

# LONE STAR COLLEGE SYSTEM

Training Today's Workforce  
Preparing Tomorrow's Innovators



## Comprehensive Annual Financial Report

Fiscal Years Ended  
August 31, 2014 and 2013  
The Woodlands, Texas



LONE STAR  
COLLEGE  
SYSTEM





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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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**FOR THE FISCAL YEARS ENDED AUGUST 31, 2014 AND 2013**

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

**LONE STAR COLLEGE SYSTEM  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEARS ENDED AUGUST 31, 2014 AND 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, 2013 through August 31, 2014.



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

Enrollment grew dramatically from Fall 2013 to Fall 2014 for a total of 82,818 credit students, a 7% increase.

Prudent fiscal management, along with a strengthening of the local economy has enabled us to lower the tax rate for 2014-2015 by 7% 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, a system-wide revamping in our compensation structure for first the time in 12 years reflects the System's commitment to the recruitment and retention of high quality employees.

Highlights include:

- ◊ Increasing adjunct faculty salaries to the highest level in our service area.
- ◊ Maintaining the current FT/PT faculty ratio system-wide with the addition of nine new faculty positions.
- ◊ Adding eight new faculty positions at LSC-CyFair and LSC-University Park to increase the FT/PT ratio.
- ◊ Alternative financing for required construction and enhanced campus safety measures.
- ◊ Significant investment in student success measures.

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, appearing to read "Steve".

Stephen C. Head  
Chancellor





December 4, 2014

To: Chancellor Steve Head  
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 years ended August 31, 2014 and 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 years ended August 31, 2014 and 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 align government financial statements similarly to corporate financial statements.

### ***SYSTEM PROFILE***

Lone Star College System has been opening doors to a better community for over 40 years. With its beginning in 1973, The System remains steadfast in its commitment to student success and credential completion. 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 82,000 credit students and a total of more than 95,000 students. In 2008, Lone Star College System became the new name for the North Harris Montgomery Community College District. 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 an area of more than 1,400 square miles and is the largest and fastest growing community college system 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.



***VISION***

Lone Star College System is recognized globally as the premier community college for student success, innovation and partnerships.

***MISSION***

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

***VALUES***

- Affordable Access
- Building Communities & Partnerships
- Commitment to International Education
- Communication
- Diversity
- Economic and Workforce Development
- Ethics/Integrity
- Evaluation/Accountability
- Human Resources
- Leadership
- Learning Environment
- Stewardship

***ECONOMIC CONDITION AND OUTLOOK***

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the local environment in which the 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 improvements in key indicators



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

### **ACCOUNTABILITY MEASURES**

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

- Student Success
- Institutional Effectiveness
- Workforce Program Reviews
- Diversity
- Technology
- 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, 2013. This was the 10th 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 integrity, transparency and accountability 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

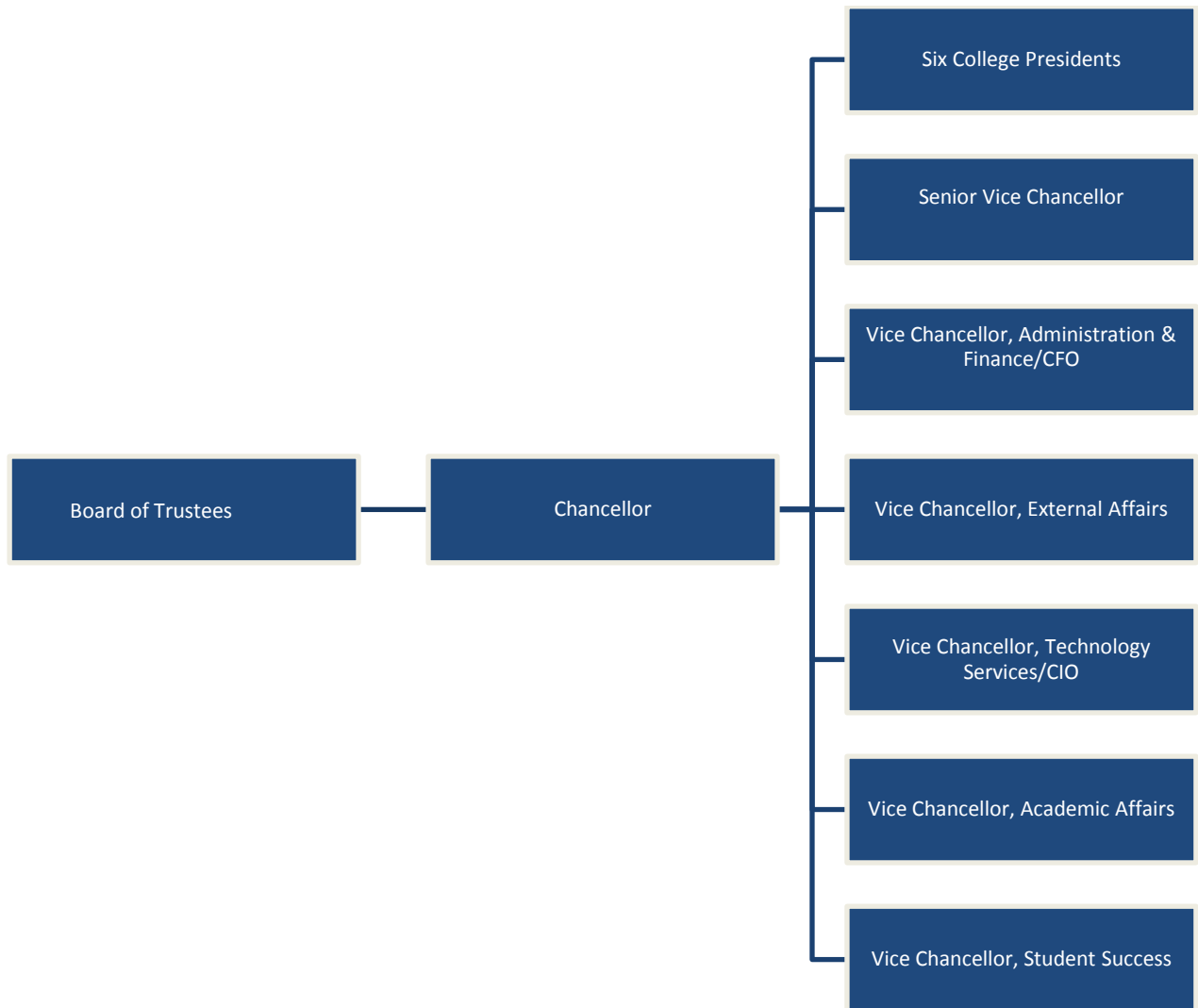
**August 31, 2013**

Executive Director/CEO





**LONE STAR COLLEGE SYSTEM  
ORGANIZATIONAL CHART**





**ORGANIZATIONAL DATA  
For the Fiscal Year 2014**

**Board of Trustees**

		<u>Term Expires May</u>
David Holsey, DDS	Chair	2019
Bob Wolfe, JD, CPA	Vice Chair	2017
Priscilla Kelly	Secretary	2015
David A. Vogt	Assistant Secretary	2017
Robert Adam, JD		2015
Kyle A. Scott, Ph.D		2019
Linda S. Good, JD		2017
Stephanie Marquard		2015
Ron Trowbridge, Ph.D		2019

**Principal Administrative Officers**

Dr. Stephen C. Head	Chancellor
Penny Westerfeld	Interim President, Lone Star College – North Harris
Dr. Katherine Persson	President, Lone Star College – Kingwood
Dr. Lee Ann Nutt	Acting 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
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  
The Woodlands, Texas

We have audited the accompanying financial statements of Lone Star College System (the "System") as of and for the year ended August 31, 2014 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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, 2014, 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**

We have previously audited the System's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **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 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*

## **Other Matters (continued)**

### *Other Information (continued)*

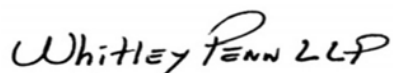
*of States, Local Governments, and Non-Profit Organizations*, the Schedule of Expenditures of State Awards as required by the State of Texas Single Audit Circular contained in the Governor's Office of Budget and Planning *Uniform Grant Management Standards*, and other information such as the introductory 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 4, 2014 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.

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

Houston, Texas  
December 4, 2014



# Lone Star College System

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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 "2014", "2013", and "2012" refer to fiscal years ending August 31, 2014, August 31, 2013, and August 31, 2012, respectively.

## **Accounting Standards**

The financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

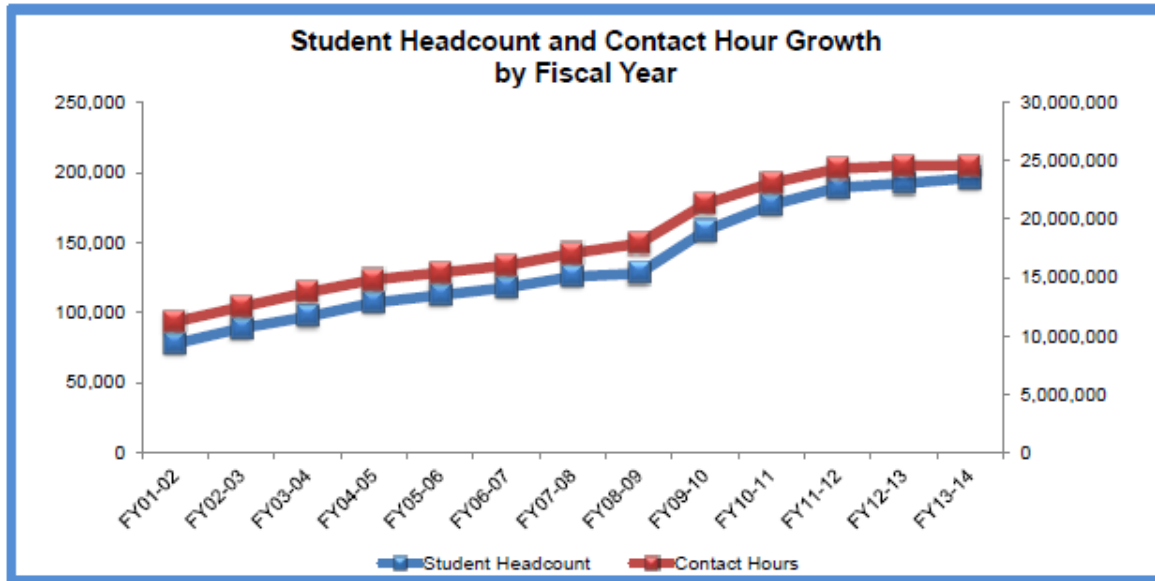
## **Financial and Enrollment Highlights - 2014**

- Net position increased \$3 million, which represents a 1% increase over 2013.
- Construction in progress balances decreased to approximately \$28 million as various projects funded with bond proceeds were completed.
- The System maintained its AAA rating from Standard & Poor's on its general obligation debt.
- Operating expenses for educational activities increased \$20 million, which represents a 6% 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.
- Enrollment and fundable contact hours remained steady during 2014.

## **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 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:



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

Source: LSCS Office of Research & Institutional Effectiveness



## 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 each year ending 2014 and 2013.

	<u>2014</u>	<u>August 31 2013</u>	<u>2012</u>
<b>Current Assets:</b>			
Cash and short-term investments	\$ 170,647,032	\$ 137,564,574	\$ 136,852,407
Receivables	47,810,809	45,245,178	49,666,171
Inventory, prepaid expenses & other	734,995	119,196	119,009
Total current assets	<u>219,192,836</u>	<u>182,928,948</u>	<u>186,637,587</u>
<b>Non-Current Assets:</b>			
Capital assets, net of accumulated depreciation (Note 8)	769,918,536	767,525,376	754,114,824
Total assets	<u>\$ 989,111,372</u>	<u>\$ 950,454,324</u>	<u>\$ 940,752,411</u>
<b>Current Liabilities:</b>			
Accounts payable & accrued liabilities	\$ 37,771,732	\$ 45,070,952	\$ 40,181,113
Unearned revenues	47,962,543	43,720,399	42,541,316
Bonds payable-current portion	25,831,137	21,386,811	19,989,601
	<u>111,565,412</u>	<u>110,178,162</u>	<u>102,712,030</u>
<b>Non-Current Liabilities:</b>			
Accrued compensable absences	6,455,039	5,994,855	6,105,069
Bonds payable-noncurrent portion	595,507,280	561,668,624	562,770,436
Total liabilities	<u>\$ 713,527,731</u>	<u>\$ 677,841,641</u>	<u>\$ 671,587,535</u>
<b>Net Position:</b>			
Net Investment in capital assets	178,160,052	178,498,298	195,090,503
Restricted	44,889,269	37,799,941	13,885,559
Unrestricted	52,534,320	56,314,444	60,188,814
Total net position	<u>\$ 275,583,641</u>	<u>\$ 272,612,683</u>	<u>\$ 269,164,876</u>

The increase in total current assets of \$36 million in 2014 was due to an increase in cash and short-term investments at year end.

Total liabilities increased \$36 million during 2014. The increase is primarily related to an increase in bonds payable.

The increases in total net position of \$3 million for 2014 and \$3.4 million for 2013 represent a 2% 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 2012 is in restricted net position of \$31 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 48 days of operating expenses, or 13%, in 2014.

**Statements of Revenues, Expenses and Changes in Net Position**

	August 31		
	2014	2013	2012
<b>Operating Revenues</b>			
Student tuition and fees	\$ 61,961,356	\$ 59,682,149	\$ 58,863,971
Grants & contracts	13,842,872	13,484,181	13,716,779
Auxiliary enterprises	14,334,851	9,849,775	8,569,915
Other	2,238,929	1,467,289	1,757,129
Total operating revenues	<u>92,378,008</u>	<u>84,483,394</u>	<u>82,907,794</u>
<b>Operating Expenses</b>			
Educational Activities	359,331,547	339,152,298	322,791,517
Auxiliary Activities	12,307,062	8,621,387	6,772,432
Depreciation Expense	23,587,965	22,345,642	19,367,658
Total operating expenses	<u>395,226,574</u>	<u>370,119,327</u>	<u>348,931,607</u>
<b>Net Operating Expenses</b>	(302,848,566)	(285,635,933)	(266,023,813)
<b>Non-Operating Revenues</b>			
Ad-valorem taxes	152,703,783	145,759,393	140,481,231
State Appropriations	85,708,997	75,961,961	75,417,972
Federal Revenue, Non-Operating	91,369,027	90,756,771	89,174,691
Investment income	450,967	556,004	499,774
Capital appropriations	(27,106,038)	(22,791,859)	(19,614,225)
Other	2,692,788	(1,158,530)	3,142,446
Total non-operating revenues-net	305,819,524	289,083,740	289,101,889
<b>Increase in Net Position</b>	2,970,958	3,447,807	23,078,076
<b>Net Position, Beginning of Year</b>	<u>272,612,683</u>	<u>269,164,876</u>	<u>246,086,800</u>
<b>Net Position, End of Year</b>	<u><u>\$ 275,583,641</u></u>	<u><u>\$ 272,612,683</u></u>	<u><u>\$ 269,164,876</u></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 \$2 million for 2014, due to an increase in differential fees and an increase in out-of-district resident tuition revenues. For 2013, student tuition and fees increased \$1 million due to the increase in differential fees. The System increased the base tuition rate in fall 2014 to \$42 per credit hour. At \$42 per credit hour the System's tuition rate remains below the Texas average for community colleges.

Auxiliary enterprise revenues increased 45% for 2014. Most of the increase is related to an increase in tenant revenues.

### ***Statements of Revenues, Expenses and Changes in Net Position (Continued)***

Expenses for educational activities increased \$20 million (6%) in 2014 and \$16 million (5%) in 2013. The most significant increase in both years was in the instruction category. 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 \$7 million in 2014 (\$5.3 million in 2013) as a result of a strengthening of the local economy and the addition of new properties. Investment income decreased slightly in 2014 due to a flat interest rate environment. The System continues its focus on maintaining a short-term investment portfolio.

State appropriations increased \$9.7 million in 2014. The 83<sup>rd</sup> legislature passed an appropriations act for the 2014-15 biennium and changed the method of funding for the state's 50 community colleges. Each college will receive a base funding amount of \$500,000 per year. Additionally, each college will receive an allocation based on contact hours and student success points. The legislature also increased the benefit funding for community colleges as compared to the 2012-13 biennium. The state's on behalf contribution for employees eligible for state supported health and retirement plans increased by \$4.1 million.

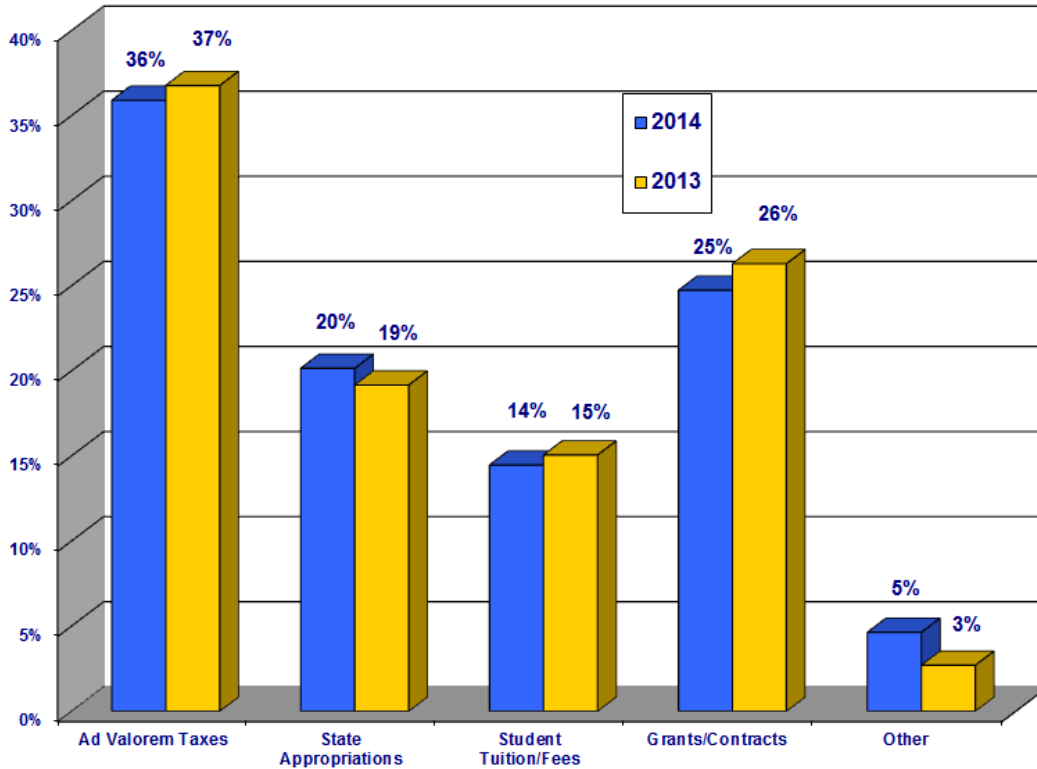
Federal revenue, non-operating, increased by \$.6 million due to an increase in federal financial aid (Pell) grant funding.

Capital appropriations consist of interest and fees on capital asset-related debt. Expenses in this category increased \$4 million (19%) 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.

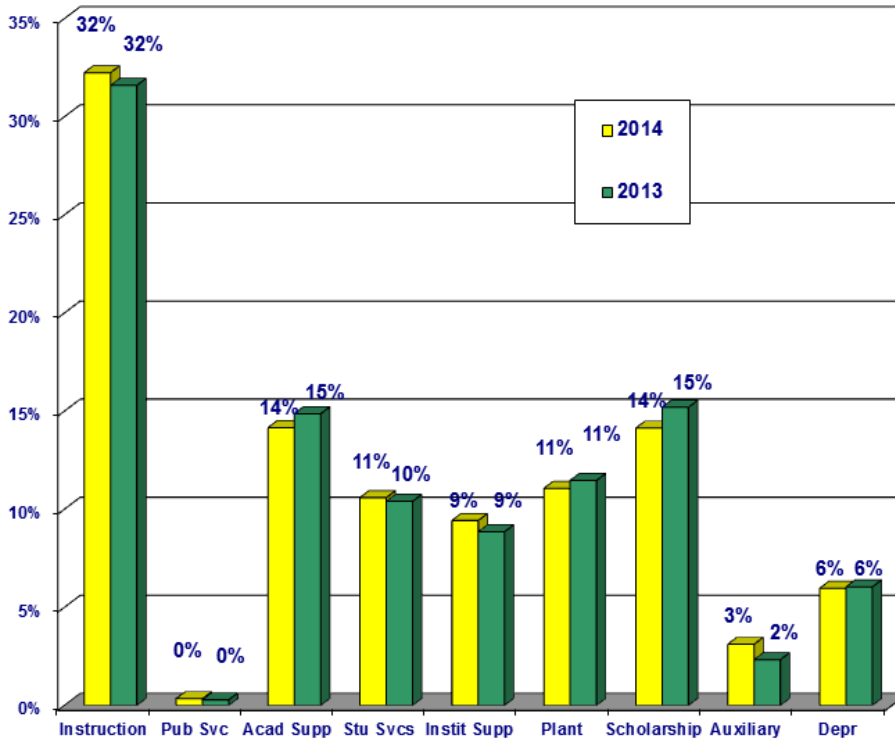


The largest source of revenue for both 2014 and 2013 for the System is ad valorem taxes at 36% and 37% for 2014 and 2013, respectively. Grants and contracts are second place in 2014 at 25%, which decreased 1% from 2013. State appropriations were the third largest revenue source at 20% in 2014. Student tuition and fees were at 14% and 15% for 2014 and 2013, respectively. Auxiliary income comprises 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 32% of the total expenses for both 2014 and 2013, instruction is by far the System's largest expense category. The academic support and scholarship category tie for second place in 2014 at 14% of total expenses, down 1% from 2013. Student Services is next highest at 11% increasing 1% over 2013. 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 \$767 million in 2013 to \$770 million in 2014. The following lists some of the major projects and changes that occurred during 2014 and 2013:

### 2014 Projects

#### Bond Projects

- Completed construction of the 72,000 square foot/ \$16 million Energy and Manufacturing Institute Building (EMI) on the University Park campus.
- Completed construction of a 270 space / \$3.6M parking garage at the Fairbanks Satellite Center.

- Completed \$2.5M of renovation projects across the System.
- Construction is underway on the 85,000 square foot/ \$20.2M Creekside Satellite Center.

#### Real Estate Transactions

- A 19 acre tract of land was acquired in the Tomball area to support the Drilling Platform Training Center for \$0.7M.
- A 2.4 acre tract of land with a 30,000 sf building that formerly housed the Conroe Center was sold for \$1.9M.

#### 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.

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

#### ***Currently Known Facts, Decisions, or Conditions***

Enrollment increased dramatically in fall 2014 to 82,818 credit students, a 7% increase over fall 2013. Course enrollments and contact hours were up by 4% over fall 2013.

In November 2014, Montgomery and Harris County voters approved a \$485 million bond referendum for the System. The bond funds will be used to address the impact of the student enrollment growth of the System and to provide facilities for specialized workforce training that is in high demand by business communities in the greater Houston area.

Beginning with fiscal year 2015, the System will implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*. GASB No. 68 will require entities that participate in the Teacher's Retirement System of Texas (TRS) to recognize their proportionate share of the net pension liability. An actuarial valuation as of August 31, 2013, reported that TRS's unfunded pension liability is \$28.9 billion. Based on an allocation of total contributions, the System's portion was \$60.3 million for fiscal year 2013 or 0.208% of the total unfunded liability.



Lone Star College System  
STATEMENTS OF NET POSITION  
AUGUST 31, 2014 AND 2013

ASSETS	2014	2013
<b>Current assets:</b>		
Cash and cash equivalents	\$ 167,240,734	\$ 137,564,574
Short-term investments	3,406,298	-
Accounts receivable, net	47,810,809	45,245,178
Inventories	51,478	47,474
Prepaid items	683,517	71,722
<b>Total current assets</b>	<u>219,192,836</u>	<u>182,928,948</u>
<b>Noncurrent assets:</b>		
Capital assets, net	769,918,536	767,525,376
<b>Total non-current assets</b>	<u>769,918,536</u>	<u>767,525,376</u>
<b>TOTAL ASSETS</b>	<u>989,111,372</u>	<u>950,454,324</u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 33,372,256	\$ 40,525,087
Accrued compensable absences	663,006	635,000
Funds held for others	3,736,470	3,910,865
Unearned revenues	47,962,543	43,720,399
Bonds payable-current portion	25,831,137	21,386,811
<b>Total current liabilities</b>	<u>111,565,412</u>	<u>110,178,162</u>
<b>Noncurrent liabilities:</b>		
Accrued compensable absences	6,455,039	5,994,855
Bonds payable-noncurrent portion	595,507,280	561,668,624
<b>Total non-current liabilities</b>	<u>601,962,319</u>	<u>567,663,479</u>
<b>TOTAL LIABILITIES</b>	<u>713,527,731</u>	<u>677,841,641</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	178,160,052	173,856,321
Restricted:		
Expendable-		
Restricted	198,214	112,524
Debt service	44,691,055	38,978,129
Unrestricted	52,534,320	59,665,709
<b>TOTAL NET POSITION (Schedule D)</b>	<u>\$ 275,583,641</u>	<u>\$ 272,612,683</u>

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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Tuition and fees (net of discounts of \$45,019,459 in 2014 and \$42,952,582 in 2013)	\$ 61,961,356	\$ 59,682,149
Federal grants and contracts	5,774,884	5,582,770
State and local grants and contracts	8,067,988	7,901,411
Auxiliary enterprises	14,334,851	9,849,775
Other operating revenue	2,238,929	1,467,289
<b>Total operating revenues (Schedule A)</b>	<u>92,378,008</u>	<u>84,483,394</u>
<b>OPERATING EXPENSES</b>		
Instruction	123,466,195	113,232,477
Public service	1,339,559	1,048,188
Academic support	55,927,826	54,998,124
Student services	41,840,156	38,498,235
Institutional support	37,229,953	32,744,317
Operation and maintenance of plant	43,688,005	42,416,012
Scholarships and fellowships	55,839,853	56,214,945
Auxiliary enterprises	12,307,062	8,621,387
Depreciation	23,587,965	22,345,642
<b>Total operating expenses (Schedule B)</b>	<u>395,226,574</u>	<u>370,119,327</u>
Operating loss	<u>(302,848,566)</u>	<u>(285,635,933)</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>		
Ad-Valorem taxes		
Maintenance and operations	109,040,590	104,875,620
General obligation bonds	43,663,193	40,883,773
State appropriations	85,708,997	75,961,961
Federal revenue, non-operating	91,369,027	90,756,771
Gifts	297,500	204,042
Investment income, net	450,967	556,004
Interest and fees on capital asset-related debt (net of capitalized interest costs of \$40,326 in 2014 and \$230,922 in 2013)	(27,106,038)	(22,791,859)
Net loss on disposal of capital assets	(7,591)	(6,029,891)
Other non-operating revenues	2,402,879	4,667,319
<b>Total non-operating revenue (Schedule C)</b>	<u>305,819,524</u>	<u>289,083,740</u>
Increase in net position	2,970,958	3,447,807
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>272,612,683</u>	<u>269,164,876</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 275,583,641</u>	<u>\$ 272,612,683</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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from students and other customers	\$ 114,533,623	\$ 106,030,759
Receipts from grants and contracts	15,686,309	16,438,476
Payments to suppliers for goods and services	(96,704,392)	(74,185,488)
Payments to or on behalf of employees	(213,764,797)	(200,238,113)
Payments for scholarships and fellowships	(94,408,518)	(93,146,451)
Payments for internal loans issued to students	-	-
Receipts from internal loans for students	-	-
Other receipts	2,723,567	1,220,108
Net cash used by operating activities	<u>(271,934,208)</u>	<u>(243,880,709)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Receipts from state appropriations	72,475,700	66,839,742
Receipts from ad-valorem taxes	109,723,443	105,446,475
Receipts from non-operating Federal Revenue	92,128,020	92,100,893
Payments for Federal loans issued to students	(99,474,520)	(92,470,060)
Receipts from Federal loans for students	99,485,412	94,266,965
Net cash provided by non-capital financing activities	<u>274,338,055</u>	<u>266,184,015</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipts from ad-valorem taxes	44,298,851	41,184,770
Proceeds from capital debt	60,624,285	20,285,000
Paid for acquisition and construction of capital assets	(27,188,080)	(40,813,824)
Proceeds from sale of capital assets	1,868,111	3,774
Principal paid on capital debt and leases	(21,620,000)	(19,480,000)
Interest paid on capital debt and leases	(27,754,564)	(23,326,863)
Net cash used by financing activities	<u>30,228,603</u>	<u>(22,147,143)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	-	2,000,000
Interest on investments	443,710	556,894
Purchase of investments and related fees	(3,400,000)	-
Net cash provided by investing activities	<u>(2,956,290)</u>	<u>2,556,894</u>
Net Decrease in Cash and Cash Equivalents	29,676,160	2,713,057
Cash and Cash Equivalents, Beginning of Year	<u>137,564,574</u>	<u>134,851,517</u>
Cash and Cash Equivalents, End of Year	<u>\$ 167,240,734</u>	<u>\$ 137,564,574</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, 2014 and 2013

	2014	2013
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>		
Operating loss	\$ (302,848,566)	\$ (285,635,933)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	23,587,965	22,345,642
Bad debt expense	636,712	615,597
Payments made directly by state for benefits	13,233,297	9,122,219
Changes in assets and liabilities		
Receivables, net	(4,467,801)	604,490
Inventories	(4,004)	(6,027)
Prepaid items	(611,796)	5,842
Accounts payable and accrued liabilities	(7,124,887)	7,973,555
Unearned revenue	5,095,217	1,309,936
Funds held for others	81,465	(220,816)
Accrued compensable absences	488,190	4,786
Total adjustments	30,914,358	41,755,224
Net cash used by operating activities	\$ (271,934,208)	\$ (243,880,709)
<b>NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Payments made directly by state for benefits	\$ 13,233,297	\$ 9,122,219
Net Non-cash Investing, Capital, and Financing Activities	\$ 13,233,297	\$ 9,122,219

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, 2014 and 2013

#### 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, Splendor, 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, 2014 and 2013 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 \$42,310,558 and \$68,910,664 at 2014 and 2013, 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, 2014 and 2013.

### ***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, 2014 and 2013, related to the period after August, and therefore have been reported as unearned revenues at August 31, 2014 and 2013, 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.

### ***New GASB Pronouncements***

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* was implemented in fiscal year 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or 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 Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27* will be implemented in fiscal year 2015. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued for implementation in fiscal year 2015. This Statement will likely not be applicable to the System.

GASB Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees* was issued for implementation in fiscal year 2014 but is not applicable to the System.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date- an amendment of GASB Statement No. 68*. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. Implementation of this statement is planned for fiscal year 2015.



### **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:

	2014	2013
Demand Deposits	\$ 1,138,044	\$ 1,700,289
Petty Cash on Hand	38,817	37,513
Investment 457 (f) plan	390,397	-
External Investment Pools	42,310,558	68,910,664
Certificates of Deposit	88,194,593	66,916,108
Money Market	35,168,325	
Total Cash and Cash Equivalents	<u>\$ 167,240,734</u>	<u>\$ 137,564,574</u>

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

	Fair Value at August 31,	
	2014	2013
U. S. Agency Notes and Bonds	\$ 3,406,298	\$ -
Certificates of Deposit	88,194,593	66,916,108
Cash and Deposits	79,046,141	70,648,466
Total Deposits and Investments	<u>\$ 170,647,032</u>	<u>\$ 137,564,574</u>
Cash and Cash Equivalents (Exhibit 1)	\$ 167,240,734	\$ 137,564,574
Short Term Investments (Exhibit 1)	3,406,298	-
Total Deposits and Investments	<u>\$ 170,647,032</u>	<u>\$ 137,564,574</u>

As of August 31, 2014, the System had the following investments and maturities:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External Investment Pools	\$ 42,310,558	0.14
Money Market	35,168,325	0.08
U. S. Agency Notes and Bonds	3,406,298	1.24
Certificate of Deposits	88,194,593	0.65
Investment 457 (f) Plan	390,397	
Total Fair Value	<u>\$ 169,470,171</u>	<u>0.42</u>

*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, 2014.

The credit quality (ratings) and concentration of the System’s portfolio as of August 31, 2014 are as follows:

Security	Credit Rating	Concentration	
		Actual	Limit
Cash and External Investment Pools	AAA	25.20%	100%
Money Market	AAA	20.75%	100%
U.S. Agencies and Bonds	AAA	2.01%	90%
Certificates of Deposit		52.04%	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, 2014 was as follows:

	Balance August 31, 2013	Increase	Decrease	Balance August 31, 2014
<u>Not Depreciated</u>				
Land	\$ 76,784,401	\$ 717,967	\$ (206,631)	\$ 77,295,737
Construction-in-Progress	31,731,276	2,575,487	(6,522,099)	27,784,664
Subtotal	<u>108,515,677</u>	<u>3,293,454</u>	<u>(6,728,730)</u>	<u>105,080,401</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	676,699,152	21,424,165	(1,759,070)	696,364,247
Other Real Estate Improvements	<u>42,886,096</u>	<u>1,974,095</u>		<u>44,860,191</u>
Total Buildings & Other Real Estate Improvements	719,585,248	23,398,260	(1,759,070)	741,224,438
Library Books	14,103,728	392,810	(278,720)	14,217,818
Furniture, Machinery, Vehicles & Other	64,202,482	7,467,542	(367,821)	71,302,203
Total Buildings and Other Capital Assets	<u>797,891,458</u>	<u>31,258,612</u>	<u>(2,405,611)</u>	<u>826,744,459</u>
<u>Accumulated Depreciation</u>				
Buildings and Building Improvements	95,659,911	12,241,483	(96,309)	107,805,085
Other Real Estate Improvements	<u>3,988,196</u>	<u>774,214</u>		<u>4,762,410</u>
Total Buildings & Other Real Estate Improvements	99,648,107	13,015,697	(96,309)	112,567,495
Library Books	9,894,237	576,322	(278,720)	10,191,839
Furniture, Machinery, Vehicles & Other	<u>29,339,415</u>	<u>9,995,946</u>	<u>(188,371)</u>	<u>39,146,990</u>
Total Accumulated Depreciation	<u>138,881,759</u>	<u>23,587,965</u>	<u>(563,400)</u>	<u>161,906,324</u>
Net Capital Assets	<u>\$ 767,525,376</u>	<u>\$ 10,964,101</u>	<u>\$ (8,570,941)</u>	<u>\$ 769,918,536</u>

## CAPITAL ASSETS (Cont)

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>-</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>-</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>

## 6. LONG-TERM LIABILITIES

Long-term liability activity for the year ended August 31, 2014 was as follows:

	Balance August 31, 2013	Additions	Reductions	Balance August 31, 2014	Current Portion
Bonds					
General obligation bonds	\$ 490,698,803	\$ -	\$ (17,514,726)	\$ 473,184,077	\$ 21,323,397
Revenue bonds	62,603,606	60,624,285	(3,377,687)	119,850,204	2,963,501
Maintenance tax note bonds	29,753,026	-	(1,448,890)	28,304,136	1,544,239
Subtotal	583,055,435	60,624,285	(22,341,303)	621,338,417	25,831,137
Accrued compensable absences	6,629,855	1,158,412	(670,222)	7,118,045	663,006
Total long-term liabilities	<u>\$ 589,685,290</u>	<u>\$ 61,782,697</u>	<u>\$ (23,011,525)</u>	<u>\$ 628,456,462</u>	<u>\$ 26,494,143</u>

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	31,115,841	-	(1,362,815)	29,753,026	1,448,890
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>

## 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	
						8/31/2014	8/31/2013
<b>Revenue Bonds</b>							
2003 Rev	Construction	2004 - 2028	2.50% - 5.00%	10,000,000	Pledged Rev	-	43,814
2003A Rev	Construction	2004 - 2018	2.00% - 4.25%	10,390,000	Pledged Rev	-	739,834
2007 Rev	Construction	2008 - 2038	4.00% - 5.00%	29,900,000	Pledged Rev	24,854,399	25,661,211
2011 Rev	Refunding	2012 - 2025	1.75 % - 4.00%	7,980,000	Pledged Rev	6,670,841	7,182,756
2012 Rev	Refunding	2013 - 2028	2.00% - 4.00%	8,155,000	Pledged Rev	8,333,515	8,690,991
2012B1&B2 Rev	Construction	2020 - 2031	1.125% - 1.250%	20,285,000	Pledged Rev	20,285,000	20,285,000
2013	Construction	2014 - 2043	1.250% - 5.00%	58,145,000	Pledged Rev	59,706,449	-
<b>Total Revenue</b>						<b>\$ 119,850,204</b>	<b>\$ 62,603,606</b>
<b>General Obligation Bonds</b>							
2003 GO	Constr/Refunding	2004 - 2028	2.50% - 5.00%	36,464,997	Ad Val Tax	773,350	1,743,590
2005A Ref GO	Refunding	2006 - 2026	3.00% - 5.00%	50,244,217	Ad Val Tax	30,336,834	35,516,392
2008 GO	Construction	2009 - 2038	3.50% - 5.25%	149,780,000	Ad Val Tax	131,870,333	134,789,181
2009 GO	Construction	2009 - 2034	2.50% - 5.00%	144,520,000	Ad Val Tax	138,329,737	140,571,625
2010A GO	Construction	2010 - 2025	2.00% - 5.00%	110,625,000	Ad Val Tax	123,276,778	123,526,373
2010B Ref GO	Refunding	2010 - 2025	2.00% - 5.00%	8,470,000	Ad Val Tax	5,772,602	7,533,579
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	13,638,046	17,831,666
<b>Total General Obligation</b>						<b>\$ 473,184,077</b>	<b>\$490,698,803</b>
<b>Maintenance Tax Note Bond</b>							
Maintenance Tax Note Bond	Construction/Energy Management Contract	2009 - 2027	2.00% - 5.00%	30,740,000	Ad Val Tax	28,304,136	29,753,026
<b>Total Maintenance Tax Note</b>						<b>\$ 28,304,136</b>	<b>\$ 31,115,841</b>

Debt service requirements at August 31, 2014 were as follows:

Debt Service Requirements at August 31, 2014 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
2015	\$ 21,323,397	\$ 21,465,741	\$ 2,963,501	\$ 4,531,188	\$ 1,544,239	\$ 1,116,163	\$ 25,831,137	\$ 27,113,091
2016	\$ 24,236,526	\$ 20,734,529	\$ 3,084,148	\$ 4,444,088	\$ 1,639,502	\$ 1,071,838	\$ 28,960,176	\$ 26,250,454
2017	\$ 27,643,975	\$ 19,759,969	\$ 3,838,679	\$ 5,409,694	\$ 1,739,647	\$ 1,022,556	\$ 33,222,301	\$ 26,192,219
2018	\$ 29,854,298	\$ 18,575,365	\$ 4,029,967	\$ 5,268,519	\$ 1,848,705	\$ 961,450	\$ 35,732,969	\$ 24,805,334
2019	\$ 32,617,995	\$ 17,156,534	\$ 3,089,353	\$ 5,130,644	\$ 1,953,348	\$ 896,850	\$ 37,660,696	\$ 23,184,027
2020-2024	\$ 135,197,913	\$ 65,472,103	\$ 19,150,413	\$ 5,007,781	\$ 11,422,892	\$ 3,232,325	\$ 165,771,217	\$ 73,712,209
2025-2029	\$ 88,656,240	\$ 39,961,906	\$ 24,447,740	\$ 22,609,719	\$ 8,155,804	\$ 609,375	\$ 121,259,784	\$ 63,181,000
2030-2034	\$ 80,702,887	\$ 21,007,750	\$ 25,852,922	\$ 17,817,697	\$ -	\$ -	\$ 106,555,808	\$ 38,825,447
2035-2039	\$ 32,950,846	\$ 4,317,500	\$ 19,574,472	\$ 9,704,824	\$ -	\$ -	\$ 52,525,319	\$ 14,022,324
2040+	\$ -	\$ -	\$ 13,819,009	\$ 5,602,987	\$ -	\$ -	\$ 13,819,010	\$ 5,602,989
	<b>\$ 473,184,077</b>	<b>\$ 228,451,397</b>	<b>\$ 119,850,204</b>	<b>\$ 85,527,141</b>	<b>\$ 28,304,137</b>	<b>\$ 8,910,556</b>	<b>\$ 621,338,417</b>	<b>\$ 322,889,094</b>

## **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, 2014 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 \$65,220,200 and \$59,102,052 for the years ended August 31, 2014 and 2013, respectively. The pledged revenue amount equates to 65.6% and 63.7% of the above total revenue streams, respectively. Debt service on the revenue bonds was \$9,936,876 and \$6,862,930 for the years ended August 31, 2014 and 2013, and the debt service coverage ratio was 6.56 and 8.61, respectively. Revenue bonds are payable in annual installments varying from \$210,000 to \$4,390,000 with interest rates from 1.125% to 5.00% and the final installment due in 2043. The System was in compliance with all bond covenants for the years ended August 31, 2014 and 2013.



## **8. VARIABLE RATE BONDS**

At August 31, 2014 and 2013 the District had Series 2012B-1 Variable Rate Bonds (the "Bonds") outstanding in the amount of \$11,775,000 and \$11,775,000, respectively. The Bonds bear interest initially at 1.125% from the delivery date through and including August 14, 2016 (the "Initial Rate Period"). During the Initial Rate Period, interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on each February 15 and August 15, commencing February 15, 2013. Thereafter, Interest on the Bonds bearing interest at the Weekly Rate, Monthly Rate, Quarterly Rate, Flexible Rate or SIFMA Index Rate will be calculated on the basis of a 365-day or 366-day year, as applicable, for the actual number of days elapsed. Interest on the Bonds bearing interest at the Initial Rates, the Semiannual Rate, Term Rate, Stepped Rate or Fixed Rate will be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds bearing interest at a LIBOR Index Rate shall be computed on the basis of a 360-day year for the actual number of days elapsed. The Series 2012B-1 Bonds are not subject to optional or mandatory redemption during the Initial Rate Period.

At August 31, 2014 and 2013 the District had Series 2012B-2 Variable Rate Bonds (the "Bonds") outstanding in the amount of \$8,510,000 and \$8,510,000, respectively. The Bonds bear interest initially at 1.250% from the delivery date through and including August 14, 2016 (the "Initial Rate Period"). During the Initial Rate Period, interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on each February 15 and August 15, commencing February 15, 2013. Thereafter, Interest on the Bonds bearing interest at the Weekly Rate, Monthly Rate, Quarterly Rate, Flexible Rate or SIFMA Index Rate will be calculated on the basis of a 365-day or 366-day year, as applicable, for the actual number of days elapsed. Interest on the Bonds bearing interest at the Initial Rates, the Semiannual Rate, Term Rate, Stepped Rate or Fixed Rate will be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds bearing interest at a LIBOR Index Rate shall be computed on the basis of a 360-day year for the actual number of days elapsed. The Series 2012B-2 Bonds are subject to redemption at the option of the System, in whole or in part, at a price of par plus accrued interest to the redemption date, on any date on or after February 15, 2014.

**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, 2014 and 2013 was \$1,119,646 and \$712,824, respectively. Future minimum lease payments are as follows:

For the Year Ended	
<u>August 31,</u>	<u>Total</u>
2015	\$ 818,946
2016	621,456
2017	595,000
2018	595,000
2019	595,000
2020-2025	3,173,333
Total future minimum lease payments	<u>\$ 6,398,735</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).

### 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](http://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. In certain instances the reporting district is required to make all or a portion of the State's contribution.

<u>Teacher Retirement Contribution Rates</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Member Contribution	6.40%	6.40%	6.40%
Employer/State Contribution	6.80%	6.40%	6.00%

### Optional Retirement Plan (Defined Contribution Plan)

*Plan Description.* The state has also established an ORP for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. The ORP provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. Benefits fully vest after one year plus one day of employment. Since these are individual annuity contracts, the state has no additional or unfunded liability for this program.

<u>Optional Retirement Plan Contribution Rates</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Member Contribution	6.65%	6.65%	6.65%
State Contribution	6.60%	6.00%	6.00%
System Contribution for Participants Enrolled Prior to September 1, 1995	1.90%	2.50%	2.50%

### Retirement Plan Expense

Below is a summary of both the TRS and ORP retirement plan expense for fiscal years ended August 31, 2014, 2013 and 2012.

**EMPLOYEES' RETIREMENT PLANS (Cont)**

<u>TRS and ORP Retirement Plan Expense</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Payroll	\$192,648,491	\$172,931,087	\$162,116,233
TRS Payroll – Eligible Employees	114,391,840	101,999,182	93,999,285
ORP Payroll – Eligible Employees	34,635,336	32,945,598	34,521,307
Actual cost of TRS and ORP Retirement Benefits	10,359,950	11,619,471	7,927,111
System Contribution for TRS and ORP Retirement Benefits	5,760,146	8,383,612	1,011,185
State Legislative Appropriation Expended for TRS and ORP	4,599,804	3,235,859	6,915,926

## **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 \$7,118,045 and \$6,629,855 for the fiscal years ended August 31, 2014 and 2013, 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, 2014, 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, 2014 and 2013 were as follows:

	August 31	
	2014	2013
Student Receivables	\$38,368,304	\$34,342,229
Taxes Receivable	5,592,851	6,203,603
Federal Receivable	1,459,754	2,584,052
Accounts Receivable	1,806,825	1,922,251
Interest Receivable	959	-
Other Receivables	3,317,039	2,287,749
Subtotal	50,545,732	47,339,884
Allowance for Doubtful Accounts	(2,734,923)	(2,094,706)
<b>Total Accounts Receivable, Net</b>	<b>\$47,810,809</b>	<b>\$45,245,178</b>

Payables at August 31, 2014 and 2013 were as follows:

	August 31	
	2014	2013
Vendors Payable	\$22,398,478	\$30,604,203
Salaries and Benefits Payable	2,633,143	1,234,718
Students Payable	1,559,603	1,021,704
Accrued Interest	1,615,707	1,542,930
Other Payables	5,165,325	6,121,532
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$33,372,256</b>	<b>\$40,525,087</b>

#### **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 2014 and 2013 for which monies have not been received nor funds expended totaled \$108,990,253 and \$88,127,478, respectively. Of these amounts, \$103,650,554 and \$83,362,622 were from Federal Contract and Grant Awards; \$5,339,699 and \$4,764,856 were from State Contract and Grant Awards for the fiscal years ended 2014 and 2013, 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, 2014 and 2013.

**16. POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

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

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

<b>HealthSelect of Texas Plan</b>	<b>2014 State/Employer Contribution</b>	<b>2014 Annualized Contribution</b>	<b>2013 State/Employer Contribution</b>	<b>2013 Annualized Contribution</b>
Member Only	\$503.14	\$6,037.68	\$470.38	\$5,644.56

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

<b><u>Cost of Providing Health Care Insurance</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Number of Retirees	370	342
Cost of Health Benefits for Retirees	\$2,541,171	\$2,251,568
Number of Active Full Time Employees	2,318	2,304
Cost of Health Benefits for Active Full Time Employees	\$18,421,601	\$16,372,475
State Appropriation for Health Insurance System Expense	\$8,633,493	\$5,886,360
	\$12,329,279	\$12,737,683

## 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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Assessed Valuation of the System	\$145,894,831,103	\$ 134,231,553,824
Less: Exemptions	(12,841,988,965)	(11,446,861,624)
Less: Abatements	-	-
Net Assessed Valuation of the System	<u>\$133,052,842,138</u>	<u>\$122,784,692,200</u>

Tax rates for the years ending August 31, 2014 and 2013 are as follows:

	<u>2014</u>			<u>2013</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	\$0.0825	\$0.0335	\$0.1160	\$0.0863	\$0.0335	\$0.1198

Taxes levied for the year ended August 31, 2014 and 2013 amounted to \$153,420,832 and \$147,096,061, 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, 2014 and 2013 are as follows:

	<u>2014</u>			<u>2013</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	\$ 107,978,314	\$ 43,826,213	\$ 151,804,527	\$ 103,809,422	\$ 40,298,921	\$ 144,108,343
Delinquent Taxes	967,065	(352,995)	614,070	1,528,141	590,326	2,118,467
Penalties & Interest	454,945	183,468	638,413	245,128	97,611	342,739
Total	<u>\$109,400,324</u>	<u>\$43,656,686</u>	<u>\$153,057,010</u>	<u>\$ 105,582,691</u>	<u>\$ 40,986,858</u>	<u>\$ 146,569,549</u>

Tax collections for the years ended August 31, 2014 and 2013 were 98.95% and 97.97%, 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, 2014 and 2013.

## **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 \$1,922,642 and \$994,613 to the System during the years ended August 31, 2014 and 2013, respectively. The System furnished certain services, such as office space, utilities and some staff assistance, to the Foundation which totaled \$322,409 and \$313,732 for 2014 and 2013, respectively. There were no related receivables for the year ended August 31, 2014. The System had related receivables from the Foundation in the amount of \$50,000 as of August 31, 2013.

## 20. POSTEMPLOYMENT 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, 2014, 2013 and 2012 were \$2,541,171, \$2,251,568 and \$1,932,131 respectively. This equaled the required contributions each year and no employee contributions were required.

## **21. SUBSEQUENT EVENTS**

On October 30, 2014, the System issued a notice of redemption prior to maturity of certain outstanding bonds and authorized the issuance of Limited Tax General Obligation Refunding Bonds, Series 2014. A total of \$2,700,000 from the 2010A Limited Tax General Obligation bond series was called.

On November 4, 2014, Montgomery and Harris County voters approved a \$485 million bond referendum for the System. The bond funds will be used to address the growth needs of the System and the area's shortage of skilled workers.

No changes are necessary to be made to the financial statements as a result of these events. Management has evaluated subsequent events through December 4, 2014, the date which the financial statements were available to be issued.





## SCHEDULE A

**LONE STAR COLLEGE SYSTEM**  
**SCHEDULE OF OPERATING REVENUES**  
**YEAR ENDED AUGUST 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)**

	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises	2014 Total	2013 Total
<b>Tuition</b>						
State funded courses						
In-district resident tuition	\$ 45,531,061	\$ -	\$ 45,531,061	\$ -	\$ 45,531,061	\$ 44,961,725
Out-of-district resident tuition	14,124,595	-	14,124,595	-	14,124,595	13,244,848
Non-resident tuition	5,518,356	-	5,518,356	-	5,518,356	5,210,537
TPEG -credit (set aside)*	(4,199,446)	-	(4,199,446)	-	(4,199,446)	(4,085,443)
State-funded continuing education	2,497,804	-	2,497,804	-	2,497,804	3,878,806
TPEG -non-credit (set aside)*	(187,138)	-	(187,138)	-	(187,138)	(170,678)
Non-state funded continuing education	4,757,056	-	4,757,056	-	4,757,056	3,159,111
Total tuition	<u>68,042,288</u>	<u>-</u>	<u>68,042,288</u>	<u>-</u>	<u>68,042,288</u>	<u>66,198,906</u>
<b>Fees</b>						
Registration fee	1,949,109	-	1,949,109	-	1,949,109	1,910,107
Student activity fee	2,595,183	-	2,595,183	-	2,595,183	2,560,588
Laboratory fee	1,310,193	-	1,310,193	-	1,310,193	1,266,132
Technology fee	9,047,366	-	9,047,366	-	9,047,366	8,916,421
General use fee	9,038,528	-	9,038,528	-	9,038,528	8,911,164
Distance learning fee	4,401,070	-	4,401,070	-	4,401,070	4,203,318
Infrastructure fee	2,546,160	-	2,546,160	-	2,546,160	2,536,263
Differential tuition fee	6,075,356	-	6,075,356	-	6,075,356	4,543,745
Incidental fee	1,028,004	-	1,028,004	-	1,028,004	804,313
Other fees	947,558	-	947,558	-	947,558	783,773
Total fees	<u>38,938,527</u>	<u>-</u>	<u>38,938,527</u>	<u>-</u>	<u>38,938,527</u>	<u>36,435,824</u>
<b>Scholarship allowances and discounts</b>						
Scholarship allowances	(1,311,472)	-	(1,311,472)	-	(1,311,472)	(802,634)
Remissions and exemptions - state	(5,347,207)	-	(5,347,207)	-	(5,347,207)	(5,931,797)
Remissions and exemptions - local	(1,103,587)	-	(1,103,587)	-	(1,103,587)	(89,278)
TPEG allowances	(2,171,352)	-	(2,171,352)	-	(2,171,352)	(1,863,103)
State grants to students	(39,555)	-	(39,555)	-	(39,555)	(19,888)
Federal grants to students	(35,046,286)	-	(35,046,286)	-	(35,046,286)	(34,245,881)
Other	-	-	-	-	-	-
Total scholarship allowances and discounts	<u>(45,019,459)</u>	<u>-</u>	<u>(45,019,459)</u>	<u>-</u>	<u>(45,019,459)</u>	<u>(42,952,581)</u>
<b>Total net tuition and fees</b>	<u>61,961,356</u>	<u>-</u>	<u>61,961,356</u>	<u>-</u>	<u>61,961,356</u>	<u>59,682,149</u>

**SCHEDULE A (Continued)**

**LONE STAR COLLEGE SYSTEM**

**SCHEDULE OF OPERATING REVENUES**

**YEAR ENDED AUGUST 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)**

	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises	2014 Total	2013 Total
Additional operating revenues						
Federal grants and contracts	-	5,774,884	5,774,884	-	5,774,884	5,582,770
State grants and contracts	-	3,456,070	3,456,070	-	3,456,070	3,901,065
Local grants and contracts	1,891,921	2,719,997	4,611,918	-	4,611,918	4,000,346
Other operating revenue	2,238,929	-	2,238,929	-	2,238,929	1,467,289
Total additional operating revenues	<u>4,130,850</u>	<u>11,950,951</u>	<u>16,081,801</u>	<u>-</u>	<u>16,081,801</u>	<u>14,951,470</u>
Auxiliary enterprises						
Food service	-	-	-	1,742,298	1,742,298	1,773,947
Bookstore	-	-	-	2,489,392	2,489,392	2,481,423
Child care fees	-	-	-	1,061,699	1,061,699	325,689
Special events	-	-	-	654,991	654,991	574,419
Other	-	-	-	8,386,471	8,386,471	4,694,297
Total auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,334,851</u>	<u>14,334,851</u>	<u>9,849,775</u>
Total operating revenues	<u>\$ 66,092,206</u>	<u>\$ 11,950,951</u>	<u>\$ 78,043,157</u>	<u>\$ 14,334,851</u>	<u>\$ 92,378,008</u>	<u>\$ 84,483,394</u>
					(Exhibit 2)	(Exhibit 2)

\* In accordance with Education Code 56.033, \$4,386,584 and \$4,256,121 was set aside for Texas Public Education Grants in 2014 and 2013, respectively.

**LONE STAR COLLEGE SYSTEM**  
**SCHEDULE OF OPERATING EXPENSES BY OBJECT**  
**YEAR ENDED AUGUST 31, 2014 (with Memorandum Totals for the Year Ended August 31, 2013)**

	Operating Expenses			Other Expenses	2014 Total	2013 Total
	Salaries and Wages	Benefits State	Benefits Local			
Unrestricted educational activities						
Instruction	\$ 91,741,258	\$ -	\$ 8,075,229	\$ 11,322,041	\$ 111,138,528	\$ 100,051,832
Public service	622,635	-	105,290	197,202	925,127	768,463
Academic support	32,001,614	-	3,897,993	16,302,842	52,202,449	47,408,884
Student services	26,457,568	-	3,204,618	9,276,856	38,939,042	35,247,970
Institutional support	19,109,159	-	5,380,338	10,856,096	35,345,593	31,775,918
Operation and maintenance of plant	13,194,738	-	3,965,111	26,527,956	43,687,805	42,412,024
Total unrestricted educational activities	<u>183,126,972</u>	<u>-</u>	<u>24,628,579</u>	<u>74,482,993</u>	<u>282,238,544</u>	<u>257,665,091</u>
Restricted educational activities						
Instruction	3,302,898	5,850,222	398,084	2,776,463	12,327,667	13,180,645
Public service	219,563	73,772	50,964	70,133	414,432	279,725
Academic support	400,329	2,982,679	66,943	275,426	3,725,377	7,589,240
Student services	233,469	2,482,264	30,989	154,392	2,901,114	3,250,265
Institutional support	-	1,844,360	-	40,000	1,884,360	968,399
Operation and maintenance of plant	-	-	-	200	200	3,988
Scholarships and fellow ships	-	-	-	55,839,853	55,839,853	56,214,945
Total restricted educational activities	<u>4,156,259</u>	<u>13,233,297</u>	<u>546,980</u>	<u>59,156,467</u>	<u>77,093,003</u>	<u>81,487,207</u>
Total educational activities	187,283,231	13,233,297	25,175,559	133,639,460	359,331,547	339,152,298
Auxiliary enterprises	2,202,666		734,137	9,370,259	12,307,062	8,621,387
Depreciation expense - buildings	-			13,015,697	13,015,697	12,162,919
Depreciation expense - equip & furn	-			10,572,268	10,572,268	10,182,723
Total operating expenses	<u>\$189,485,897</u>	<u>\$13,233,297</u>	<u>\$ 25,909,696</u>	<u>\$ 166,597,684</u>	<u>\$ 395,226,574</u> (Exhibit 2)	<u>\$ 370,119,327</u> (Exhibit 2)

**LONE STAR COLLEGE SYSTEM**  
**SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES**  
**YEAR ENDED AUGUST 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)**

	Unrestricted	Restricted	Auxiliary Enterprises	2014 Total	2013 Total
<b>Non-Operating revenues</b>					
State appropriations					
Education and general state support	\$ 72,475,700	\$ -	\$ -	\$ 72,475,700	\$ 66,839,742
State group insurance	-	8,633,493	-	8,633,493	5,886,360
State retirement matching	-	4,599,804	-	4,599,804	3,235,859
Total state appropriations	72,475,700	13,233,297	-	85,708,997	75,961,961
Maintenance ad valorem taxes	109,040,590	-	-	109,040,590	104,875,620
General obligation ad valorem taxes	-	43,663,193	-	43,663,193	40,883,773
Federal revenue, non-operating	-	91,369,027	-	91,369,027	90,756,771
Gifts	297,500	-	-	297,500	204,042
Investment income, net	450,967	-	-	450,967	556,004
Gain on disposal of capital asset	1,868,111	-	-	1,868,111	-
Other non-operating revenues	1,068,812	1,334,067	-	2,402,879	4,667,319
<b>Total non-operating revenues</b>	<b>185,201,680</b>	<b>149,599,584</b>	<b>-</b>	<b>334,801,264</b>	<b>317,905,490</b>
<b>Non-Operating expenses</b>					
Interest on capital related debt	-	27,106,038	-	27,106,038	22,791,859
Loss on disposal of capital assets	1,875,702	-	-	1,875,702	6,029,891
<b>Total non-operating expenses</b>	<b>1,875,702</b>	<b>27,106,038</b>	<b>-</b>	<b>28,981,740</b>	<b>28,821,750</b>
<b>Net non-operating revenues</b>	<b>\$ 183,325,978</b>	<b>\$ 122,493,546</b>	<b>\$ -</b>	<b>\$ 305,819,524</b>	<b>\$ 289,083,740</b>
				(Exhibit 2)	(Exhibit 2)

**LONE STAR COLLEGE SYSTEM**  
**SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY**  
**YEAR ENDED AUGUST 31, 2014 (with Memorandum Totals for the Year Ended August 31, 2013)**

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets (Net)	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 42,778,437	\$ -	\$ -	\$ -	\$ 42,778,437	\$ 42,778,437	\$ -
Restricted	-	198,214	-	-	198,214	-	198,214
Auxiliary enterprises	9,755,883	-	-	-	9,755,883	9,755,883	-
Plant:							
Debt service	-	44,691,055	-	-	44,691,055	-	44,691,055
Investment in Plant	-	-	-	178,160,052	178,160,052	-	178,160,052
Total Net Position - August 31, 2014	52,534,320	44,889,269	-	178,160,052	275,583,641 (Exhibit 1)	52,534,320	223,049,321
Total Net Position - August 31, 2013	59,665,709	39,090,653	-	173,856,321	272,612,683 (Exhibit 1)	56,314,444	216,298,239
Net Increase (Decrease) in Net Position	\$ (7,131,389)	\$ 5,798,616	\$ -	\$ 4,303,731	\$ 2,970,958 (Exhibit 2)	\$ (3,780,124)	\$ 6,751,082

**SCHEDULE E**

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2014**

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Direct Programs:</u>			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants-FSEOG(04-05)	84.007	P007A044084	(470)
Federal Supplemental Educational Opportunity Grants-FSEOG(07-08)	84.007	P007A074084	(350)
Federal Supplemental Educational Opportunity Grants-FSEOG(12-13)	84.007	P007A124084	14,819
Federal Supplemental Educational Opportunity Grants-FSEOG(13-14)	84.007	P007A134084	723,804
Total Federal Supplemental Educational Opportunity Grants			<u>737,803</u>
Federal Work-Study Program (13-14)	84.033	P933A134084	574,243
Federal Pell Grant Program (02-03)	84.063	P063P023422	(3,904)
Federal Pell Grant Program (03-04)	84.063	P063P033422	(5,403)
Federal Pell Grant Program (04-05)	84.063	P063P043422	(11,390)
Federal Pell Grant Program (05-06)	84.063	P063P053422	(10,062)
Federal Pell Grant Program (06-07)	84.063	P063P063422	(14,951)
Federal Pell Grant Program (07-08)	84.063	P063P073422	(40,092)
Federal Pell Grant Program (08-09)	84.063	P063P083422	(72,389)
Federal Pell Grant Program (09-10)	84.063	P063P093422	(177,638)
Federal Pell Grant Program (10-11)	84.063	P063P103422	(163,312)
Federal Pell Grant Program (11-12)	84.063	P063P113422	(8,696)
Federal Pell Grant Program (12-13)	84.063	P063P123422	(64,787)
Federal Pell Grant Program (13-14)	84.063	P063P133422	90,629,691
Total Federal Pell Grant Program			<u>90,057,067</u>
Direct Loan Program (09-10)	84.268	P268K093422	(5,235)
Direct Loan Program (10-11)	84.268	P268K103422	(49,326)
Direct Loan Program (11-12)	84.268	P268K113422	(5,883)
Direct Loan Program (12-13)	84.268	P268K123422	(31,824)
Direct Loan Program (13-14)	84.268	P268K133422	99,518,479
Total Direct Loan Program			<u>99,426,211</u>
Academic Competitiveness (08-09)	84.375	P375A083422	(86)
<b>TOTAL FINANCIAL AID CLUSTER</b>			<u>190,795,238</u>
TRIO Cluster			
TRIO - Student Support Services - North Harris	84.042A	P042A101148	251,469
TRIO - Student Support Services - Tomball	84.042A	P042A101133	239,764
Total TRIO - Student Support Services			<u>491,233</u>
TRIO - Talent Search	84.044	P044A110072	234,666
TRIO - Upward Bound ACE	84.047A	P047A120378	227,694
TRIO - Upward Bound MAC	84.047A	P047A120397	287,479
Total TRIO - Upward Bound			<u>515,173</u>
<b>TOTAL TRIO CLUSTER</b>			<u>1,241,072</u>
HSI Math Success STEM	84.031	P031C110072	1,229,843

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

**SCHEDULE E (Continued)**

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2014**

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
<u>Pass-Through From:</u>			
Texas Education Agency			
Adult Education - Basic State Grant Program (12-13)	84.002A	134100017110455	13,097
Career and Technology Education ATC Professional Development	84.048A	134200257110001	268,646
Texas Higher Education Coordinating Board			
Career and Technical Education - Basic Grants to States	84.048	1342020671200001	734,187
Texas Workforce Commission			
Adult Education and Family Literacy Act and TANF	84.002A	2814ABE009	1,006,864
Coastal Region Project Great Center	84.002A	2814ABE000	279,585
English Literacy and Civics Education Grant	84.002A	2814ELC010	112,722
Total Adult Basic Education - State Grant Program			<u>1,399,171</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>195,681,254</u>
 <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Pass-Through from:			
Texas Workforce Commission			
Adult Education and Family Literacy Act and TANF	93.558	2814ABE009	97,161
TANF - Infrastructure Development for Oil and Gas Industry	93.558	2814SSF003	4,115
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>101,276</u>
 <b>U.S. DEPARTMENT OF JUSTICE</b>			
Direct Program:			
Grants to Reduce Domestic Violence, Sexual Assault & Stalking on Campus	16.525	2011-WA-AX-0021	77,559
 <b>U.S. DEPARTMENT OF LABOR</b>			
Pass-Through from:			
Texas Workforce Commission			
Worker Train National Emergency Grant	17.277	EM-24470-13-60-A-48	34,904
Wagner Peyser	17.207	2813WPB002	102,953
WIA Title V Incentive	17.267	2913WSW011	121,734
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>			<u>259,591</u>
 <b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Direct Program:			
Commercial Motor Vehicle Operator Training Grants	20.235	FM-DTG-0019-13-01-00	173,024
 <b>NATIONAL ENDOWMENT FOR THE HUMANITIES</b>			
Pass-Through from:			
Humanities Texas (HTx)			
Bridging Cultures To Form a Nation	45.162	N/A	6,008
 <b>SMALL BUSINESS ADMINISTRATION</b>			
Pass-Through from:			
University of Houston			
Small Business Development Center (12-13)	59.037	R-13-0038-53813	31,241
Small Business Development Center (13-14)	59.037	R-14-0054-53813	240,169
<b>TOTAL SMALL BUSINESS DEVELOPMENT CENTER</b>			<u>271,410</u>
 <b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			 <u>196,570,122</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  
YEAR ENDED AUGUST 31, 2014**

**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, 2014.

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)	\$ 5,774,884
Federal Revenue, Non-Operating - per Schedule of Non-Operating Revenues and Expenses (Schedule C)	91,369,027
Federal Direct Student Loan Program	<u>99,426,211</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards (Schedule E)	<u>\$ 196,570,122</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, 2014**

State Grantor/Pass Through Grantor	State/Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>TEXAS HIGHER EDUCATION COORDINATING BOARD:</b>			
<u>Direct Programs:</u>			
College Work - Study Program (13-14)	N/A	N/A	\$ 206,477
Texas Grant Program (10-11)	N/A	N/A	(103)
Texas Grant Program (11-12)	N/A	N/A	(1,325)
Texas Grant Program (12-13)	N/A	N/A	(971)
Texas Grant Program (13-14)	N/A	N/A	750,365
Texas Grant Renew al Program (10-11)	N/A	N/A	(14)
Texas Grant Renew al Program (13-14)	N/A	N/A	207,720
Total Texas Grant Program			<u>955,672</u>
Texas Educational Opportunity Grant Program (10-11)	N/A	N/A	(2,247)
Texas Educational Opportunity Grant Program (12-13)	N/A	N/A	(4,725)
Texas Educational Opportunity Grant Program (13-14)	N/A	N/A	611,280
Texas Educational Opportunity Grant Renew al Program (13-14)	N/A	N/A	30,360
Total Texas Educational Opportunity Grant Program			<u>634,668</u>
Top 10% Scholarship (13-14)	N/A	N/A	6,000
5th Year Accounting Scholarship (13-14)	N/A	N/A	7,500
Developmental Education Demonstration Projects - ABE IG	N/A	N/A	98,117
Nursing Innovation Grant Program			
Nursing and Allied Health	N/A	N/A	324
The Texas Concept-Based Nursing Curriculum	N/A	N/A	11,000
Total Nursing Innovation Grant Program			<u>11,324</u>
Nursing Shortage Reduction Plan			
Over 70 Programs (08-11)	N/A	N/A	143,327
Regular Programs (11-13)	N/A	N/A	36,523
Under 70 Programs (11-12)	N/A	N/A	229,636
Total Nursing Shortage Reduction Plan			<u>409,486</u>
Texas - STEM Challenge Scholarship Program	N/A	11275	22,500
<b>TOTAL TEXAS HIGHER EDUCATION COORDINATING BOARD</b>			<u>\$ 2,351,744</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, 2014**

State Grantor/Pass Through Grantor	State/Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Continued			
<b>TEXAS WORKFORCE COMMISSION:</b>			
<u>Direct Programs:</u>			
Adult Education and Family Literacy Act and TANF	N/A	2814ABE009	269,794
Lone Star College in Partnership w ith SYSCO Corporation	N/A	2812SDF004	122,320
Lone Star College in Partnership w ith FMC Corporation	N/A	2812SDF005	21,504
Lone Star College in Partnership w ith NOV and Bauer Manufacturing	N/A	2812SDF008	135,383
Lone Star College in Partnership w ith Tenaris	N/A	2813SDF008	543,243
Total Skills Development Fund			822,450
Skills for Small Business Program	N/A	2812SSD002	2,273
<b>TOTAL TEXAS WORKFORCE COMMISSION</b>			<b>1,094,517</b>
<b>TEXAS EDUCATION AGENCY:</b>			
<u>Direct Programs:</u>			
Adult Basic Education (12-13)	N/A	130100017110455	9,809
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>			<b>\$ 3,456,070</b>

**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)	\$ 3,456,070
Reconciling items:	
None	-
Total expenditures per Schedule of State Awards	\$ 3,456,070

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



## 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 2005 to 2014  
 (unaudited)

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net Investment in Capital Assets	\$178,160	\$178,498	\$195,090	\$190,949	\$178,172	\$153,534	\$139,813	\$119,598	\$105,149	\$88,362
Restricted - expendable	44,889	37,800	13,886	7,574	492	7,652	5,617	6,537	3,822	2,810
Restricted - nonexpendable	-	-	-	-	-	-	-	-	-	-
Unrestricted	52,534	56,314	60,189	47,563	45,022	45,996	47,832	40,506	37,603	29,486
<b>Total net position</b>	<b>\$ 275,583</b>	<b>\$ 272,612</b>	<b>\$ 269,165</b>	<b>\$ 246,086</b>	<b>\$ 223,686</b>	<b>\$ 207,182</b>	<b>\$ 193,262</b>	<b>\$ 166,641</b>	<b>\$ 146,574</b>	<b>\$ 120,658</b>
Net increase in net position	\$ 2,971	\$ 3,447	\$ 23,079	\$ 22,400	\$ 16,504	\$ 13,920	\$ 26,621	\$ 20,067	\$ 25,916	

**Lone Star College System  
Statistical Supplement 2  
Revenues by Source  
Fiscal Years 2005 to 2014  
(unaudited)**

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

	<u>2014</u>	<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>
Tuition and Fees (Net of Discounts)	\$ 61,961	\$ 59,682	\$ 58,864	\$ 54,089	\$ 46,330	\$ 42,325	\$ 39,171	\$ 36,815	\$ 33,412	\$ 30,134
Governmental Grants and Contracts										
Federal Grants and Contracts	5,775	5,583	6,636	5,016	7,803	7,213	6,642	6,741	6,064	5,995
State Grants and Contracts	3,456	3,901	2,657	3,271	2,744	2,215	1,517	826	524	901
Local Grants and Contracts	4,612	4,000	4,423	5,791	3,656	3,388	3,895	3,876	8,098	3,172
Auxiliary enterprises	14,335	9,850	8,570	7,313	6,737	5,663	6,052	5,671	5,390	4,886
Other Operating Revenues	2,239	1,467	1,757	1,547	1,326	1,694	892	910	891	1,089
<b>Total Operating Revenues</b>	<u>\$ 92,378</u>	<u>\$ 84,483</u>	<u>\$ 82,907</u>	<u>\$ 77,027</u>	<u>\$ 68,596</u>	<u>\$ 62,498</u>	<u>\$ 58,169</u>	<u>\$ 54,839</u>	<u>\$ 54,379</u>	<u>\$ 46,177</u>
Ad Valorem Taxes:										
Maintenance and Operations	109,041	104,875	101,461	96,232	89,416	86,540	83,480	73,756	70,130	60,589
General Obligation Bonds	43,663	40,884	39,020	38,486	39,416	38,050	34,698	31,368	28,437	26,362
State Appropriations	85,709	75,962	75,418	73,405	74,594	71,148	72,000	62,750	62,266	54,697
Federal Revenue, Non-Operating	91,369	90,757	89,175	74,414	50,747	23,243	18,599	17,118	17,965	18,290
Investment income	451	556	500	732	967	3,434	3,961	4,477	2,540	1,111
Other non-operating revenues	4,568	4,871	4,183	3,868	4,601	1,120	1,379	1,320	1,395	655
<b>Total Non-Operating Revenues</b>	<u>334,801</u>	<u>317,905</u>	<u>309,757</u>	<u>287,137</u>	<u>259,741</u>	<u>223,535</u>	<u>214,117</u>	<u>190,789</u>	<u>182,733</u>	<u>161,704</u>
<b>Total Revenues</b>	<u>\$ 427,179</u>	<u>\$ 402,388</u>	<u>\$ 392,664</u>	<u>\$ 364,164</u>	<u>\$ 328,337</u>	<u>\$ 286,033</u>	<u>\$ 272,286</u>	<u>\$ 245,628</u>	<u>\$ 237,112</u>	<u>\$ 207,881</u>

Statistical Supplement 2 (Cont)

For the Year Ended August 31,

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Tuition and Fees (Net of Discounts)	14.50%	14.83%	14.99%	14.85%	14.11%	14.80%	14.39%	14.99%	14.09%	14.50%
Governmental Grants and Contracts										
Federal Grants and Contracts	1.35%	1.39%	1.69%	1.38%	2.38%	2.52%	2.44%	2.74%	2.56%	2.88%
State Grants and Contracts	0.81%	0.97%	0.68%	0.90%	0.84%	0.77%	0.56%	0.34%	0.22%	0.43%
Local Grants and Contracts	1.08%	0.99%	1.13%	1.59%	1.11%	1.18%	1.43%	1.58%	3.42%	1.53%
Auxiliary enterprises	3.36%	2.45%	2.18%	2.01%	2.05%	1.98%	2.22%	2.31%	2.27%	2.35%
Other Operating Revenues	0.52%	0.36%	0.45%	0.42%	0.40%	0.59%	0.33%	0.37%	0.38%	0.51%
<b>Total Operating Revenues</b>	<b>21.63%</b>	<b>21.00%</b>	<b>21.11%</b>	<b>21.15%</b>	<b>20.89%</b>	<b>21.85%</b>	<b>21.37%</b>	<b>22.33%</b>	<b>22.93%</b>	<b>22.20%</b>
Ad Valorem Taxes:										
Maintenance and Operations	25.53%	26.06%	25.84%	26.43%	27.23%	30.26%	30.66%	30.03%	29.58%	29.15%
General Obligation Bonds	10.22%	10.16%	9.94%	10.57%	12.00%	13.30%	12.74%	12.77%	11.99%	12.68%
State Appropriations	20.06%	18.88%	19.21%	20.16%	22.72%	24.87%	26.44%	25.55%	26.26%	26.31%
Federal Revenue, Non-Operating	21.39%	22.55%	22.71%	20.43%	15.46%	8.13%	6.83%	6.97%	7.58%	8.80%
Investment income	0.11%	0.14%	0.13%	0.20%	0.29%	1.20%	1.45%	1.82%	1.07%	0.53%
Other non-operating revenues	1.07%	1.21%	1.07%	1.06%	1.40%	0.39%	0.51%	0.53%	0.59%	0.33%
<b>Total Non-Operating Revenues</b>	<b>78.37%</b>	<b>79.00%</b>	<b>78.89%</b>	<b>78.85%</b>	<b>79.11%</b>	<b>78.15%</b>	<b>78.63%</b>	<b>77.67%</b>	<b>77.07%</b>	<b>77.80%</b>
<b>Total Revenues</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Lone Star College System**  
**Statistical Supplement 3**  
**Program Expenses by Function**  
**Fiscal Years 2005 to 2014**  
(unaudited)

	For the Year Ended August 31, (amounts expressed in thousands)									
	<u>2014</u>	<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>
Instruction	\$ 123,466	\$ 113,233	\$ 108,314	\$ 104,578	\$ 99,673	\$ 92,039	\$ 88,102	\$ 81,585	\$ 77,225	\$ 69,557
Research	-	-	-	-	-	-	-	-	-	-
Public service	1,340	1,048	1,163	1,252	1,805	1,757	1,510	1,475	1,475	1,324
Academic support	55,928	54,998	47,383	47,497	44,995	44,796	36,140	31,411	29,010	25,892
Student services	41,840	38,498	34,101	30,101	29,942	24,065	18,469	16,705	15,551	13,947
Institutional support	37,230	32,744	29,227	29,908	30,207	27,105	33,961	30,898	28,571	28,728
Operation and maintenance of plant	43,688	42,416	42,230	36,497	35,753	38,258	31,868	27,362	23,665	20,843
Scholarships and fellowships	55,840	56,215	60,374	51,120	33,743	14,092	10,662	10,392	9,341	10,716
Auxiliary enterprises	12,307	8,621	6,772	5,748	5,297	4,952	5,696	5,304	5,132	4,796
Depreciation	23,588	22,346	19,368	12,666	10,682	9,369	8,492	8,825	8,702	8,459
<b>Total Operating Expenses</b>	<u>\$ 395,227</u>	<u>\$ 370,119</u>	<u>\$ 348,932</u>	<u>\$ 319,367</u>	<u>\$ 292,097</u>	<u>\$ 256,433</u>	<u>\$ 234,900</u>	<u>\$ 213,957</u>	<u>\$ 198,672</u>	<u>\$ 184,262</u>
Interest on capital related debt	27,106	22,792	19,614	20,959	19,731	15,582	10,419	11,359	12,518	11,431
Loss on disposal of capital assets	1,876	6,030	666	1,439	5	97	347	245	6	-
<b>Total Non-Operating Expenses</b>	<u>28,982</u>	<u>28,822</u>	<u>20,280</u>	<u>22,398</u>	<u>19,736</u>	<u>15,679</u>	<u>10,766</u>	<u>11,604</u>	<u>12,524</u>	<u>11,431</u>
<b>Total Expenses</b>	<u>\$ 424,209</u>	<u>\$ 398,941</u>	<u>\$ 369,212</u>	<u>\$ 341,765</u>	<u>\$ 311,833</u>	<u>\$ 272,112</u>	<u>\$ 245,666</u>	<u>\$ 225,561</u>	<u>\$ 211,196</u>	<u>\$ 195,693</u>



Statistical Supplement 3 (Cont)

	For the Year Ended August 31,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Instruction	29.10%	28.38%	29.34%	30.60%	31.96%	33.83%	35.87%	36.16%	36.57%	35.54%
Research	-	-	-	-	-	-	-	-	-	-
Public service	0.32%	0.26%	0.31%	0.37%	0.58%	0.65%	0.61%	0.65%	0.70%	0.68%
Academic support	13.18%	13.79%	12.83%	13.90%	14.43%	16.46%	14.71%	13.93%	13.74%	13.23%
Student services	9.86%	9.65%	9.24%	8.81%	9.60%	8.84%	7.52%	7.41%	7.36%	7.13%
Institutional support	8.78%	8.21%	7.92%	8.75%	9.69%	9.96%	13.82%	13.70%	13.53%	14.68%
Operation and maintenance of plant	10.30%	10.63%	11.43%	10.67%	11.46%	14.05%	12.97%	12.13%	11.21%	10.65%
Scholarships and fellowships	13.16%	14.09%	16.35%	14.96%	10.82%	5.18%	4.34%	4.61%	4.42%	5.48%
Auxiliary enterprises	2.90%	2.16%	1.83%	1.68%	1.70%	1.82%	2.32%	2.35%	2.43%	2.45%
Depreciation	5.56%	5.60%	5.25%	3.71%	3.43%	3.44%	3.46%	3.91%	4.12%	4.32%
<b>Total Operating Expenses</b>	<b>93.16%</b>	<b>92.77%</b>	<b>94.50%</b>	<b>93.45%</b>	<b>93.67%</b>	<b>94.23%</b>	<b>95.62%</b>	<b>94.85%</b>	<b>94.07%</b>	<b>94.16%</b>
Interest on capital related debt	6.39%	5.71%	5.31%	6.13%	6.33%	5.73%	4.24%	5.04%	5.93%	5.84%
Loss on disposal of capital assets	0.44%	1.51%	0.18%	0.42%	0.00%	0.04%	0.14%	0.11%	-	-
<b>Total Non-Operating Expenses</b>	<b>6.83%</b>	<b>7.22%</b>	<b>5.49%</b>	<b>6.55%</b>	<b>6.33%</b>	<b>5.77%</b>	<b>4.38%</b>	<b>5.15%</b>	<b>5.93%</b>	<b>5.84%</b>
<b>Total Expenses</b>	<b>100.0%</b>	<b>100.0%</b>	<b>99.99%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

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

<b>Resident Fees per Semester Credit Hour (SCH)</b>											
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
2014	\$12	\$42	\$112	\$9	\$2	\$7	\$20	\$752	\$1,592	6.82%	3.11%
2013	12	40	110	7	2	7	20	704	1,544	0.00%	0.00%
2012	12	40	110	7	2	7	20	704	1,544	0.00%	0.00%
2011	12	40	110	7	2	7	20	704	1,544	17.33%	7.22%
2010	12	38	108	7	2	2		600	1,440	0.00%	0.00%
2009	12	38	108	7	2	2		600	1,440	6.38%	12.15%
2008	12	36	96	6	2	2		564	1,284	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	N/A	N/A

<b>Non-Resident Fees per Semester Credit Hour (SCH)</b>											
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
2014	\$12	\$127	\$127	\$9	\$2	\$7	\$20	\$1,772	\$1,772	2.78%	2.78%
2013	12	125	125	7	2	7	20	1,724	1,724	0.00%	0.00%
2012	12	125	125	7	2	7	20	1,724	1,724	0.00%	0.00%
2011	12	125	125	7	2	7	20	1,724	1,724	6.42%	6.42%
2010	12	123	123	7	2	2		1,620	1,620	0.00%	0.00%
2009	12	123	123	7	2	2		1,620	1,620	10.66%	10.66%
2008	12	111	111	6	2	2		1,464	1,464	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	N/A	N/A

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

**Lone Star College 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)
2013-14	145,894,831	(12,841,989)	133,052,842	91.20%	0.0825	0.0335	0.1160
2012-13	134,231,554	(11,446,862)	122,784,692	91.47%	0.0863	0.0335	0.1198
2011-12	127,768,523	(10,264,805)	117,503,718	91.97%	0.0875	0.0335	0.1210
2010-11	124,218,962	(8,525,498)	115,693,464	93.14%	0.0841	0.0335	0.1176
2009-10	126,352,009	(8,422,514)	117,929,495	93.33%	0.0766	0.0335	0.1101
2008-09	122,354,425	(9,679,185)	112,675,240	92.09%	0.0766	0.0335	0.1101
2007-08	110,258,237	(6,990,029)	103,268,208	93.66%	0.0809	0.0335	0.1144
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

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 Appropriation (expressed in thousands)	FTSE (a)	State Appropriation per FTSE	(hours expressed in thousands)			State Appropriation per Contact Hour	
				Academic Contact Hours (b)	Voc/Tech Contact Hours (c)	Total Contact Hours		
2013-14	\$ 72,476	39,973	\$ 1,813	7,964	158	8,122	\$ 8.92	
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	

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)									
		2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Hewlett Packard	Manufacturing	\$ 923,268	950,638	\$ 966,995	\$ 773,400	\$ 951,681	\$ 851,026	\$ 1,070,242	\$ 717,813	\$ 612,508	\$ 328,867
National Oilwell Inc.	Oil and Gas	750,757	953,362	853,978	1,029,299	542,361	344,584				
Centerpoint Energy Inc	Utility	726,301	627,931	612,353	607,492	631,661	634,424	629,973	669,281	627,004	665,897
Halliburton	Oil and Gas	637,090	602,119	417,115	243,305	251,237	264,056				
Baker Hughes	Oil and Gas	456,648	252,711	217,842		244,222					
Cameron	Oil and Gas	406,267	339,451								
Noble Drilling	Oil and Gas	339,270									
Smith International	Oil and Gas	371,334	314,722	241,037	227,655	254,117	235,543				
Walmart	Retail	343,630	333,060	340,227	532,664	562,119	540,093	512,420	272,154	194,673	231,324
Continental Airlines Inc	Airline	315,198	235,261	240,493	234,462			190,396	190,101	218,579	218,060
Wal-Mart Real Estate Bus Trst	Real Estate			230,856					220,261		
HEB Grocery Co LP	Retail grocery		269,573	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
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
AEP Energy Services, Inc	Utility										185,355
Gulf States Utilities	Utility										143,586
First Security Bank, Trustee	Other										136,277
Compaq	Manufacturing										
BAM Lease Company	Property Management										
Houston Lighting & Power	Utility										
Enron Corporation	Conglomerate										
Weingarten Realty	Real Estate										
Greenspoint Plaza Ltd	Property Management										
<b>Totals</b>		<b>\$ 5,269,763</b>	<b>\$ 4,878,828</b>	<b>\$ 3,377,081</b>	<b>\$ 3,534,999</b>	<b>\$ 3,357,557</b>	<b>\$ 3,136,268</b>	<b>\$ 3,090,621</b>	<b>\$ 2,691,036</b>	<b>\$ 2,279,970</b>	<b>\$ 2,262,781</b>
<b>Total Taxable Assessed Value</b>		<b>\$122,784,692</b>	<b>\$ 117,503,718</b>	<b>\$ 115,693,464</b>	<b>\$ 117,929,495</b>	<b>\$112,675,240</b>	<b>\$103,268,208</b>	<b>\$90,146,858</b>	<b>\$81,936,173</b>	<b>\$75,289,890</b>	<b>\$69,598,293</b>

Statistical Supplement 7 (Cont)

Taxpayer	Type of Business	% of Taxable Assessed Value (TAV) by Tax Year									
		2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Hewlett Packard	Manufacturing	0.75%	0.81%	0.84%	0.66%	0.84%	0.82%	1.19%	0.88%	0.81%	0.47%
National Oilwell Inc.	Oil and Gas	0.61%	0.81%	0.74%	0.87%	0.48%					
Centerpoint Energy Inc	Utility	0.59%	0.53%	0.53%	0.52%	0.56%	0.61%	0.70%	0.82%	0.83%	0.96%
Halliburton	Oil and Gas	0.52%	0.51%	0.36%	0.21%	0.22%					
Baker Hughes	Oil and Gas	0.37%	0.22%		0.00%						
Cameron	Oil and Gas	0.33%	0.29%								
Noble Drilling	Oil and Gas	0.28%									
Smith International	Oil and Gas	0.30%	0.27%	0.21%	0.19%	0.23%					
Walmart	Retail	0.28%	0.28%	0.29%	0.45%	0.50%	0.52%	0.57%	0.33%	0.26%	0.33%
Continental Airlines Inc	Airline	0.26%	0.20%	0.21%				0.21%	0.23%	0.29%	0.31%
Wal-Mart Real Estate Bus Trst	Real Estate							0.00%			
HEB Grocery Co LP	Retail grocery		0.23%					0.00%			
LeTourneau Technologies	Oil and Gas				0.19%						
Comcast of Houston LLC	Utility										
Hines Interests Ltd Psp	Real Estate				0.18%	0.21%	0.28%	0.28%	0.28%	0.28%	0.27%
Houston Pipeline Co LP	Utility					0.32%	0.31%	0.28%	0.64%		
Schlumberger Technology	Oil and Gas										
AT&T/Southwestern Bell	Utility						0.23%	0.39%	0.31%	0.35%	
Nabors Drilling USA LP	Oil and Gas										
Express Jet Airlines Inc	Airline										
Exxon Mobil Corp	Oil and Gas							0.22%	0.21%	-	
Texas Cable Partners LP	Utility										
Wachovia Develop Corp	Real Estate										
Woodlands Land Dev LP	Real Estate										0.36%
AEP Energy Services, Inc	Utility										
Gulf States Utilities	Utility										0.21%
First Security Bank, Trustee	Other										
Compaq	Manufacturing										
BAM Lease Company	Property Management										
Houston Lighting & Power	Utility										
Enron Corporation	Conglomerate										
Weingarten Realty	Real Estate										
Greenspoint Plaza Ltd	Property Management										
		4.29%	4.15%	2.92%	3.00%	2.98%	3.04%	3.43%	3.28%	3.03%	3.25%

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				
2014	126,882	26,539	153,421	151,805	98.95%	\$ 614	\$ 1,561	\$ 153,979	100.36%
2013	130,094	17,002	147,096	144,108	97.97%	2,118	964	147,190	100.06%
2012	131,397	8,624	140,021	139,289	99.48%	2,069	1,264	142,622	101.86%
2011	121,564	14,359	135,923	133,207	98.00%	1,679	1,257	136,143	100.16%
2010	115,096	14,436	129,532	126,317	97.52%	2,292	1,228	129,837	100.24%
2009	110,518	13,297	123,815	122,271	98.75%	-	-	122,271	98.75%
2008	105,100	13,039	118,139	114,588	96.99%	-	-	114,588	96.99%
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%

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)									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>General Bonded Debt</b>										
General obligation bonds	\$ 473,184	\$ 490,699	\$ 506,772	\$ 523,011	\$ 538,108	\$ 283,232	\$ 155,503	\$ 184,419	\$ 203,705	\$ 220,639
Notes	-	-	-	-	-	-	-	-	-	-
Less: Funds restricted for debt service	-	-	-	-	-	-	-	-	-	-
<b>Net general bonded debt</b>	<b>\$ 473,184</b>	<b>\$ 490,699</b>	<b>\$ 506,772</b>	<b>\$ 523,011</b>	<b>\$ 538,108</b>	<b>\$ 283,232</b>	<b>\$ 155,503</b>	<b>\$ 184,419</b>	<b>\$ 203,705</b>	<b>\$ 220,639</b>
<b>Other Debt</b>										
Revenue bonds	\$ 119,850	\$ 62,604	\$ 44,873	\$ 46,708	\$ 48,997	\$ 51,240	\$ 53,488	\$ 55,296	\$ 26,540	\$ 27,992
Maintenance Tax Notes	28,304	29,753	31,116	32,386	32,480	-	-	-	-	-
Capital lease obligations	-	-	-	-	-	-	-	-	-	-
<b>Total Outstanding Debt</b>	<b>\$ 621,338</b>	<b>\$ 583,056</b>	<b>\$ 582,761</b>	<b>\$ 602,105</b>	<b>\$ 619,585</b>	<b>\$ 334,472</b>	<b>\$ 208,991</b>	<b>\$ 239,715</b>	<b>\$ 230,245</b>	<b>\$ 248,631</b>
<b>General Bonded Debt Ratios</b>										
Per Capita	\$ 204.76	\$ 179.20	\$ 197.57	\$ 217.72	\$ 245.29	\$ 142.82	\$ 103.67	\$ 124.61	\$ 141.46	\$ 156.90
Per FTSE	11,838	12,259	13,491	14,372	16,751	9,988	5,724	7,179	8,061	9,450
As a percentage of Taxable Assessed Value	0.36%	0.40%	0.43%	0.45%	0.46%	0.25%	0.15%	0.20%	0.25%	0.29%
<b>Total Outstanding Debt Ratios</b>										
Per Capita	\$ 268.87	\$ 212.93	\$ 227.19	\$ 250.65	\$ 282.43	\$ 168.66	\$ 139.33	\$ 161.97	\$ 159.89	\$ 176.80
Per FTSE	15,544	14,566	15,514	16,545	19,287	11,795	7,693	9,332	9,112	10,649
As a percentage of Taxable Assessed Value	0.47%	0.47%	0.50%	0.52%	0.53%	0.30%	0.20%	0.27%	0.28%	0.33%

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)									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Taxable Assessed Value	\$ 133,052,842	\$ 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
<b>General Obligation Bonds</b>										
Statutory Tax Levy Limit for Debt Service	\$ 665,264	\$ 613,923	\$ 587,519	\$ 578,467	\$ 589,647	\$ 563,376	\$ 516,341	\$ 450,734	\$ 409,681	\$ 376,449
Less: Funds Restricted for Repayment of General Obligation Bonds	(8,565)	(37,687)	(13,400)	(6,351)	(6)	(7,166)	(5,131)	(6,051)	(3,337)	(2,324)
Total Net General Obligation Debt	656,699	576,236	574,119	572,116	589,641	556,210	511,210	444,683	406,344	374,125
Current Year Debt Service Requirements	52,946	46,496	45,493	47,201	46,679	36,300	31,836	30,107	28,809	26,854
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 603,753	\$ 529,740	\$ 528,626	\$ 524,915	\$ 542,962	\$ 519,910	\$ 479,374	\$ 414,576	\$ 377,535	\$ 347,271
Net Current Requirements as a % of Statutory Limit	6.67%	1.43%	5.46%	7.06%	7.92%	5.17%	5.17%	5.34%	6.22%	6.52%

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
2014	\$ 11,383	\$ 15,424	\$ 1,949	\$ 1,310	\$ 7,068	\$ 9,039	\$ 6,075	\$ 2,546	\$ 7,145	\$ 327	\$ 464	\$ 2,489	\$65,220	\$ 4,645	\$ 5,292	9,937	6.56
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

**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) (c)	District Personal Income Per Capita (b)	District Unemployment Rate (d)
2014	2,310,965	\$ 67,327,653	\$ 29,134	5.4%
2013	2,265,527	63,392,562	27,981	6.1%
2012	2,220,983	59,687,506	26,874	7.0%
2011	2,177,315	56,198,996	25,811	8.6%
2010	2,134,505	52,914,377	24,790	8.8%
2009	2,055,895	50,150,685	24,394	8.3%
2008	1,980,180	47,531,482	24,004	8.3%
2007	1,907,254	45,049,071	23,620	4.1%
2006	1,837,013	42,696,308	23,242	5.0%
2005	1,769,359	40,466,422	22,871	5.3%

**Sources:**

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

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

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

(d) U.S. Bureau of Labor Statistics, Metropolitan Area Employment and Unemployment, July 2014

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

Principal Employment Sectors (a)	2012 (b)		2003 (b)	
	Number of Employees	Percentage of Total Employment	Number of Employees	Percentage of Total Employment
State and local	330,032	8.95%	303,828	10.39%
Retail trade	340,524	9.24%	299,549	10.24%
Construction	263,672	7.15%	244,941	8.38%
Health care and social assistance	327,132	8.87%	222,829	7.62%
Professional, scientific, and technical services	298,580	8.10%	227,062	7.77%
Manufacturing	259,953	7.05%	221,316	7.57%
Administrative and waste services	284,812	7.73%	212,160	7.26%
Accommodation and food services	251,894	6.83%	186,541	6.38%
Other services, except public administration	225,500	6.12%	180,057	6.16%
Finance and insurance	195,780	5.31%	130,081	4.45%
<b>Total</b>	<b>2,777,879</b>	<b>75.35%</b>	<b>2,230,367</b>	<b>76.28%</b>
 Total Employment	 3,686,540		 2,924,043	

Source:

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

Notes:

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

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

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

		Fiscal Year									
		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Faculty</b>											
Full-Time		918	842	833	742	780	756	761	704	661	646
Part-Time		2,039	1,999	1,894	1,900	2,271	2,118	1,923	1,910	1,799	1,636
Total		2,957	2,841	2,727	2,642	3,051	2,874	2,684	2,614	2,460	2,282
<b>Percent</b>											
Full-Time		31.0%	29.6%	30.5%	28.1%	25.6%	26.3%	28.4%	26.9%	26.9%	28.3%
Part-Time		69.0%	70.4%	69.5%	71.9%	74.4%	73.7%	71.6%	73.1%	73.1%	71.7%
<b>Staff and Administrators</b>											
Full-Time		1,673	1,581	1,479	1,431	1,408	1,340	1,263	1,214	1,187	1,142
Part-Time		1,483	1,642	1,476	1,297	1,334	1,472	1,480	1,260	1,078	1,064
Total		3,156	3,223	2,955	2,728	2,742	2,812	2,743	2,474	2,265	2,206
<b>Percent</b>											
Full-Time		53.0%	49.1%	50.1%	52.5%	51.3%	47.7%	46.0%	49.1%	52.4%	51.8%
Part-Time		47.0%	50.9%	49.9%	47.5%	48.7%	52.3%	54.0%	50.9%	47.6%	48.2%
FTSE per Full-time Faculty		45.90	49.61	49.57	52.69	45.87	33.98	33.76	36.49	38.23	36.14
FTSE per Full-Time Staff Member		25.19	26.42	27.92	27.32	25.41	19.17	20.34	21.16	21.29	20.44
Average Annual Faculty Salary		\$ 65,376	\$ 65,462	\$ 65,835	\$ 65,321	\$ 65,012	\$ 65,301	\$ 62,755	\$ 61,426	\$ 58,424	\$ 58,090

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

Student Classification	Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
00-30 hours	50,264	60.69%	46,521	59.93%	47,445	60.92%	43,134	57.00%	33,296	48.02%	35,171	58.95%
31-60 hours	19,329	23.34%	17,864	23.01%	17,882	22.96%	19,787	26.15%	20,895	30.13%	13,039	21.86%
> 60 hours	13,225	15.97%	13,236	17.05%	12,550	16.12%	12,759	16.86%	15,148	21.85%	11,449	19.19%
Total	82,818	100.00%	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	100.00%	59,659	100.00%

Semester Hour Load	Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than 3	310	0.37%	542	0.70%	668	0.86%	2791	3.69%	702	1.01%	232	0.39%
3-5 semester hours	13,130	15.85%	11,340	14.61%	12,224	15.70%	14476	19.13%	13,089	18.88%	11,974	20.07%
6-8 Semester hours	24,431	29.50%	22,763	29.33%	21,610	27.75%	21164	27.97%	17,940	25.87%	15,455	25.91%
9-11 semester hours	19,386	23.41%	17,344	22.34%	17,557	22.54%	16553	21.87%	13,851	19.98%	11,442	19.18%
12-14 semester hours	21,384	25.82%	21,102	27.19%	21,667	27.82%	17612	23.27%	19,948	28.77%	16,917	28.36%
15-17 semester hours	3,800	4.59%	4,046	5.21%	3,757	4.82%	2797	3.70%	3,377	4.87%	3,213	5.39%
18 & over	377	0.46%	484	0.62%	394	0.51%	287	0.38%	432	0.62%	426	0.71%
Total	82,818	100.00%	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	100.00%	59,659	100.00%

Average course load                      8.6                      8.5                      8.8                      8                      8.7                      8.4

Tuition Status	Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Texas Resident (in-District)	70,681	85.34%	67,644	87.15%	66,716	85.67%	64901	85.76%	61,054	88.05%	54,138	90.75%
Texas Resident (out-of-District)	9,164	11.07%	7,573	9.76%	8,019	10.30%	7224	9.55%	4,839	6.98%	3,965	6.65%
Non-Resident Tuition	2,973	3.59%	2,404	3.10%	3,142	4.03%	3555	4.70%	3,446	4.97%	1,556	2.61%
Total	82,818	100.00%	77,621	100.00%	77,877	100.00%	75,680	100.00%	69,339	100.00%	59,659	100.00%

Source: ORIE Official Day - Fall

Statistical Supplement 15 (Cont)

Fall 2008		Fall 2007		Fall 2006		Fall 2005	
Number	Percent	Number	Percent	Number	Percent	Number	Percent
22,237	48.52%	28,830	65.80%	23,372	56.73%	24,543	60.93%
11,758	25.66%	8,383	19.13%	10,107	24.53%	10,002	24.83%
11,835	25.82%	6,603	15.07%	7,721	18.74%	5,736	14.24%
45,830	100.00%	43,816	100.00%	41,200	100.00%	40,281	100.00%

Fall 2008		Fall 2007		Fall 2006		Fall 2005	
Number	Percent	Number	Percent	Number	Percent	Number	Percent
246	0.54%	218	0.50%	223	0.54%	227	0.56%
10,941	23.87%	10,301	23.51%	9,669	23.47%	9,142	22.70%
11,669	25.46%	11,110	25.36%	10,254	24.89%	10,308	25.59%
8,514	18.58%	8,309	18.96%	7,716	18.73%	7,589	18.84%
12,053	26.30%	11,541	26.34%	11,206	27.20%	10,938	27.15%
2,185	4.77%	2,161	4.93%	1,955	4.75%	1,921	4.77%
222	0.48%	176	0.40%	177	0.43%	156	0.39%
45,830	100.00%	43,816	100.00%	41,200	100.00%	40,281	100.00%

8.7                      8.7                      8.8                      8.6

Fall 2008		Fall 2007		Fall 2006		Fall 2005	
Number	Percent	Number	Percent	Number	Percent	Number	Percent
41,477	90.50%	38,948	88.89%	36,873	89.50%	36,285	90.08%
2,951	6.44%	3,481	7.94%	3,093	7.51%	3,002	7.45%
1,402	3.06%	1,387	3.17%	1,234	3.00%	994	2.47%
45,830	100.00%	43,816	100.00%	41,200	100.00%	40,281	100.00%

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

Gender	Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Female	50,043	60.43%	47,155	60.75%	48,086	61.75%	46,503	61.45%	42,187	60.84%	35,925	60.22%	27,545	60.10%	26,351	60.14%	24,791	60.17%	24,218	60.12%
Male	32,775	39.57%	30,466	39.25%	29,791	38.25%	29,177	38.55%	27,152	39.16%	23,734	39.78%	18,285	39.90%	17,465	39.86%	16,409	39.83%	16,063	39.88%
<b>Total</b>	<b>82,818</b>	<b>100.00%</b>	<b>77,621</b>	<b>100.00%</b>	<b>77,877</b>	<b>100.00%</b>	<b>75,680</b>	<b>100.00%</b>	<b>69,339</b>	<b>100.00%</b>	<b>59,659</b>	<b>100.00%</b>	<b>45,830</b>	<b>100.00%</b>	<b>43,816</b>	<b>100.00%</b>	<b>41,200</b>	<b>100.00%</b>	<b>40,281</b>	<b>100.00%</b>

Ethnic Origin	Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	28,412	34.31%	27,819	35.84%	28,976	37.21%	29,642	39.17%	29,788	42.96%	27,244	45.67%	21,587	47.10%	21,824	49.81%	21,496	52.17%	22,268	55.28%
Hispanic	28,166	34.01%	25,053	32.28%	23,534	30.22%	21,512	28.42%	18,317	26.42%	15,170	25.43%	5,381	11.74%	10,455	23.86%	9,103	22.09%	8,109	20.13%
African American	15,326	18.51%	13,971	18.00%	14,644	18.80%	13,804	18.24%	10,598	15.28%	8,239	13.81%	11,520	25.14%	4,956	11.31%	4,626	11.23%	4,572	11.35%
Asian	5,514	6.66%	4,989	6.43%	4,521	5.81%	4,404	5.82%	4,784	6.90%	4,076	6.83%	3,013	6.57%	2,804	6.40%	2,558	6.21%	2,422	6.01%
Foreign		0.00%		0.00%		0.00%		0.00%		0.00%	735	1.23%	178	0.39%	753	1.72%	847	2.06%	820	2.04%
Native American	204	0.25%	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%
Other	5,196	6.27%	5,546	7.14%	5,944	7.63%	6,021	7.96%	5,531	7.98%	3,921	6.57%	3,393	7.40%	2,851	6.51%	2,434	5.91%	1,942	4.82%
<b>Total</b>	<b>82,818</b>	<b>100.00%</b>	<b>77,621</b>	<b>100.00%</b>	<b>77,877</b>	<b>100.00%</b>	<b>75,680</b>	<b>100.00%</b>	<b>69,339</b>	<b>100.00%</b>	<b>59,659</b>	<b>100.00%</b>	<b>45,830</b>	<b>100.00%</b>	<b>43,816</b>	<b>100.00%</b>	<b>41,200</b>	<b>100.00%</b>	<b>40,281</b>	<b>100.00%</b>

Age	Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 20	28,378	34.27%	25,466	32.81%	20,005	25.69%	19,910	26.31%	22,769	32.84%	12,380	20.75%	16,769	36.59%	16,644	37.99%	15,499	37.62%	14,598	36.24%
20-24	26,390	31.87%	24,866	32.04%	28,122	36.11%	27,294	36.07%	22,029	31.77%	24,654	41.32%	14,969	32.66%	13,881	31.68%	13,231	32.11%	13,075	32.46%
25-29	10,467	12.64%	9,964	12.84%	11,167	14.34%	10,718	14.16%	9,292	13.40%	9,086	15.23%	5,435	11.86%	5,054	11.53%	4,596	11.16%	4,643	11.53%
30-39	10,781	13.02%	10,499	13.53%	11,342	14.56%	10,974	14.50%	9,417	13.58%	8,269	13.86%	5,204	11.36%	4,888	11.16%	4,665	11.32%	4,604	11.43%
40-49	4,799	5.79%	4,834	6.23%	5,127	6.58%	4,900	6.47%	4,203	6.06%	3,710	6.22%	2,497	5.45%	2,464	5.62%	2,353	5.71%	2,469	6.13%
50 & over	2,003	2.42%	1,992	2.57%	2,114	2.71%	1,884	2.49%	1,629	2.35%	1,560	2.61%	956	2.09%	885	2.02%	856	2.08%	892	2.21%
<b>Total</b>	<b>82,818</b>	<b>100.00%</b>	<b>77,621</b>	<b>100.00%</b>	<b>77,877</b>	<b>100.00%</b>	<b>75,680</b>	<b>100.00%</b>	<b>69,339</b>	<b>100.00%</b>	<b>59,659</b>	<b>100.00%</b>	<b>45,830</b>	<b>100.00%</b>	<b>43,816</b>	<b>100.00%</b>	<b>41,200</b>	<b>100.00%</b>	<b>40,281</b>	<b>100.00%</b>

Average Age	24.6	24.4	25.5	25.3	24.8	25.6	25.2	23.6	24.1	24.5
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Source: ORIE Official Day 2014



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

	Transfer Student Count	Transfer Student Count	Transfer Student Count	Total of all Lone Star Transfer Students	% of all Lone Star Transfer Students
	Academic	Technical	Tech-Prep		
University of Houston	3,287	168	57	3,512	20.99%
Sam Houston State University	2,717	169	46	2,932	17.52%
Texas A&M University	2,164	92	31	2,287	13.67%
University of Houston - Downtown	1,822	123	31	1,976	11.81%
The University of Texas at Austin	1,477	40	15	1,532	9.16%
Texas State University - San Marcos	856	50	12	918	5.49%
Texas Tech University	561	32	8	601	3.59%
Stephen F. Austin State University	418	18	7	443	2.65%
Prairie View A&M University	353	27	6	386	2.31%
The University of Texas at San Antonio	312	13	7	332	1.98%
Texas Southern University	291	23	5	319	1.91%
University of North Texas	228	3	3	234	1.40%
The University of Texas at Arlington	160	27	16	203	1.21%
University of Houston - Victoria	128	19	2	149	0.89%
The University of Texas at Dallas	129	6	4	139	0.83%
Texas Woman's University	121	11	2	134	0.80%
Lamar University	108	13	3	124	0.74%
Texas A&M University - Corpus Christi	96	3	1	100	0.60%
Texas A&M University at Galveston	75	3	1	79	0.47%
University of Houston - Clear Lake	53	11	3	67	0.40%
The University of Texas at Tyler	41	3		44	0.26%
Tarleton State University	33	3	1	37	0.22%
West Texas A&M University	17	17	1	35	0.21%
Texas A&M University - Commerce	21	6	2	29	0.17%
Texas A&M University - Kingsville	26			26	0.16%
The University of Texas of the Permian Basin	26			26	0.16%
Midwestern State University	16	1	1	18	0.11%
Angelo State University	11	2	2	15	0.09%
The University of Texas - Pan American	10			10	0.06%
The University of Texas at El Paso	6		1	7	0.04%
Sul Ross State University	4			4	0.02%
Texas A&M University - San Antonio	3			3	0.02%
Texas A&M International University	3			3	0.02%
The University of Texas at Brownsville	3			3	0.02%
Texas A&M University - Central Texas	3			3	0.02%
Lamar University		2		2	0.01%
Texas State University - San Marcos			1	1	0.01%
<b>Grand Total</b>	<b>15,579</b>	<b>885</b>	<b>269</b>	<b>16,733</b>	<b>100.00%</b>

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**

	<b>Fiscal Year</b>									
	<u>2014</u>	<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>
<b>Building Use</b>										
Square Footage (in thousands)										
Instruction/Student Services	3,106	2,994	2,969	2,969	2,080	2,080	1,814	1,814	1,814	1,814
Safety, Facilities Systems	103	103	103	103	95	58	41	41	41	41
Libraries	351	351	351	351	351	351	351	351	351	351
Public Service	105	105	105	105	105	105	105	105	105	105
Auxiliary Services	36	36	36	36	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	222	0	0	0	0
<b>Dining Facilities</b>										
Square footage (in thousands)	91	91	91	91	91	55	55	55	55	55
Average daily customers	4,550	4,550	4,550	4,300	4,100	3,900	3,900	3,900	N/A	N/A
<b>Athletic Facilities</b>										
Square footage (in thousands)	112	112	112	112	112	112	112	112	112	112
Stadiums (number of buildings)	-	-	-	-	-	-	-	-	-	-
Gymnasiums (number of buildings)	-	-	-	-	-	-	-	-	-	-
Fitness Centers (number of buildings)	7	7	6	6	6	6	6	6	6	6
Tennis Court (number of courts)	32	32	32	32	32	32	32	32	32	32
<b>Transportation</b>										
Cars	27	25	26	15	15	15	15	16	16	16
Light Trucks/Vans	42	37	33	20	20	20	20	17	17	15
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  
The Woodlands, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lone Star College System (the "System"), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 4, 2014.

**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.

To the Board of Trustees  
Lone Star College System

## **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 4, 2014

**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  
The 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, 2014. 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 and state programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the System's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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.

To the Board of Trustees  
Lone Star College System

### ***Opinion on Each Major Federal and State 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, 2014.

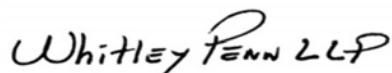
### **Report on Internal Control over Compliance**

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 and state 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 or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Houston, Texas  
December 4, 2014

**Schedule of Findings and Questioned Cost**



LONE STAR COLLEGE SYSTEM  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended August 31, 2014

**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:

<b>Name of Federal Program or Cluster</b>	<b>CFDA Numbers</b>
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
WIA Section 503 – Title V Incentive	17.267
Commercial Vehicle Operating Training	20.235

**Name of State Program**

College Work Study Program	N/A
Skills Development Fund	N/A

LONE STAR COLLEGE SYSTEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
For the Year Ended August 31, 2014

**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**

There were no prior year findings.

**V. Corrective Action Plan**

Not applicable.



**Lone Star College System**  
**5000 Research Forest Drive**  
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