	(802,634)	(728,594)
Remissions and exemptions - state	(5,931,797)	-	(5,931,797)	-	(5,931,797)	(4,327,476)
Remissions and exemptions - local	(89,278)	-	(89,278)	-	(89,278)	(705,078)
TPEG allowances	(1,863,103)	-	(1,863,103)	-	(1,863,103)	(1,041,274)
State grants to students	(19,888)	-	(19,888)	-	(19,888)	(18,446)
Federal grants to students	(34,245,881)	-	(34,245,881)	-	(34,245,881)	(29,784,471)
Other	-	-	-	-	-	-
Total scholarship allowances and discounts	(42,952,581)	-	(42,952,581)	-	(42,952,581)	(36,605,339)
Total net tuition and fees	59,682,149	-	59,682,149	-	59,682,149	58,863,971

LONE STAR COLLEGE SYSTEM

SCHEDULE OF OPERATING REVENUES

YEAR ENDED AUGUST 31, 2013 (With Memorandum Totals for the Year Ended August 31, 2012)

			Educational	Auxiliary	2013	2012
	Unrestricted	Restricted	Activities	Enterprises	Total	Total
Additional operating revenues						
Federal grants and contracts	-	5,582,770	5,582,770	-	5,582,770	6,636,571
State grants and contracts	-	3,901,065	3,901,065	-	3,901,065	2,656,725
Local grants and contracts	1,800,840	2,199,506	4,000,346	-	4,000,346	4,423,483
Other operating revenue	1,467,289	-	1,467,289	-	1,467,289	1,757,129
Total additional operating revenues	3,268,129	11,683,341	14,951,470	-	14,951,470	15,473,908
Auxiliary enterprises						
Food service	-	-	-	1,773,947	1,773,947	1,699,752
Bookstore	-	-	-	2,481,423	2,481,423	2,647,730
Child care fees	-	-	-	325,689	325,689	326,831
Special events	-	-	-	574,419	574,419	780,978
Other	-	-	-	4,694,297	4,694,297	3,114,624
Total auxiliary enterprises	-	-	-	9,849,775	9,849,775	8,569,915
Total operating revenues	\$ 62,950,278	\$ 11,683,341	\$ 74,633,619	\$ 9,849,775	\$ 84,483,394	\$ 82,907,794
				(Exhibit 2)	(Exhibit 2)	

* In accordance with Education Code 56.033, \$4,256,121 and \$4,182,008 was set aside for Texas Public Education Grants in 2013 and 2012, respectively.

LONE STAR COLLEGE SYSTEM

SCHEDULE OF OPERATING EXPENSES BY OBJECT

YEAR ENDED AUGUST 31, 2013 (with Memorandum Totals for the Year Ended August 31, 2012)

	Operating Expenses			Other Expenses	2013 Total	2012 Total
	Salaries and Wages	Benefits				
		State	Local			
Restricted educational activities						
Instruction	\$ 84,663,742	\$ -	\$ 5,804,770	\$ 9,583,320	\$ 100,051,832	\$ 96,871,187
Public service	558,001	-	72,577	137,885	768,463	1,030,037
Academic support	29,108,963	-	3,051,931	15,247,990	47,408,884	41,330,886
Student services	23,308,527	-	2,495,248	9,444,195	35,247,970	31,871,179
Institutional support	16,263,448	-	4,627,499	10,884,971	31,775,918	28,363,265
Operation and maintenance of plant	11,512,555	-	3,194,403	27,705,066	42,412,024	42,118,413
Total unrestricted educational activities:	<u>165,415,236</u>	<u>-</u>	<u>19,246,428</u>	<u>73,003,427</u>	<u>257,665,091</u>	<u>241,584,967</u>
Restricted educational activities						
Instruction	1,637,891	8,557,857	213,587	2,771,310	13,180,645	11,443,230
Public service	48,078	89,625	16,832	125,190	279,725	132,922
Academic support	2,905,322	3,987,860	410,348	285,710	7,589,240	6,051,657
Student services	23,805	3,014,104	25,932	186,424	3,250,265	2,229,866
Institutional support	-	950,556	17,843	-	968,399	863,458
Operation and maintenance of plant	-	-	-	3,988	3,988	111,775
Scholarships and fellowships	-	-	-	56,214,945	56,214,945	60,373,642
Total restricted educational activities:	<u>4,615,096</u>	<u>16,600,002</u>	<u>684,542</u>	<u>59,587,567</u>	<u>81,487,207</u>	<u>81,206,550</u>
Total educational activities	170,030,332	16,600,002	19,930,970	132,590,994	339,152,298	322,791,517
Auxiliary enterprises	1,021,203	-	386,218	7,213,966	8,621,387	6,772,432
Depreciation expense - buildings	-	-	-	12,162,919	12,162,919	9,527,285
Depreciation expense - equip & furn	-	-	-	10,182,723	10,182,723	9,840,373
Total operating expenses	<u>\$ 171,051,535</u>	<u>\$ 16,600,002</u>	<u>\$ 20,317,188</u>	<u>\$ 162,150,602</u>	<u>\$ 370,119,327</u> (Exhibit 2)	<u>\$ 348,931,607</u> (Exhibit 2)

LONE STAR COLLEGE SYSTEM
 SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
 YEAR ENDED AUGUST 31, 2013 (With Memorandum Totals for the Year Ended August 31, 2012)

	Unrestricted	Restricted	Auxiliary Enterprises	2013 Total	2012 Total
Non-Operating revenues					
State appropriations					
Education and general state support	\$ 66,839,742	\$ -	\$ -	\$ 66,839,742	\$ 62,918,245
State group insurance	-	5,886,360	-	5,886,360	5,583,801
State retirement matching	-	3,235,859	-	3,235,859	6,915,926
Total state appropriations	66,839,742	9,122,219	-	75,961,961	75,417,972
Maintenance ad valorem taxes	104,875,620	-	-	104,875,620	101,461,010
General obligation ad valorem taxes	-	40,883,773	-	40,883,773	39,020,221
Federal revenue, non-operating	-	90,756,771	-	90,756,771	89,174,691
Gifts	204,042	-	-	204,042	1,953,695
Investment income, net	556,004	-	-	556,004	499,774
Gain on disposal of capital asset	-	-	-	-	375,347
Other non-operating revenues	693,093	3,974,226	-	4,667,319	1,854,397
Total non-operating revenues	173,168,501	144,736,989	-	317,905,490	309,757,107
Non-Operating expenses					
Interest on capital related debt	-	22,791,859	-	22,791,859	19,614,225
Loss on disposal of capital assets	6,029,891	-	-	6,029,891	1,040,993
Total non-operating expenses	6,029,891	22,791,859	-	28,821,750	20,655,218
Net non-operating revenues	\$ 167,138,610	\$ 121,945,130	\$ -	\$ 289,083,740	\$ 289,101,889
				(Exhibit 2)	(Exhibit 2)

LONE STAR COLLEGE SYSTEM
 SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
 YEAR ENDED AUGUST 31, 2013 (with Memorandum Totals for the Year Ended August 31, 2012)

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets (Net)	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 48,148,812	\$ -	\$ -	\$ -	\$ 48,148,812	\$ 48,148,812	\$ -
Board designated	-	-	-	-	-	-	-
Restricted	-	112,524	-	-	112,524	-	112,524
Auxiliary enterprises	8,165,632	-	-	-	8,165,632	8,165,632	-
Plant:							
Debt service	-	37,687,417	-	-	37,687,417	-	37,687,417
Investment in Plant	-	-	-	178,498,298	178,498,298	-	178,498,298
Total Net Position, August 31, 2013	56,314,444	37,799,941	-	178,498,298	272,612,683	56,314,444	216,298,239
Total Net Position, August 31, 2012	60,188,814	13,885,559	-	195,090,503	269,164,876	60,188,814	208,976,062
Net Increase (Decrease) in Net Position	\$ (3,874,370)	\$ 23,914,382	\$ -	\$ (16,592,205)	\$ 3,447,807	\$ (3,874,370)	\$ 7,322,177

SCHEDULE E

LONE STAR COLLEGE SYSTEM
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED August 31, 2013

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(11-12)	84.007	P007A114084	\$ (200)
Federal Supplemental Educational Opportunity Grants-FSEOG(12-13)	84.007	P007A124084	711,900
Total Federal Supplemental Educational Opportunity Grants			711,700
Federal Work-Study Program (12-13)	84.033	P933A124084	574,004
Federal Work-Study Program (13-14)	84.033	P933A134084	108,332
Total Federal Work-Study Program			682,336
Federal Pell Grant Program (10-11)	84.063	P063P103422	(55,629)
Federal Pell Grant Program (11-12)	84.063	P063P113422	(438,835)
Federal Pell Grant Program (12-13)	84.063	P063P123422	89,857,480
Total Federal Pell Grant Program			89,363,016
Direct Loan Program (10-11)	84.268	P268K113422	(34,257)
Direct Loan Program (11-12)	84.268	P268K123422	(19,332)
Direct Loan Program (12-13)	84.268	P268K133422	92,488,744
Total Direct Loan Program			92,435,155
Academic Competitiveness (10-11)	84.375	P375A103422	(281)
TOTAL FINANCIAL AID CLUSTER			183,191,926
TRIO Cluster			
TRIO - Student Support Services - North Harris (11-12)	84.042A	P042A101148	69,852
TRIO - Student Support Services - North Harris (12-13)	84.042A	P042A101148	197,356
TRIO - Student Support Services - Tomball (10-11)	84.042a	P042A101133	42,385
TRIO - Student Support Services - Tomball (11-12)	84.042a	P042A101133	45,475
TRIO - Student Support Services - Tomball (12-13)	84.042a	P042A101133	151,993
Total TRIO - Student Support Services			507,061
TRIO - Talent Search (2012)	84.044	P044A110072	62,366
TRIO - Talent Search (2013)	84.044	P044A110072	43,285
Total TRIO - Talent Search			105,651
TRIO - Upward Bound ACE (12-13)	84.047A	P047A120378	243,376
TRIO - Upward Bound MAC (12-13)	84.047A	P047A120397	271,848
Total TRIO - Upward Bound			515,224
TOTAL TRIO CLUSTER			1,127,936
HSI Math Success			
HSI Math Success STEM (11-12)	84.031	P031C110072	180,698
HSI Math Success STEM (12-13)	84.031	P031C110072	414,775
Total HSI Math Success STEM			595,473

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

**LONE STAR COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED August 31, 2013**

SCHEDULE E (Cont)

Federal Grantor/Pass Through Grantor/ Program Title		Federal CFDA Number	Pass-Through Grantor's Number
Pass-Through From:			
Harris County Department of Education			
Incentive Grants - WIA Section 503 - HCDE	17.267	N/A	12,401
Texas Education Agency			
Adult Education - Basic State Grant Program (12-13)	84.002A	134100017110455	1,068,481
Adult Education - State Grant Program EL Civics (12-13)	84.002A	134100087110477	94,639
Adult Education - Basic Grants to States Coastal Great	84.002A	N/A	374,163
Adult Education - Basic Grants to States Counseling to Careers Pilot	84.002A	N/A	1,870
Adult Education - Basic Grants to States Project Great (11-12)	84.002A	124100037110060	239,267
Total Adult Basic Education - State Grant Program			<u>1,778,420</u>
Career and Technology Education ATC Professional Development	84.048A	134200257110001	360,384
Texas Higher Education Coordinating Board			
Career and Technical Education - Basic Grants to States (12-13)	84.048	1342020671200001	1,061,215
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 188,127,755</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Program:			
Grants to reduce domestic violence, sexual assault & stalking on campus	16.525	2011-WA-AX-0021	76,806
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-Through from:			
Texas Education Agency			
Temporary Assistance for Needy Families (12-13)	93.558	133625017110429	90,389
U.S. DEPARTMENT OF LABOR			
Pass-Through from:			
Texas Workforce Commission			
Wagner Peysner	17.207	2812WPB000	53,210
Wagner Peysner	17.207	2813WPB002	85,589
WIA Dislocated Worker Formula Grants	17.278	2911WSW004	11,911
WIA Title V Incentive	17.267	2913WSW011	28,210
TOTAL U.S. DEPARTMENT OF LABOR			<u>178,920</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Direct Program:			
Commercial Motor Vehicle Operator Training Grants (11-12)	20.235	FM-DTG-0006-11-01-00	2,604
Commercial Motor Vehicle Operator Training Grants (13-14)	20.235	FM-DTG-0019-13-01-00	6,000
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>8,604</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Pass-Through from:			
Texas State Library and Archvies Commission	45.310	475-13023	9,150
NATIONAL ENDOWMENT FOR THE HUMANITIES			
Pass-Through from:			
Humanities Texas (HTx)			
Embracing Our Cultural Diversity through the Arts & Humanities	45.129	2012-4326	1,500
Bridging Cultures To Form a Nation	45.162	N/A	909
TOTAL NATIONAL ENDOWMENT FOR THE HUMANITIES			<u>2,409</u>
SMALL BUSINESS ADMINISTRATION			
Pass-Through from:			
University of Houston			
Small Business Development Center (11-12)	59.037	R-12-0069-53813	34,009
Small Business Development Center (12-13)	59.037	R-13-0038-53813	246,654
TOTAL SMALL BUSINESS DEVELOPMENT CENTER			<u>280,663</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 188,774,696</u>

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

**LONE STAR COLLEGE SYSTEM
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED August 31, 2013**

1 Basis of Presentation

The schedule of expenditures of federal awards presents the federal grant activity of Lone Star College System (the "System") for the year ended August 31, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations* 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.

3 Federal Assistance Reconciliation

Federal Grants and Contracts Revenue - per Schedule of Operating Revenues (Schedule A)	\$	5,582,770
Federal Revenue, Non-Operating - per Schedule of Non-Operating Revenues and Expenses (Schedule C)		90,756,771
Federal Direct Student Loan Program		<u>92,435,155</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards (Schedule E)	\$	<u>188,774,696</u>

4 Expenditures Not Subject to Federal Single Audit: NONE

5 Sub-Recipients: NONE

LONE STAR COLLEGE SYSTEM
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 YEAR ENDED August 31, 2013

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 (12-13)	N/A	N/A	\$ 121,089
Texas Grant Program (10-11)	N/A	N/A	890
Texas Grant Program (11-12)	N/A	N/A	1,325
Texas Grant Program (12-13)	N/A	N/A	609,372
Texas Grant Renewal Program (12-13)	N/A	N/A	160,223
Total Texas Grant Program			<u>771,810</u>
Texas Educational Opportunity Grant Program (10-11)	N/A	N/A	1,693
Texas Educational Opportunity Grant Program (12-13)	N/A	N/A	239,442
Texas Educational Opportunity Grant Renewal Program (12-13)	N/A	N/A	40,275
Total Texas Educational Opportunity Grant Program			<u>281,410</u>
Fifth-Year Accounting (12-13)	N/A	N/A	8,336
Professional Nursing Shortage Reduction Program (08-10)			16,721
Professional Nursing Shortage Reduction Program (10-11)	N/A	N/A	7,109
Professional Nursing Shortage Reduction Program (11-12)			7,849
Professional Nursing Shortage Reduction Program (12-13)			10,000
Total Professional Nursing Shortage Reduction Program			<u>41,679</u>
Nursing Shortage Reduction Plan - Over 70 (08-10)	N/A	N/A	140,857
Nursing Shortage Reduction Plan - Over 70 (10-11)	N/A	N/A	70,133
Total Nursing Shortage Reduction Plans - Over 70			<u>210,990</u>
Nursing Shortage Reduction Plan - Under 70 (11-12)	N/A	N/A	218,507
Developmental Education Demonstration Projects - ABE	N/A	N/A	22,985
Developmental Education Demonstration Projects - ABE IG	N/A	N/A	298,950
Total Developmental Education Demonstration Projects			<u>321,935</u>
Intensive College Readiness Program (11-12)	N/A	N/A	1,278
Intensive College Readiness Program (12-13)	N/A	N/A	124,850
Total Intensive College Readiness Program			<u>126,128</u>
TOTAL TEXAS HIGHER EDUCATION COORDINATING BOARD			<u>\$ 2,101,884</u>

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

LONE STAR COLLEGE SYSTEM
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 YEAR ENDED August 31, 2013

State Grantor/Pass Through Grantor	State/Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Continued			
TEXAS WORKFORCE COMMISSION:			
<u>Direct Programs:</u>			
Lone Star College in Partnership with Hospital Corporation of America, Inc. (HCA)	N/A	2812SDF002	2,686
Lone Star College in Partnership with SYSCO Corporation	N/A	2812SDF004	114,313
Lone Star College in Partnership with FMC Corporation	N/A	2812SDF005	112,843
Lone Star College in Partnership with NOV and Bauer Manufacturing Skills for Small Business Program	N/A	2812SDF008	1,203,046
Total Skills Development Fund	N/A	2812SSD002	904
			1,433,792
TOTAL TEXAS WORKFORCE COMMISSION			1,433,792
 TEXAS EDUCATION AGENCY:			
<u>Direct Programs:</u>			
Adult Basic Education (11-12)	N/A	120100017110401	106,620
Adult Basic Education (12-13)	N/A	130100017110455	258,770
Total Adult Basic Education			365,390
TOTAL TEXAS EDUCATION AGENCY			365,390
 TOTAL STATE FINANCIAL ASSISTANCE			\$ 3,901,066

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

LONE STAR COLLEGE SYSTEM
 NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
 YEAR ENDED August 31, 2013

1 Significant Accounting Policies used in Preparing the Schedule

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

2 State Assistance Reconciliation

State Grants and Contracts (Schedule A)	\$ 3,901,066
Reconciling items:	
None	-
Total expenditures per Schedule of State Awards	<u>\$ 3,901,066</u>

STATISTICAL SECTION

This part of the Lone Star College System 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 System's overall financial health.

Contents

Financial Trends

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

Revenue Capacity

These schedules contain information to help the reader assess the System'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 System's current levels of outstanding debt and the System'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 System's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the System's financial report relates to the services the System 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 System
 Statistical Supplement 1
 Net Position by Component
 Fiscal Years 2004 to 2013
 (unaudited)

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net Investment in Capital Assets	\$178,498	\$195,090	\$190,949	\$178,172	\$153,534	\$139,813	\$119,598	\$105,149	\$88,362	\$79,699
Restricted - expendable	37,800	13,886	7,574	492	7,652	5,617	6,537	3,822	2,810	2,246
Restricted - nonexpendable	-	-	-	-	-	-	-	-	-	-
Unrestricted	56,314	60,189	47,563	45,022	45,996	47,832	40,506	37,603	29,486	26,525
Total net position	<u>\$ 272,612</u>	<u>\$ 269,165</u>	<u>\$ 246,086</u>	<u>\$ 223,686</u>	<u>\$ 207,182</u>	<u>\$ 193,262</u>	<u>\$ 166,641</u>	<u>\$ 146,574</u>	<u>\$ 120,658</u>	<u>\$ 108,470</u>
Net increase in net position	<u>\$ 3,447</u>	<u>\$ 23,079</u>	<u>\$ 22,400</u>	<u>\$ 16,504</u>	<u>\$ 13,920</u>	<u>\$ 26,621</u>	<u>\$ 20,067</u>	<u>\$ 25,916</u>	<u>\$ 12,188</u>	

Lone Star College System
Statistical Supplement 2
Revenues by Source
Fiscal Years 2004 to 2013
(unaudited)

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Tuition and Fees (Net of Discounts)	\$ 59,682	\$ 58,864	\$ 54,089	\$ 46,330	\$ 42,325	\$ 39,171	\$ 36,815	\$ 33,412	\$ 30,134	\$ 28,615
Governmental Grants and Contracts										
Federal Grants and Contracts	5,583	6,636	5,016	7,803	7,213	6,642	6,741	6,064	5,995	4,947
State Grants and Contracts	3,901	2,657	3,271	2,744	2,215	1,517	826	524	901	910
Local Grants and Contracts	4,000	4,423	5,791	3,656	3,388	3,895	3,876	8,098	3,172	2,978
Auxiliary enterprises	9,850	8,570	7,313	6,737	5,663	6,052	5,671	5,390	4,886	5,025
Other Operating Revenues	1,467	1,757	1,547	1,326	1,694	892	910	891	1,089	429
Total Operating Revenues	\$ 84,483	\$ 82,907	\$ 77,027	\$ 68,596	\$ 62,498	\$ 58,169	\$ 54,839	\$ 54,379	\$ 46,177	\$ 42,904
Ad Valorem Taxes:										
Maintenance and Operations	104,875	101,461	96,232	89,416	86,540	83,480	73,756	70,130	60,589	55,442
General Obligation Bonds	40,884	39,020	38,486	39,416	38,050	34,698	31,368	28,437	26,362	24,243
State Appropriations	75,962	75,418	73,405	74,594	71,148	72,000	62,750	62,266	54,697	53,998
Federal Revenue, Non-Operating	90,757	89,175	74,414	50,747	23,243	18,599	17,118	17,965	18,290	16,443
Investment income	556	500	732	967	3,434	3,961	4,477	2,540	1,111	1,204
Other non-operating revenues	4,871	4,183	3,868	4,601	1,120	1,379	1,320	1,395	655	618
Total Non-Operating Revenues	317,905	309,757	287,137	259,741	223,535	214,117	190,789	182,733	161,704	151,948
Total Revenues	\$ 402,388	\$ 392,664	\$ 364,164	\$ 328,337	\$ 286,033	\$ 272,286	\$ 245,628	\$ 237,112	\$ 207,881	\$ 194,852

For the Year Ended August 31,

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Tuition and Fees (Net of Discounts)	14.83%	14.99%	14.85%	14.11%	14.80%	14.39%	14.99%	14.09%	14.50%	14.69%
Governmental Grants and Contracts										
Federal Grants and Contracts	1.39%	1.69%	1.38%	2.38%	2.52%	2.44%	2.74%	2.56%	2.88%	2.54%
State Grants and Contracts	0.97%	0.68%	0.90%	0.84%	0.77%	0.56%	0.34%	0.22%	0.43%	0.47%
Local Grants and Contracts	0.99%	1.13%	1.59%	1.11%	1.18%	1.43%	1.58%	3.42%	1.53%	1.53%
Auxiliary enterprises	2.45%	2.18%	2.01%	2.05%	1.98%	2.22%	2.31%	2.27%	2.35%	2.58%
Other Operating Revenues	0.36%	0.45%	0.42%	0.40%	0.59%	0.33%	0.37%	0.38%	0.51%	0.22%
Total Operating Revenues	<u>21.00%</u>	<u>21.11%</u>	<u>21.15%</u>	<u>20.89%</u>	<u>21.85%</u>	<u>21.37%</u>	<u>22.33%</u>	<u>22.93%</u>	<u>22.20%</u>	<u>22.02%</u>
Ad Valorem Taxes:										
Maintenance and Operations	26.06%	25.84%	26.43%	27.23%	30.26%	30.66%	30.03%	29.58%	29.15%	28.45%
General Obligation Bonds	10.16%	9.94%	10.57%	12.00%	13.30%	12.74%	12.77%	11.99%	12.68%	12.44%
State Appropriations	18.88%	19.21%	20.16%	22.72%	24.87%	26.44%	25.55%	26.26%	26.31%	27.71%
Federal Revenue, Non-Operating	22.55%	22.71%	20.43%	15.46%	8.13%	6.83%	6.97%	7.58%	8.80%	8.44%
Investment income	0.14%	0.13%	0.20%	0.29%	1.20%	1.45%	1.82%	1.07%	0.53%	0.62%
Other non-operating revenues	1.21%	1.07%	1.06%	1.40%	0.39%	0.51%	0.53%	0.59%	0.33%	0.32%
Total Non-Operating Revenues	<u>79.00%</u>	<u>78.89%</u>	<u>78.85%</u>	<u>79.11%</u>	<u>78.15%</u>	<u>78.63%</u>	<u>77.67%</u>	<u>77.07%</u>	<u>77.80%</u>	<u>77.98%</u>
Total Revenues	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Lone Star College System
Statistical Supplement 3
Program Expenses by Function
Fiscal Years 2004 to 2013
(unaudited)

	For the Year Ended August 31, (amounts expressed in thousands)									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Instruction	\$ 113,233	\$ 108,314	\$ 104,578	\$ 99,673	\$ 92,039	\$ 88,102	\$ 81,585	\$ 77,225	\$ 69,557	\$ 71,587
Research	-	-	-	-	-	-	-	-	-	-
Public service	1,048	1,163	1,252	1,805	1,757	1,510	1,475	1,475	1,324	1,408
Academic support	54,998	47,383	47,497	44,995	44,796	36,140	31,411	29,010	25,892	16,270
Student services	38,498	34,101	30,101	29,942	24,065	18,469	16,705	15,551	13,947	12,770
Institutional support	32,744	29,227	29,908	30,207	27,105	33,961	30,898	28,571	28,728	26,468
Operation and maintenance of plant	42,416	42,230	36,497	35,753	38,258	31,868	27,362	23,665	20,843	23,262
Scholarships and fellowships	56,215	60,374	51,120	33,743	14,092	10,662	10,392	9,341	10,716	11,060
Auxiliary enterprises	8,621	6,772	5,748	5,297	4,952	5,696	5,304	5,132	4,796	4,345
Depreciation	22,346	19,368	12,666	10,682	9,369	8,492	8,825	8,702	8,459	7,389
Total Operating Expenses	<u>\$ 370,119</u>	<u>\$ 348,932</u>	<u>\$ 319,367</u>	<u>\$ 292,097</u>	<u>\$ 256,433</u>	<u>\$ 234,900</u>	<u>\$ 213,957</u>	<u>\$ 198,672</u>	<u>\$ 184,262</u>	<u>\$ 174,559</u>
Interest on capital related debt	22,792	19,614	20,959	19,731	15,582	10,419	11,359	12,518	11,431	11,728
Loss on disposal of capital assets	6,030	666	1,439	5	97	347	245	6	-	-
Total Non-Operating Expenses	<u>28,822</u>	<u>20,280</u>	<u>22,398</u>	<u>19,736</u>	<u>15,679</u>	<u>10,766</u>	<u>11,604</u>	<u>12,524</u>	<u>11,431</u>	<u>11,728</u>
Total Expenses	<u>\$ 398,941</u>	<u>\$ 369,212</u>	<u>\$ 341,765</u>	<u>\$ 311,833</u>	<u>\$ 272,112</u>	<u>\$ 245,666</u>	<u>\$ 225,561</u>	<u>\$ 211,196</u>	<u>\$ 195,693</u>	<u>\$ 186,287</u>

	For the Year Ended August 31,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Instruction	28.38%	29.34%	30.60%	31.96%	33.83%	35.87%	36.16%	36.57%	35.54%	38.43%
Research	-	-	-	-	-	-	-	-	-	-
Public service	0.26%	0.31%	0.37%	0.58%	0.65%	0.61%	0.65%	0.70%	0.68%	0.76%
Academic support	13.79%	12.83%	13.90%	14.43%	16.46%	14.71%	13.93%	13.74%	13.23%	8.73%
Student services	9.65%	9.24%	8.81%	9.60%	8.84%	7.52%	7.41%	7.36%	7.13%	6.86%
Institutional support	8.21%	7.92%	8.75%	9.69%	9.96%	13.82%	13.70%	13.53%	14.68%	14.21%
Operation and maintenance of plant	10.63%	11.43%	10.67%	11.46%	14.05%	12.97%	12.13%	11.21%	10.65%	12.49%
Scholarships and fellowships	14.09%	16.35%	14.96%	10.82%	5.18%	4.34%	4.61%	4.42%	5.48%	5.94%
Auxiliary enterprises	2.16%	1.83%	1.68%	1.70%	1.82%	2.32%	2.35%	2.43%	2.45%	2.33%
Depreciation	5.60%	5.25%	3.71%	3.43%	3.44%	3.46%	3.91%	4.12%	4.32%	3.97%
Total Operating Expenses	92.77%	94.50%	93.45%	93.67%	94.23%	95.62%	94.85%	94.07%	94.16%	93.70%
Interest on capital related debt	5.71%	5.31%	6.13%	6.33%	5.73%	4.24%	5.04%	5.93%	5.84%	6.30%
Loss on disposal of capital assets	1.51%	0.18%	0.42%	0.00%	0.04%	0.14%	0.11%	-	-	-
Total Non-Operating Expenses	7.22%	5.49%	6.55%	6.33%	5.77%	4.38%	5.15%	5.93%	5.84%	6.30%
Total Expenses	100.0%	99.99%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

**Lone Star College System
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	
2013	\$12	\$40	\$110	\$7	\$2	\$7	\$20	\$704	\$1,544	0.00%	0.00%	
2012	12	40	110	7	2	7	20	704	1,544	0.00%	0.00%	
2011	12	40	110	7	2	7	20	704	1,544	17.33%	7.22%	
2010	12	38	108	7	2	2		600	1,440	0.00%	0.00%	
2009	12	38	108	7	2	2		600	1,440	6.38%	12.15%	
2008	12	36	96	6	2	2		564	1,284	4.44%	25.88%	
2007	12	36	76	6	2			540	1,020	0.00%	0.00%	
2006	12	36	76	6	2			540	1,020	9.76%	4.94%	
2005	12	32	72	6	2			492	972	0.00%	0.00%	
2004	12	32	72	6	2			492	972	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	Increase from Prior Year	
2013	\$12	\$125	\$125	\$7	\$2	\$7	\$20	\$1,724	\$1,724	0.00%	0.00%	
2012	12	125	125	7	2	7	20	1,724	1,724	0.00%	0.00%	
2011	12	125	125	7	2	7	20	1,724	1,724	6.42%	6.42%	
2010	12	123	123	7	2	2		1,620	1,620	0.00%	0.00%	
2009	12	123	123	7	2	2		1,620	1,620	10.66%	10.66%	
2008	12	111	111	6	2	2		1,464	1,464	22.00%	22.00%	
2007	12	91	91	6	2			1,200	1,200	0.00%	0.00%	
2006	12	91	91	6	2			1,200	1,200	4.17%	4.17%	
2005	12	87	87	6	2			1,152	1,152	0.00%	0.00%	
2004	12	87	87	6	2			1,152	1,152	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.

Lone Star College System
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)
2012-13	\$ 134,231,554	\$ (11,446,862)	\$ 122,784,692	91.47%	\$ 0.0863	\$ 0.0335	\$ 0.1198
2011-12	127,768,523	(10,264,805)	117,503,718	91.97%	0.0875	0.0335	0.1210
2010-11	124,218,962	(8,525,498)	115,693,464	93.14%	0.0841	0.0335	0.1176
2009-10	126,352,009	(8,422,514)	117,929,495	93.33%	0.0766	0.0335	0.1101
2008-09	122,354,425	(9,679,185)	112,675,240	92.09%	0.0766	0.0335	0.1101
2007-08	110,258,237	(6,990,029)	103,268,208	93.66%	0.0809	0.0335	0.1144
2006-07	96,720,584	(6,573,726)	90,146,858	93.20%	0.0820	0.0347	0.1167
2005-06	87,974,128	(6,037,955)	81,936,173	93.14%	0.0860	0.0347	0.1207
2004-05	82,601,478	(7,311,588)	75,289,890	91.15%	0.0798	0.0347	0.1145
2003-04	75,893,959	(6,295,666)	69,598,293	91.70%	0.0798	0.0347	0.1145

Source: Montgomery and Harris County Appraisal Districts.

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

(a) per \$100 Taxable Assessed Valuation

**Lone Star College System
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	FTSE	State	(hours expressed in thousands)			State
	Appropriation (expressed in thousands)	(a)	Appropriation per FTSE	Academic Contact Hours (b)	Voc/Tech Contact Hours (c)	Total Contact Hours	Appropriation per Contact Hour
2012-13	\$ 75,962	40,029	\$ 1,898	7,971	166	8,137	\$ 9.34
2011-12	75,418	37,563	2,008	7,397	164	7,561	9.97
2010-11	73,405	36,391	2,017	7,126	211	7,337	10.00
2009-10	74,594	32,124	2,322	7,692	183	7,875	9.47
2008-09	71,148	28,358	2,509	6,821	199	7,020	10.14
2007-08	72,001	27,168	2,650	6,592	153	6,745	10.67
2006-07	62,750	25,688	2,443	6,229	182	6,411	9.79
2005-06	62,266	25,269	2,464	6,160	236	6,396	9.74
2004-05	54,697	23,348	2,343	5,750	154	5,904	9.26
2003-04	53,997	22,114	2,442	5,649	193	5,842	9.24

Source

- (a) CBM001 Fall Semester
- (b) CBM004 Fall Semester
- (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 System
Statistical Supplement 7
Principal Taxpayers
Last Ten Tax Years
(unaudited)**

Taxpayer	Type of Business	Taxable Assessed Value (TAV) by Tax Year (amounts expressed in thousands)									
		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Hewlett Packard	Manufacturing	\$ 923,268	\$ 966,995	\$ 773,400	\$ 951,681	\$ 851,026	\$ 1,070,242	\$ 717,813	\$ 612,508	\$ 328,867	\$ 259,341
National Oilwell Inc.	Oil and Gas	750,757	853,978	1,029,299	542,361	344,584					
Centerpoint Energy Inc	Utility	726,301	612,353	607,492	631,661	634,424	629,973	669,281	627,004	665,897	604,808
Halliburton	Oil and Gas	637,090	417,115	243,305	251,237	264,056					178,640
Baker Hughes	Oil and Gas	456,648	217,842		244,222						
Cameron	Oil and Gas	406,267									
Noble Drilling	Oil and Gas	339,270									
Smith International	Oil and Gas	371,334	241,037	227,655	254,117	235,543					
Walmart	Retail	343,630	340,227	532,664	562,119	540,093	512,420	272,154	194,673	231,324	245,454
Continental Airlines Inc	Airline	315,198	240,493	234,462			190,396	190,101	218,579	218,060	197,419
Wal-Mart Real Estate Bus Trst	Real Estate		230,856					220,261			
HEB Grocery Co LP	Retail grocery		223,180					158,170			
LeTourneau Technologies	Oil and Gas			226,670	282,033						
Comcast of Houston LLC	Utility			218,045							
Hines Interests Ltd Psp	Real Estate			215,407	234,733	286,343	248,302	226,654	211,493	190,395	214,578
Houston Pipeline Co LP	Utility				355,074	324,603	253,573	525,621	368,197		
Schlumberger Technology	Oil and Gas					269,686		-	-		
AT&T/Southwestern Bell	Utility					236,936	348,855	254,770	260,074	243,006	
Nabors Drilling USA LP	Oil and Gas						507,533				
Express Jet Airlines Inc	Airline						200,909				
Exxon Mobil Corp	Oil and Gas						198,660	174,024	127,130		
Texas Cable Partners LP	Utility								136,543		
Wachovia Develop Corp	Real Estate								136,277		
Woodlands Land Dev LP	Real Estate									248,881	248,881
AEP Energy Services, Inc	Utility									185,355	
Gulf States Utilities	Utility									143,586	143,585
First Security Bank, Trustee	Other									136,277	
Compaq	Manufacturing										202,282
BAM Lease Company	Property Management										160,887
Houston Lighting & Power	Utility										
Enron Corporation	Conglomerate										
Weingarten Realty	Real Estate										
Greenspoint Plaza Ltd	Property Management										
Totals		\$ 5,269,763	\$ 4,344,076	\$ 3,534,999	\$ 3,357,557	\$ 3,136,268	\$ 3,090,621	\$ 2,691,036	\$ 2,279,970	\$ 2,262,781	\$ 2,196,534
Total Taxable Assessed Value		\$122,784,692	\$ 117,503,718	\$ 115,693,464	\$ 117,929,495	\$112,675,240	\$103,268,208	\$90,146,858	\$81,936,173	\$75,289,890	\$69,598,293

Statistical Supplement 7 (Cont)

Taxpayer	Type of Business	% of Taxable Assessed Value (TAV) by Tax Year									
		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Hewlett Packard	Manufacturing	0.75%	0.82%	0.67%	0.81%	0.76%	1.04%	0.80%	0.75%	0.44%	0.37%
National Oilwell Inc	Oil and Gas	0.61%	0.73%	0.89%	0.46%	0.31%					
Centerpoint Energy Inc	Utility	0.59%	0.52%	0.53%	0.54%	0.56%	0.61%	0.74%	0.77%	0.88%	0.87%
Halliburton	Oil and Gas	0.52%	0.35%	0.21%	0.21%	0.23%					0.26%
Baker Huges	Oil and Gas	0.37%	0.19%		0.21%						
Cameron	Oil and Gas	0.33%									
Noble Drilling	Oil and Gas	0.28%									
Smith International	Oil and Gas	0.30%	0.21%	0.20%	0.22%	0.21%					
Walmart	Retail	0.28%	0.29%	0.46%	0.48%	0.48%	0.50%	0.30%	0.24%	0.31%	0.35%
Continental Airlines Inc	Airline	0.26%	0.20%	0.20%			0.18%	0.21%	0.27%	0.29%	0.28%
Wal-Mart Real Estate Bus Trst	Real Estate		0.20%					0.24%			
HEB Grocery Co LP	Retail grocer		0.19%					0.18%			
LeTourneau Technologies	Oil and Gas			0.20%	0.24%						
Comcast of Houston LLC	Utility			0.19%							
Hines Interests Ltd Psp	Real Estate			0.19%	0.20%	0.25%	0.24%	0.25%	0.26%	0.25%	0.31%
Houston Pipeline Co LP	Utility				0.30%	0.29%	0.25%	0.58%	0.45%		
Schlumberger Technology	Oil and Gas					0.24%					
AT&T/Southwestern Bell	Utility					0.21%	0.34%	0.28%	0.32%	0.32%	
Nabors Drilling USA LP	Oil and Gas						0.49%				
Express Jet Airlines Inc	Airline						0.19%				
Exxon Mobil Corp	Oil and Gas						0.19%	0.19%	0.16%	-	
Texas Cable Partners LP	Utility								0.17%		
Wachovia Develop Corp	Real Estate								0.17%		
Woodlands Land Dev LP	Real Estate									0.33%	0.36%
AEP Energy Services, Inc	Utility									0.25%	-
Gulf States Utilities	Utility									0.19%	0.21%
First Security Bank, Trustee	Other									0.18%	
Compaq	Manufacturing										0.29%
BAM Lease Company	Property Management										0.23%
Houston Lighting & Power	Utility										
Enron Corporation	Conglomerate										
Weingarten Realty	Real Estate										
Greenspoint Plaza Ltd	Property Management										
		4.29%	3.70%	3.06%	2.85%	2.78%	2.99%	2.99%	2.78%	3.01%	3.16%

Source: Harris County and Montgomery County Appraisal Districts

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

Fiscal Year Ended August 31	Levy (a)	Cumulative Levy Adjustments	Adjusted Tax Levy (b)	Collections -		Prior Collections of Prior Levies (d)	Current Collections of Prior Levies (e)	Total Collections	Cumulative Collections of Adjusted Levy
				Year of Levy (c)	Percentage				
2013	130,094	17,002	147,096	144,108	97.97%	2,118	\$ 964	\$ 147,190	100.06%
2012	131,397	8,624	140,021	139,289	99.48%	2,069	1,264	142,622	101.86%
2011	121,564	14,359	135,923	133,207	98.00%	1,679	1,257	136,143	100.16%
2010	115,096	14,436	129,532	126,317	97.52%	2,292	1,228	129,837	100.24%
2009	110,518	13,297	123,815	122,271	98.75%	-	-	122,271	98.75%
2008	105,100	13,039	118,139	114,588	96.99%	-	-	114,588	96.99%
2007	91,528	13,673	105,201	102,060	97.01%	-	-	102,060	97.01%
2006	91,695	5,876	97,571	94,882	97.24%	-	1,769	96,651	99.06%
2005	78,300	7,830	86,130	83,765	97.25%	1,387	381	85,533	99.31%
2004	74,477	5,173	79,650	77,593	97.42%	1,407	189	79,189	99.42%

Source: Local Tax Assessor/Collector and System 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 not collected in the current year or the year of the tax levy.

(e) Represents current year collections of prior years levies.

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

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

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Bonded Debt										
General obligation bonds	\$ 490,699	\$ 506,772	\$ 523,011	\$ 538,108	\$ 283,232	\$ 155,503	\$ 184,419	\$ 203,705	\$ 220,639	\$ 236,164
Notes	-	-	-	-	-	-	-	-	-	-
Less: Funds restricted for debt service	-	-	-	-	-	-	-	-	-	-
Net general bonded debt	\$ 490,699	\$ 506,772	\$ 523,011	\$ 538,108	\$ 283,232	\$ 155,503	\$ 184,419	\$ 203,705	\$ 220,639	\$ 236,164
Other Debt										
Revenue bonds	\$ 62,604	\$ 44,873	\$ 46,708	\$ 48,997	\$ 51,240	\$ 53,488	\$ 55,296	\$ 26,540	\$ 27,992	\$ 29,408
Maintenance Tax Notes	29,753	31,116	32,386	32,480	-	-	-	-	-	-
Capital lease obligations	-	-	-	-	-	-	-	-	-	-
Total Outstanding Debt	\$ 583,056	\$ 582,761	\$ 602,105	\$ 619,585	\$ 334,472	\$ 208,991	\$ 239,715	\$ 230,245	\$ 248,631	\$ 265,572

General Bonded Debt Ratios

Per Capita	\$ 179.20	\$ 197.57	\$ 217.72	\$ 245.29	\$ 142.82	\$ 103.67	\$ 124.61	\$ 141.46	\$ 156.90	\$ 172.46
Per FTSE	12,259	13,491	14,372	16,751	9,988	5,724	7,179	8,061	9,450	10,679
As a percentage of Taxable Assessed Value	0.40%	0.43%	0.45%	0.46%	0.25%	0.15%	0.20%	0.25%	0.29%	0.34%

Total Outstanding Debt Ratios

Per Capita	\$ 212.93	\$ 227.19	\$ 250.65	\$ 282.43	\$ 168.66	\$ 139.33	\$ 161.97	\$ 159.89	\$ 176.80	\$ 193.94
Per FTSE	14,566	15,514	16,545	19,287	11,795	7,693	9,332	9,112	10,649	12,009
As a percentage of Taxable Assessed Value	0.47%	0.50%	0.52%	0.53%	0.30%	0.20%	0.27%	0.28%	0.33%	0.38%

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

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

	For the Year Ended August 31 (amounts expressed in thousands)									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Taxable Assessed Value	\$ 122,784,692	\$ 117,503,718	\$ 115,693,464	\$ 117,929,495	\$ 112,675,240	\$ 103,268,207	\$ 90,146,858	\$ 81,936,173	\$ 75,289,890	\$ 69,598,293
General Obligation Bonds										
Statutory Tax Levy Limit for Debt Service	\$ 613,923	\$ 587,519	\$ 578,467	\$ 589,647	\$ 563,376	\$ 516,341	\$ 450,734	\$ 409,681	\$ 376,449	\$ 347,991
Less: Funds Restricted for Repayment of General Obligation Bonds	(37,687)	(13,400)	(6,351)	(6)	(7,166)	(5,131)	(6,051)	(3,337)	(2,324)	(1,760)
Total Net General Obligation Debt	576,236	574,119	572,116	589,641	556,210	511,210	444,683	406,344	374,125	346,231
Current Year Debt Service Requirements	46,496	45,493	47,201	46,679	36,300	31,836	30,107	28,809	26,854	22,780
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 529,740	\$ 528,626	\$ 524,915	\$ 542,962	\$ 519,910	\$ 479,374	\$ 414,576	\$ 377,535	\$ 347,271	\$ 323,451
Net Current Requirements as a % of Statutory Limit	1.43%	5.46%	7.06%	7.92%	5.17%	5.17%	5.34%	6.22%	6.52%	6.04%

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 System
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
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	\$ 3,785	\$ 3,078	6,863	8.61
2012	11,164	13,372	1,885	1,221	7,110	8,744	958	2,523	2,619	297	395	2,648	52,935	3,645	2,928	6,573	8.05
2011	10,291	13,869	5,872	1,187	7,256	-	-	-	-	339	377	2,496	41,688	2,280	3,779	6,059	6.88
2010	9,517	11,836	1,687	1,416	6,158	-	-	-	-	320	166	2,318	33,418	2,235	2,308	4,543	7.36
2009	7,381	8,942	1,416	937	5,601	-	-	-	-	836	333	2,029	27,474	2,240	2,394	4,634	5.93
2008	6,846	6,637	1,351	899	5,936	-	-	-	-	1,696	329	1,654	25,348	1,808	2,817	4,625	5.48
2007	6,528	5,403	1,269	855	6,322	-	-	-	-	2,304	293	1,579	24,553	1,346	1,179	2,525	9.72
2006	6,160	4,772	1,222	882	5,964	-	-	-	-	1,415	242	1,507	22,164	1,451	1,222	2,673	8.29
2005	6,697	4,465	1,157	834	5,933	-	-	-	-	689	255	1,345	21,375	1,416	1,266	2,682	7.97
2004	6,184	4,157	1,061	697	5,012	-	-	-	-	645	241	1,789	19,786	1,938	995	2,933	6.75

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

Fiscal Year	District Population (a)	District Personal Income (thousands of dollars)	District Personal Income Per Capita (b)	District Unemployment Rate (d)
2013	2,738,213	\$ 163,066,060	\$ 59,552 (c)	6.1%
2012	2,565,071	146,178,266	56,988 (c)	7.0%
2011	2,402,202	130,999,282	54,533 (c)	8.6%
2010	2,193,792	114,483,036	52,185 (c)	8.8%
2009	1,983,113	99,032,697	49,938 (c)	8.3%
2008	1,500,000	71,682,000	47,788	8.3%
2007	1,480,000	68,060,760	45,987	4.1%
2006	1,440,000	66,183,840	45,961	5.0%
2005	1,406,264	60,785,761	43,225	5.3%
2004	1,369,371	54,298,299	39,652	6.2%

Sources:

(a) District estimate. Projection based on 2010 Census population. 10 year district growth trend of 6.78%

(b) U.S. Department of Commerce Bureau of Economic Analysis, Local Area BEARFACTS by SMSA/FIPS Code for Harris County, Texas.

(c) Estimated using average increase in per capita income 1999-2008 of 4.5%

(d) U.S. Bureau of Labor Statistics, Metropolitan Area Employment and Unemployment, July 2013

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

Principal Employment Sectors (a)	2010 (b)		2001 (b)	
	Number of Employees	Percentage of Total Employment	Number of Employees	Percentage of Total Employment
State and local	335,052	9.47%	288,885	10.06%
Retail trade	331,162	9.36%	299,830	10.44%
Construction	256,845	7.26%	242,143	8.43%
Health care and social assistance	314,436	8.89%	202,594	7.05%
Professional, scientific, and technical services	286,087	8.08%	224,464	7.82%
Manufacturing	242,851	6.86%	243,206	8.47%
Administrative and waste services	271,903	7.68%	206,191	7.18%
Accommodation and food services	238,037	6.73%	175,892	6.12%
Other services, except public administration	208,224	5.88%	165,663	5.77%
Finance and insurance	185,568	5.24%	126,157	4.39%
Total	2,670,165	75.45%	2,175,025	75.74%
Total Employment	3,538,942		2,871,788	

Source:

U.S. Department of Commerce Bureau of Economic Analysis, Regional Economic System Information, Houston Economic Area (Houston-Baytown-Huntsville), 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. Latest data available for employment sectors is 2010 year and the earliest year available that is comparable is the 2001 year. (adjusted).

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

		Fiscal Year									
		2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Faculty											
Full-Time		842	833	742	780	756	761	704	661	646	605
Part-Time		1,999	1,894	1,900	2,271	2,118	1,923	1,910	1,799	1,636	1,557
Total		2,841	2,727	2,642	3,051	2,874	2,684	2,614	2,460	2,282	2,162
Percent											
Full-Time		29.6%	30.5%	28.1%	25.6%	26.3%	28.4%	26.9%	26.9%	28.3%	28.0%
Part-Time		70.4%	69.5%	71.9%	74.4%	73.7%	71.6%	73.1%	73.1%	71.7%	72.0%
Staff and Administrators											
Full-Time		1,581	1,479	1,431	1,408	1,340	1,263	1,214	1,187	1,142	1,091
Part-Time		1,642	1,476	1,297	1,334	1,472	1,480	1,260	1,078	1,064	894
Total		3,223	2,955	2,728	2,742	2,812	2,743	2,474	2,265	2,206	1,985
Percent											
Full-Time		49.1%	50.1%	52.5%	51.3%	47.7%	46.0%	49.1%	52.4%	51.8%	55.0%
Part-Time		50.9%	49.9%	47.5%	48.7%	52.3%	54.0%	50.9%	47.6%	48.2%	45.0%
FTSE per Full-time Faculty		49.61	49.57	52.69	45.87	33.98	33.76	36.49	38.23	36.14	36.55
FTSE per Full-Time Staff Member		26.42	27.92	27.32	25.41	19.17	20.34	21.16	21.29	20.44	20.27
Average Annual Faculty Salary		\$ 65,462	\$ 65,835	\$ 65,321	\$ 65,012	\$ 65,301	\$ 62,755	\$ 61,426	\$ 58,424	\$ 58,090	\$ 56,738

**Lone Star College System
Statistical Supplement 15
Enrollment Details
Last Ten Fiscal Years
(unaudited)**

Student Classification	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
00-30 hours	46,521	59.93%	47,445	60.92%	43,134	57.00%	33,296	48.02%	35,171	58.95%	22,237	48.52%	28,830	65.80%
31-60 hours	17,864	23.01%	17,882	22.96%	19,787	26.15%	20,895	30.13%	13,039	21.86%	11,758	25.66%	8,383	19.13%
> 60 hours	13,236	17.05%	12,550	16.12%	12,759	16.86%	15,148	21.85%	11,449	19.19%	11,835	25.82%	6,603	15.07%
Total	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	100.00%	59,659	100.00%	45,830	100.00%	43,816	100.00%

Semester Hour Load	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than 3	542	0.70%	668	0.86%	2791	3.69%	702	1.01%	232	0.39%	246	0.54%	218	0.50%
3-5 semester hours	11,340	14.61%	12,224	15.70%	14476	19.13%	13,089	18.88%	11,974	20.07%	10,941	23.87%	10,301	23.51%
6-8 Semester hours	22,763	29.33%	21,610	27.75%	21164	27.97%	17,940	25.87%	15,455	25.91%	11,669	25.46%	11,110	25.36%
9-11 semester hours	17,344	22.34%	17,557	22.54%	16553	21.87%	13,851	19.98%	11,442	19.18%	8,514	18.58%	8,309	18.96%
12-14 semester hours	21,102	27.19%	21,667	27.82%	17612	23.27%	19,948	28.77%	16,917	28.36%	12,053	26.30%	11,541	26.34%
15-17 semester hours	4,046	5.21%	3,757	4.82%	2797	3.70%	3,377	4.87%	3,213	5.39%	2,185	4.77%	2,161	4.93%
18 & over	484	0.62%	394	0.51%	287	0.38%	432	0.62%	426	0.71%	222	0.48%	176	0.40%
Total	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	100.00%	59,659	100.00%	45,830	100.00%	43,816	100.00%

Average course load 8.5 8.8 8 8.7 8.4 8.7 8.7

Tuition Status	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Texas Resident (in-District)	67,644	87.15%	66,716	85.67%	64901	85.76%	61,054	88.05%	54,138	90.75%	41,477	90.50%	38,948	88.89%
Texas Resident (out-of-Dist)	7,573	9.76%	8,019	10.30%	7224	9.55%	4,839	6.98%	3,965	6.65%	2,951	6.44%	3,481	7.94%
Non-Resident Tuition	2,404	3.10%	3,142	4.03%	3555	4.70%	3,446	4.97%	1,556	2.61%	1,402	3.06%	1,387	3.17%
Total	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	100.00%	59,659	100.00%	45,830	100.00%	43,816	100.00%

Source: ORIE Official Day Fall 2013

Fall 2006		Fall 2005		Fall 2004	
Number	Percent	Number	Percent	Number	Percent
23,372	56.73%	24,543	60.93%	22,752	61.76%
10,107	24.53%	10,002	24.83%	9,080	24.65%
7,721	18.74%	5,736	14.24%	5,010	13.60%
41,200	100.00%	40,281	100.00%	36,842	100.00%

Fall 2006		Fall 2005		Fall 2004	
Number	Percent	Number	Percent	Number	Percent
223	0.54%	227	0.56%	156	0.42%
9,669	23.47%	9,142	22.70%	8,075	21.92%
10,254	24.89%	10,308	25.59%	9,394	25.50%
7,716	18.73%	7,589	18.84%	6,889	18.70%
11,206	27.20%	10,938	27.15%	10,471	28.42%
1,955	4.75%	1,921	4.77%	1,687	4.58%
177	0.43%	156	0.39%	170	0.46%
41,200	100.00%	40,281	100.00%	36,842	100.00%

8.8 8.6 8.8

Fall 2006		Fall 2005		Fall 2004	
Number	Percent	Number	Percent	Number	Percent
36,873	89.50%	36,285	90.08%	33,726	91.54%
3,093	7.51%	3,002	7.45%	2,279	6.19%
1,234	3.00%	994	2.47%	837	2.27%
41,200	100.00%	40,281	100.00%	36,842	100.00%

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

	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Gender																					
Female	47,155	60.75%	48,086	61.75%	46,503	61.45%	42,187	60.84%	35,925	60.22%	27,545	60.10%	26,351	60.14%	24,791	60.17%	24,218	60.12%	22,489	61.04%	
Male	30,466	39.25%	29,791	38.25%	29,177	38.55%	27,152	39.16%	23,734	39.78%	18,285	39.90%	17,465	39.86%	16,409	39.83%	16,063	39.88%	14,353	38.96%	
Total	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	100.00%	59,659	100.00%	45,830	100.00%	43,816	100.00%	41,200	100.00%	40,281	100.00%	36,842	100.00%	

	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Ethnic Origin																					
White	27,819	35.84%	28,976	37.21%	29,642	39.17%	29,788	42.96%	27,244	45.67%	21,587	47.10%	21,824	49.81%	21,496	52.17%	22,268	55.28%	21,128	57.35%	
Hispanic	25,053	32.28%	23,534	30.22%	21,512	28.42%	18,317	26.42%	15,170	25.43%	5,381	11.74%	10,455	23.86%	9,103	22.09%	8,109	20.13%	7,033	19.09%	
African American	13,971	18.00%	14,644	18.80%	13,804	18.24%	10,598	15.28%	8,239	13.81%	11,520	25.14%	4,956	11.31%	4,626	11.23%	4,572	11.35%	4,185	11.36%	
Asian	4,989	6.43%	4,521	5.81%	4,404	5.82%	4,784	6.90%	4,076	6.83%	3,013	6.57%	2,804	6.40%	2,558	6.21%	2,422	6.01%	2,058	5.59%	
Foreign		0.00%		0.00%		0.00%		0.00%	735	1.23%	178	0.39%	753	1.72%	847	2.06%	820	2.04%	733	1.99%	
Native American	243	0.31%	258	0.33%	297	0.39%	321	0.46%	274	0.46%	758	1.65%	173	0.39%	136	0.33%	148	0.37%	158	0.43%	
Other	5,546	7.14%	5,944	7.63%	6,021	7.96%	5,531	7.98%	3,921	6.57%	3,393	7.40%	2,851	6.51%	2,434	5.91%	1,942	4.82%	1,547	4.20%	
Total	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	100.00%	59,659	100.00%	45,830	100.00%	43,816	100.00%	41,200	100.00%	40,281	100.00%	36,842	100.00%	

	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Age																					
Under 20	25,466	32.81%	20,005	25.69%	19,910	26.31%	22,769	32.84%	12,380	20.75%	16,769	36.59%	16,644	37.99%	15,499	37.62%	14,598	36.24%	13,017	35.33%	
20-24	24,866	32.04%	28,122	36.11%	27,294	36.07%	22,029	31.77%	24,654	41.32%	14,969	32.66%	13,881	31.68%	13,231	32.11%	13,075	32.46%	11,979	32.51%	
25-29	9,964	12.84%	11,167	14.34%	10,718	14.16%	9,292	13.40%	9,086	15.23%	5,435	11.86%	5,054	11.53%	4,596	11.16%	4,643	11.53%	4,238	11.50%	
30-39	10,499	13.53%	11,342	14.56%	10,974	14.50%	9,417	13.58%	8,269	13.86%	5,204	11.36%	4,888	11.16%	4,665	11.32%	4,604	11.43%	4,415	11.98%	
40-49	4,834	6.23%	5,127	6.58%	4,900	6.47%	4,203	6.06%	3,710	6.22%	2,497	5.45%	2,464	5.62%	2,353	5.71%	2,469	6.13%	2,384	6.47%	
50 & over	1,992	2.57%	2,114	2.71%	1,884	2.49%	1,629	2.35%	1,560	2.61%	956	2.09%	885	2.02%	856	2.08%	892	2.21%	809	2.20%	
Total	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	100.00%	59,659	100.00%	45,830	100.00%	43,816	100.00%	41,200	100.00%	40,281	100.00%	36,842	100.00%	

Average Age	24.4	25.5	25.3	24.8	25.6	25.2	23.6	24.1	24.5	24.6
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Source: ORIE Official Day 2013

Lone Star College System
Statistical Supplement 17
Transfers to Senior Institutions
(Includes only public senior colleges in Texas)
(unaudited)

	Transfer Student Count Academic	Transfer Student Count Technical	Transfer Student Count Tech-Prep	Total of all Lone Star Transfer Students	% of all Lone Star Transfer Students
University of Houston	3,714	137	135	3,986	23.57%
Sam Houston State University	2,275	122	73	2,470	14.60%
Texas A&M University	2,127	80	35	2,242	13.26%
University of Houston - Downtown	2,015	77	107	2,199	13.00%
The University of Texas at Austin	1,557	45	25	1,627	9.62%
Texas State University - San Marcos	846	27	18	891	5.27%
Texas Tech University	474	22	10	506	2.99%
Stephen F. Austin State University	387	21	11	419	2.48%
The University of Texas at San Antonio	383	20	12	415	2.45%
Texas Southern University	277	18	15	310	1.83%
Prairie View A&M University	263	19	10	292	1.73%
The University of Texas at Arlington	180	27	48	255	1.51%
University of North Texas	227	5	9	241	1.42%
University of Houston - Victoria	119	23	10	152	0.90%
Texas Woman's University	136	6	2	144	0.85%
The University of Texas at Dallas	117	9	4	130	0.77%
Lamar University	103	6	9	118	0.70%
University of Houston - Clear Lake	81	6	5	92	0.54%
Texas A&M University at Galveston	84	5	1	90	0.53%
Texas A&M University - Corpus Christi	74	4	2	80	0.47%
The University of Texas at Tyler	60	4	7	71	0.42%
Tarleton State University	36	1	1	38	0.22%
Texas A&M University - Kingsville	28		2	30	0.18%
Midwestern State University	18	1	2	21	0.12%
West Texas A&M University	10	7	1	18	0.11%
Texas A&M University - Commerce	10	2	3	15	0.09%
The University of Texas of the Permian Basin	13		1	14	0.08%
The University of Texas at Brownsville	9	2	2	13	0.08%
The University of Texas - Pan American	10		1	11	0.07%
Angelo State University	5	3		8	0.05%
The University of Texas at El Paso	4	1	1	6	0.04%
Sul Ross State University	4			4	0.02%
Texas A&M University - Central Texas	3			3	0.02%
Texas A&M International University	2	1		3	0.02%
Grand Total	15,651	701	562	16,914	100.00%

Includes only Texas public institutions

Source:

Texas Higher Education Data, ASALFS Students Pursuing Additional Education updated 2012

**Lone Star College System
Statistical Supplement 18
Capital Asset Information
Fiscal Years 2004 to 2013
(unaudited)**

System-Wide Summary

	Fiscal Year									
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Building Use										
Square Footage (in thousands)										
Instruction/Student Services	2,994	2,969	2,969	2,080	2,080	1,814	1,814	1,814	1,814	1,809
Safety, Facilities Systems	103	103	103	95	58	41	41	41	41	37
Libraries	351	351	351	351	351	351	351	351	351	351
Public Service	105	105	105	105	105	105	105	105	105	105
Auxiliary Services	36	36	36	29	29	29	29	29	29	29
Institutional Support	145	145	145	145	145	145	145	145	145	145
Mixed Use	222	222	222	222	222	0	0	0	0	0
Dining Facilities										
Square footage (in thousands)	91	91	91	91	55	55	55	55	55	55
Average daily customers	4,550	4,550	4,300	4,100	3,900	3,900	3,900	N/A	N/A	N/A
Athletic Facilities										
Square footage (in thousands)	112	112	112	112	112	112	112	112	112	112
Stadiums (number of buildings)	-	-	-	-	-	-	-	-	-	-
Gymnasiums (number of buildings)	-	-	-	-	-	-	-	-	-	-
Fitness Centers (number of buildings)	7	6	6	6	6	6	6	6	6	6
Tennis Court (number of courts)	32	32	32	32	32	32	32	32	32	32
Transportation										
Cars	25	26	15	15	15	15	16	16	16	16
Light Trucks/Vans	37	33	20	20	20	20	17	17	15	14
Buses	-	-	-	-	-	-	-	-	-	-

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Lone Star College System (the "System"), which comprise the statement of financial position as of August 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

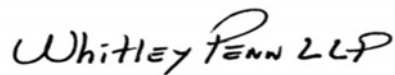
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
December 5, 2013

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133
AND STATE OF TEXAS SINGLE AUDIT CIRCULAR**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal and State Program

We have audited Lone Star College System's (the "System") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and *State of Texas Single Audit Circular* that could have a direct and material effect on each of the System's major federal and state programs for the year ended August 31, 2013. The System'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*. Those standards, OMB Circular A-133, and State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the System'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 System's compliance.

Dallas

Fort Worth

Houston



Opinion on Each Major Federal Program

In our opinion, the System 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, 2013.

Report on Internal Control over Compliance

Management of the System 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 System'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 program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and State of Texas Single Audit Circular, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

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

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

Whitley Penn LLP

Houston, Texas
December 5, 2013

Schedule of Findings and Questioned Cost

**LONE STAR COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONS COSTS (continued)
For the Year Ended August 31, 2013**

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported

Type of auditors' report issued on compliance with major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) 2-7 OMB Circular A-133? None

Identification of major programs:

Name of Federal Program or Cluster	CFDA Numbers
---	---------------------

Student Financial Aid Cluster	
Supplemental Education Opportunity Grant	84.007
Federal College Work-Study Program	84.033
Federal Pell Grant	84.063
Federal Direct Loan Program	84.268
Academic Competitiveness	84.375
Adult Education – Basic Grants	84.002A
Temporary Assistance for Needy Families	93.558
Small Business Development Centers	59.037
HSI Math Success STEM	84.031

Name of State Program

Texas Grant Program	N/A
Texas Educational Opportunity Grant Program	N/A

**LONE STAR COLLEGE SYSTEM
 SCHEDULE OF FINDINGS AND QUESTIONS COSTS (continued)
 For the Year Ended August 31, 2013**

I. Summary of Auditors' Results (continued)

Dollar Threshold used to Distinguish between
 Type A and B Programs

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

Auditee qualified as a low-risk auditee

Federal	Yes
State	Yes

II. Financial Statement Findings

There are no current year findings.

III. Federal Award Findings and Questioned Costs

There are no current year findings.

IV. Status of Prior-Year Findings

#2012-01: U.S. Department of Commerce, CFDA 113.07, Economic Adjustment Assistance (Victory Program) and U.S. Department of Education, CFDA 84.031, Higher Education Institutional Aid (Math Lab) – Davis Bacon Act

Corrective Action Taken: Resolved. The System did not have any construction projects funded by grant funds that were in progress or commenced during fiscal year 2013. Should the System enter into grant- funded construction contracts, it will discuss the requirements of the Act with all applicable parties and will ensure that certified weekly payrolls and statements of compliance are submitted by contractors to the System on a timely basis.

V. Corrective Action Plan

Not applicable.



**Lone Star College System
5000 Research Forest Drive
The Woodlands, Texas 77381-4356**

