This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT
Dated June 15, 2015

FirstSouthwest
A PlainsCapital Company
DISCLOSURE SERVICES

NEW ISSUE - Book-Entry-Only

Ratings: Moody's: Applied For
S&P: Applied For
See ("OTHER INFORMATION – Ratings" herein)

In the opinion of Bond Counsel (assuming certain compliance by the District), interest on the Bonds will be excludable from gross income for income tax purposes under existing law, subject to the matters described under "TAX MATTERS – Tax Exemption" herein, and will not be included as an item of tax preference in determining an individual's minimum tax liability or, except as described herein, in adjusted current earnings for purposes of determining a corporation's alternative minimum tax liability.

$88,725,000*
SOUTH TEXAS COLLEGE DISTRICT
(Hidalgo and Starr Counties)
LIMITED TAX BONDS,
SERIES 2015

Dated Date: June 15, 2015 **Due: August 15, as shown on inside front cover**
Interest to Accrue from Date of Delivery

PAYMENT TERMS . . . Interest on the $88,725,000* South Texas College District, Limited Tax Bonds, Series 2015 (the "Bonds") will accrue from their date of initial delivery to the initial purchasers (the "Underwriters"), will be payable on February 15 and August 15 of each year, commencing February 15, 2016, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is BOKF, NA dba Bank of Texas, Austin, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE FOR THE BONDS . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State") including Section 130.122 of the Texas Education Code, as amended, and are direct and voted obligations of the South Texas College District (the "District") and constitute the second and final installment of bonds that were authorized at an election held in the District on November 5, 2013 and are payable from a continuing ad valorem tax levied on all taxable property within the District, within the limits prescribed by law, as provided in the order authorizing the Bonds (the "Order") (see "THE BONDS - Authority for Issuance for the Bonds" and "THE BONDS – Security and Source of Payment for the Bonds").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the construction and equipping of college buildings, to accommodate increased student enrollment and to pay for costs of issuance of the Bonds.

CUSIP PREFIX: 84055Q
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Inside Cover

LEGALITY . . . The Bonds are offered when, as, and if issued, subject to approval of legality by the Attorney General of the State of Texas and the opinion of The J. Ramirez Law Firm, San Juan, Texas, Bond Counsel (see APPENDIX C - "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel, The Perez Law Firm, PLLC, Pharr, Texas. (See "OTHER INFORMATION – Legal Matters" herein).

DELIVERY . . . It is expected that the Bonds will be available for initial delivery through the services of The Depository Trust Company on Tuesday, July 21, 2015.

ESTRADA HINOJOSA & COMPANY, INC.

FROST BANK **JEFFERIES**
RAYMOND JAMES **STEPHENS INC.**

STIFEL, NICOLAUS & COMPANY, INCORPORATED

* Preliminary, subject to change.

MATURITY SCHEDULE

CUSIP PREFIX: 84055Q[1]

Principal Amount	Stated Maturity (August 15)	Interest Rate	Initial Yield[2]	CUSIP No.[1]	Principal Amount	Stated Maturity (August 15)	Interest Rate	Initial Yield[2]	CUSIP No.[1]
$ 115,000	2016	%	%		$ 4,685,000	2026	%	%	
120,000	2017				4,915,000	2027			
125,000	2018				5,160,000	2028			
3,580,000	2019				5,420,000	2029			
4,540,000	2020				5,690,000	2030			
4,765,000	2021				5,975,000	2031			
3,850,000	2022				6,275,000	2032			
4,045,000	2023				6,585,000	2033			
4,245,000	2024				6,915,000	2034			
4,460,000	2025				7,260,000	2035			

(Interest accrues from the date of initial delivery)

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after _____ __, ____, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on _____ __, ____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption"). Any Term Bonds (defined herein) will be subject to mandatory sinking fund redemption.

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of The American Bankers Association and are included solely for convenience of the registered owners of the Bonds. These data are not intended to create a database and do not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, or the Underwriters is responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(2) Yield is calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on _____ __, ____, the first optional call date for the Bonds, at a redemption price of par, plus accrued interest to the redemption date.

_____

* Preliminary, subject to change.

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For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission ("Rule 15c2-12"), this document constitutes a Preliminary Official Statement of the District with respect to the Bonds that has been deemed "final" by the South Texas College District (the "District") as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and information obtained from sources other than the District is not to be construed as the representation of the District. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION FOR THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

NONE OF THE DISTRICT, THE FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

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OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE DISTRICT..... South Texas College District (the "District") is a political subdivision located in Hidalgo and Starr Counties, Texas. The District covers approximately 2,799 square miles (see "INTRODUCTION - Description of the District").

THE BONDS..... The Bonds are the second and final issuance of bonds authorized November 5, 2013, and are issued as $88,725,000* Limited Tax Bonds, Series 2015. The Bonds are issued as serial bonds maturing August 15 in the years 2016 through 2035, unless the Underwriters designate one or more maturities as a Term Bond (see "THE BONDS - Description of the Bonds").

PAYMENT OF INTEREST ..... Interest on the Bonds accrues from their date of initial delivery to the Underwriters, and is payable February 15, 2016, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of Bonds" and "THE BONDS - Optional Redemption").

AUTHORITY FOR ISSUANCE FOR THE BONDS ..... The Bonds are being issued pursuant to the Constitution and the general laws of the State of Texas, including Section 130.122 of the Texas Education Code, and an order adopted by the Board of Trustees of the District (the "Order") (see "THE BONDS - Authority for Issuance for the Bonds").

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS..... The Bonds constitute direct obligations of the District, payable from the levy and collection of an ad valorem tax, within the limitations prescribed by law, on all taxable property located within the District, as provided in the Order (see "THE BONDS - Security and Source of Payment for the Bonds" and "THE BONDS - Authority for Issuance for the Bonds" herein).

REDEMPTION ..... The District reserves the right, at its option, to redeem Bonds having stated maturities on and after _____ __, ____, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on _____ __, ____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

TAX EXEMPTION..... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS" herein, including the alternative minimum tax on corporations.

USE OF PROCEEDS ..... Proceeds from the sale of the Bonds will be used for the construction and equipping of college buildings, to accommodate increased student enrollment and to pay for costs of issuance of the Bonds.

RATINGS ..... Applications for contract ratings on the Bonds have been made to Moody's Investors Service, Inc. ("Moody's) and Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC Business ("S&P"). The presently outstanding tax supported debt of the District is rated "Aa2" by Moody's and "AA" by S&P, without regard to credit enhancement. The District also has several issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P through insurance by various commercial insurance companies (see "OTHER INFORMATION - Ratings").

BOOK-ENTRY-ONLY SYSTEM..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").

* Preliminary, subject to change.

PAYMENT RECORD ..... The District has never defaulted in payment of its bonded debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated District Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year	Tax Supported Debt Per Capita	Ratio of Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2011	848,228	$ 30,089,658,977 [1]	$ 35,474	$ 61,389,287	$ 72	0.20%	102.43%
2012	860,992	29,518,175,339 [1]	34,284	52,831,020	61	0.18%	103.43%
2013	873,715	29,645,534,071 [1]	33,930	44,384,991	51	0.15%	103.38%
2014	884,888	30,246,199,691 [1]	34,181	88,834,991	100	0.29%	103.72%
2015	897,472	30,965,159,425 [2]	34,503	169,520,000 [3]	189 [3]	0.55% [3]	(4)

(1) As reported by South Texas College District Comprehensive Annual Financial Report. (Estimated for 2015.)
(2) As reported by the Hidalgo County Appraisal District and Starr County Appraisal District as per their tax roll; subject to change during the ensuing year.
(3) Projected. Includes the bonds; preliminary, subject to change.
(4) In process of collection.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended August 31,				
	2014	2013	2012	2011	2010
Beginning Balance	$ 315,848,253	$ 293,087,941	$ 257,119,048	$ 229,691,712	$ 202,489,991
Total Revenue	181,801,118	179,045,614	184,831,420	188,395,390	185,373,929
Total Expenditures	160,107,860	156,285,302	148,862,527	160,968,054	158,172,208
Increase (Decrease)in Net Assets	$ 21,693,258	$ 22,760,312	$ 35,968,893	$ 27,427,336	$ 27,201,721
Ending Balance	$ 337,541,511	$ 315,848,253	$ 293,087,941	$ 257,119,048	$ 229,691,712

For additional information regarding the District, please contact:

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Ms. Maria G. Elizondo, Vice President for Finance and Administrative Services
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DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Board Members	Length of Service	Term Expires (May)	Occupation
Roy De Leon Chair, District 7	18 Years	2020	Branch Retail Executive BBVA Compass Bank-Mercedes, Texas
Dr. Alejo Salinas, Jr. Vice-Chair, District 5	19 Years	2020	Clinical Lecturer, University of Texas-Pan American Retired Superintendent/Superintendent Emeritus, Hidalgo ISD
Paul R. Rodriguez Secretary, District 3	3 Year	2016	CEO Valley Land Title Co.
Rose Benavidez Member, District 1	6 Years	2018	President Starr County Industrial Foundation
Graciela Farias Member, District 2	3 Years	2018	Self-Employed Educational Consultant
Gary Gurwitz Member, District 4	22 Years	2016	Managing Partner Atlas, Hall & Rodriguez, L.L.P.
Jesse Villarreal Member, District 6	15 Years	2018	Parental Involvement Specialist Weslaco ISD

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service with South Texas College	Length of Service in Education
Dr. Shirley A. Reed	President	21 Years	44 Years
Ms. Maria G. Elizondo	Vice President for Finance and Administrative Services	21 Years	31 Years
Dr. David Plummer	Interim Vice President for Information Services Planning, and Strategic Initiative	15 Years	17 Years
Dr. Anahid Petrosian	Interim Vice President for Academic Affairs	21 Years	22 Years
Ms. Wanda F. Garza	Interim Vice President for Student Affairs and Enrollment Management	17 Years	29 Years
Ms. Myriam Lopez	Comptroller	15 Years	15 Years

CONSULTANTS AND ADVISORS

Auditors ..... Long Chilton, LLP
McAllen, Texas

Bond Counsel ..... The J. Ramirez Law Firm
San Juan, Texas

Financial Advisor ..... First Southwest Company, LLC
Dallas, San Antonio and McAllen, Texas

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PRELIMINARY OFFICIAL STATEMENT

RELATING TO

$88,725,000*
SOUTH TEXAS COLLEGE DISTRICT
(Hidalgo and Starr Counties)
LIMITED TAX BONDS,
SERIES 2015

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $88,725,000* South Texas College District Limited Tax Bonds, Series 2015. Capitalized terms used in this Official Statement, except as otherwise indicated herein, have the same meanings assigned to such terms in the Order to be adopted on the date of sale of the Bonds which will authorize the issuance of the Bonds.

There follows in this Official Statement descriptions of the Bonds and certain information regarding South Texas College District (the "District") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, First Southwest Company, Dallas, San Antonio and McAllen, Texas.

The Preliminary Official Statement speaks only as of its date and the information contained herein is subject to change. The Final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Marketing Access ("EMMA") system. See "OTHER INFORMATION – Continuing Disclosure" herein for a description of the District's undertaking to provide continuing disclosure to the public on a continuing basis.

DESCRIPTION OF THE DISTRICT . . . The District is a junior college district and a political subdivision located in Hidalgo and Starr Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered six-year terms with elections held in May of each even-numbered year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the President, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 2,799 square miles in Hidalgo and Starr Counties.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated June 15, 2015, and mature on August 15 in each of the years and in the amounts shown on the (inside) cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 2016. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE FOR THE BONDS . . . The Bonds are issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Section 130.122 of the Texas Education Code, as amended; an election held November 5, 2013, and passed by a majority of the participating voters; and the Order. Voters approved a total of $159,028,940 in bonds to be issued over time by the District. The District voters also raised the District's maintenance tax authority to fourteen cents per $100 valuation of ad valorem (see TAX INFORMATION - Effective Tax Rate and Rollback Tax Rate).

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS . . . The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied by the District on all taxable property within the District sufficient to provide for the payment of principal and interest on the Bonds, which tax must be levied within the limits prescribed by law. The District shall determine the specific amount, and levy of, a tax sufficient to pay current interest on and the maturing principal amount, or maturity amount due, as applicable of the Bonds, with full allowance being made for tax delinquencies and the costs of collection.

TAX RATE LIMITATION . . . Imposed by statute: Section 130.122 of the Texas Education Code limits a community college district's total bond tax and maintenance and operations tax rate to $1.00 per $100 taxable assessed valuation (of which a maximum of $0.50 may be pledged for bond debt service), and the District is further restricted by local referendum which currently limits the tax rate for local maintenance and operations to $0.14 per $1.00 per $100 taxable assessed valuation. The maintenance tax ceiling may be increased by referendum.

* Preliminary, subject to change.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after _____ __, ____, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on _____ __, ____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

All notices of redemption shall (i) specify the date of redemption for the Bond, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be Outstanding.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendments to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised or any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying/Agent Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payment on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "Book-Entry-Only System" herein.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds are to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement . . . In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District or the Underwriters.

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed certificates evidencing Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is BOKF, NA dba Bank of Texas, Austin, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

SUCCESSOR PAYING AGENT/REGISTRAR . . . If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a bank, a trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon a change in the Paying Agent/Registrar for the Bonds, the District shall promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES . . . If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set for in the Order, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or the Order. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenue, the pledge of ad valorem taxes to secure a general obligation such as the bonds is not recognized as a security interest under Chapter 9 of the Bankruptcy Code. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce the order would be subject to the approval of the Bankruptcy Court which will require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

SOURCES AND USES OF FUNDS . . . Proceeds from the sale of the Bonds will be applied as follows:

Sources:	
Par Amount of Limited Tax Bonds	$
Reoffering Premium	
Total Sources of Funds	$ -
Uses:	
Costs of Issuance	$
Total Underwriters' Discount	
Deposit to Project Fund	
Total Uses of Funds	$ -

DEFEASANCE OF BONDS . . . The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment and/or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Order provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. Provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

AMENDMENTS . . . The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Order, except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of, maturity value, or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, maturity value, or the rate of interest thereon, change the place or places at or the coin or currency in which any Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of, maturity value, or interest on the Bonds, (2) give any preference to any Bond over any other Bond or (3) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver.

TAX INFORMATION

AD VALOREM TAX LAW . . . Under Title I of the Texas Tax Code (the "Tax Code") the appraisal of property within the District is the responsibility of the Hidalgo County Appraisal District and Starr County Appraisal District (the "Appraisal Districts"). The Appraisal Districts are required under the Property Tax Code to appraise all property within the Appraisal Districts on the basis of 100% of its market value and are prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraisers is to be used. The Tax Code further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal Districts is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal Districts. The Appraisal Districts are required to review the value of property within the Appraisal Districts at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the Appraisal Review Board.

Reference is made to the Tax Code, for identification of property subject to taxation; property exempt by law or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Principal categories of exempt property (including certain exemptions which are subject to local option by the District's Board of Trustees) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and wind-powered energy devices; most individually owned automobiles; $10,000 State mandated exemption to residential homesteads of persons ages 65 or over; a State mandated exemption up to a maximum of $12,000 for real or personal property of disabled veterans or the surviving spouse or children of an individual who died while on active duty in the armed forces; provided, however, that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied; a State mandated $15,000 in market value exemption for all residential homesteads (see "Residential Homestead Exemptions" below); and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by state law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for an exemption based on the age or disability of the owner. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older and the disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was 55 or older when the deceased spouse died and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. The freeze on taxes paid on residence homesteads of persons 65 years of age and older was extended to include the resident homesteads of "disabled" persons, including the right to transfer the freeze to a different residence homestead. A "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance." Owners of agricultural and open space land devoted to farm or ranch land purposes, or for timber production, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

Prior to 1990, the District could have elected to deny tax-exempt status to freeport goods for various types of goods that are detained in Texas for a short period of time. By failing to take action to deny the exemption, freeport goods in the District are exempt. The exemption is governed by Texas Constitution, Article VIII, Section 1-j and Tax Code, Section 11.251. The exemption applies to items in inventory that (1) are or will be forwarded out of Texas within 175 days of the date of acquisition or the date they are brought into Texas and (2) are in Texas for assembling, storing, manufacturing, repair, maintenance, processing or fabricating purposes. The exemption does not apply to oil, natural gas, or liquid or gaseous materials that are immediate derivatives of refining of oil or natural gas. The phrase "liquid or gaseous materials that are the immediate derivatives of the refining of oil or natural gas" is defined in Comptroller Rule 9.4201.Freeport property includes goods, wares, merchandise, ores, and certain aircraft and aircraft parts. The District does not offer a freeport exemption.

In addition, under Section 11.253 of the Texas Tax Code, "Goods-in-transit", representing a category of tangible personal property that is distinguished from "freeport goods", are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; and (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state. Goods-in-transit does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. Pursuant to changes enacted during the 2011 Texas Legislative Special Session, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-in-transit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 1, 2011, to provide for the taxation of the goods-in-transit. After holding a public hearing, a taxing unit may take official action prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit. After taking such official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body of the taxing unit rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011 to tax goods-in-transit and pledged the taxes imposed on the goods-in-transit for the payment of a debt, taxes may continue to be imposed on goods-in-transit until the debt is discharged, if cessation of the imposition of the tax would impair the obligation of the contract by which the debt was created. A taxpayer may receive only one of the freeport or goods-in-transit exemptions for tangible personal property.

VALUATION OF PROPERTY FOR TAXATION . . . Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Once an appraisal roll is prepared and finally approved by the applicable Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which it was assessed or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value in the preceding tax year, plus (c) the market value of all new improvements to the property.

Article VII of the Texas Constitution and the Tax Code permit land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation.

The Property Tax Code requires the Appraisal Districts to implement plans for periodic reappraisal of property to update appraisal values. The plans must provide for appraisal of all real property in the Appraisal Districts at least once every three years. The District, at its expense, has the right to obtain from the Appraisal Districts current estimates of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimates of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal Districts choose to formally include such values on its appraisal rolls.

RESIDENTIAL HOMESTEAD EXEMPTIONS . . . Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the

governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

DISTRICT AND TAXPAYER REMEDIES . . . Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . By the later of September 30th or 60 days after the certified appraisal roll is delivered to the District, the Board of Trustees adopts a tax rate per $100 taxable value of real property for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for payment of debt service.

Under the Property Tax Code, the District must annually calculate and publicize its "effective tax rate" and "rollback tax rate". The Board of Trustees may not adopt a tax rate that exceeds the prior year's levy until it has held a public hearing on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the District by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, an amount up to 15% attorney's collection fee is added to the total tax penalty and interest charge.

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, the homestead status of residential real property or bankruptcy proceedings which restrain the collection of a taxpayer's debt. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

DISTRICT APPLICATION OF TAX CODE . . . The District does not grant an exemption to the market value of the residence homestead of persons 65 years of age or older or the disabled.

The District has not granted an additional exemption of 20% of the market value of residence homesteads; or the exemption of $5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

The District has adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

Ad valorem taxes are levied by the District against the non-exempt value of residence homesteads for the payment of debt.

The District does not tax nonbusiness personal property; and Hidalgo and Starr Counties collect taxes for the District.

The District does not permit split payments of taxes, and discounts for the early payment of taxes are not allowed.

The District does not tax freeport property.

The District does tax goods-in-transit.

DISTRICT TAX ABATEMENT PROGRAM . . . The District has adopted guidelines and criteria governing tax abatement agreements and a resolution for granting tax abatement. On May 26, 2015, the College adopted Tax Abatement Guidelines that authorize the granting of tax abatements to renewable energy and scientific investment project that result in an investment in excess of $400 million in capital projects.

Under the College's Tax Abatement Guidelines and Criteria, property eligible for abatement may be extended to the value of the improvements to real property, including buildings, structures, fixed machinery and equipment, and site improvements, plus that office space and related fixed improvements, necessary to the operation and administration of the Facility. The Facility may be eligible if it is substantially designated and constructed or manufactured for construction or installation (i) operated exclusively for the production of renewal energy, including solar, geothermal, wind and hydro and (ii) the estimated proposed New Capital Investment that exceeds $400 million. Abatement may be granted to New Facilities and Improvements to existing facilities for the purpose of modernization or expansion; and all other real and tangible personal property permitted by Chapter 312 of the Texas Tax Code and the College Guidelines and Criteria Governing Tax Abatement Agreements. Taxes on Real Property may be abated only to the extent the property's value for a given year exceeds its value for the year in which the Agreement is executed. Tangible personal property eligible for Abatement shall not include inventory or supplies.

On May 26, 2015, the College authorized a resolution to enter a tax abatement agreement with Duke Energy Renewables Wind, LLC ("Duke"). Under the agreement, authorized and governed by Chapter 312 of the Texas Tax Code, the College has granted Duke a 10 year tax abatement for a project located at the Starr County Los Vientos Reinvestment Zone #1. The project is projected to have, upon final completion, a tax value in excess of $460 million and, at current tax rates, a potential reduction in the average amount of $342,434 in the College's maintenance and operating taxes over a 10 year period. The initial phase of the Duke project, at an estimated appraised value of $200 million, is anticipated to be completed on or about June, 2015. The fourth phase of Improvements shall be completed on or about June 2016 and will have an appraised value of $210 million. The fifth phase of the Improvements shall be completed on or about December 2015 and upon completion phase five will have an estimated appraised value of $52 million. The Duke tax abatement will be effective as of January 1, 2016.

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2014/15 Market Valuation Established by Hidalgo & Starr County Appraisal Districts (excluding totally exempt property)			
	Hidalgo County	$ 37,524,895,632	
	Starr County	2,492,583,680	
	Total		$ 40,017,479,312
Less Exemptions/Reductions at 100% Market Value:	Hidalgo County	$ 8,394,612,737	
	Starr County	657,707,150	
	Total		$ 9,052,319,887
2014/15 Taxable Assessed Valuation			$ 30,965,159,425
Debt Payable from Ad Valorem Taxes as of 12/31/2014			
Limited Tax General Obligation Bonds			$ 87,074,991
Maintenance Tax Refunding Bonds, Series 2007			1,760,000
Limited Tax Bonds, Series 2015[1]			88,725,000
Debt Payable from Ad Valorem Taxes			$ 177,559,991
Interest and Sinking Fund Balance as of 12/31/2014			$ 19,127,677
Ratio Tax Supported Debt to Taxable Assessed Valuation			0.57%

2015 Estimated Population - 897,472
Per Capita Taxable Assessed Valuation - $34,503
Per Capita Debt Payable from Ad Valorem Taxes - $198

(1) Preliminary, subject to change.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY FOR THE DISTRICT

	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2015		2014		2013	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 16,148,865,440	40.35%	$ 15,774,023,178	45.19%	$ 15,525,909,100	45.34%
Real, Residential, Multi-Family	1,096,368,985	2.74%	1,035,151,019	2.97%	1,023,751,723	2.99%
Real, Vacant Lots/Tracts	1,583,384,288	3.96%	1,582,662,644	4.53%	1,469,910,977	4.29%
Real, Acreage (Land Only)	3,594,395,659	8.98%	3,631,972,559	10.41%	4,447,692,696	12.99%
Real, Farm and Ranch Improvements	699,464,080	1.75%	690,194,967	1.98%	588,411,694	1.72%
Real, Commercial and Industrial	6,679,597,586	16.69%	6,350,727,717	18.20%	5,863,311,147	17.12%
Real, Oil, Gas and Other Mineral Reserves	1,135,243,898	2.84%	1,146,441,638	3.28%	1,450,425,886	4.24%
Real and Tangible Personal, Utilities	665,667,092	1.66%	637,090,810	1.83%	462,398,547	1.35%
Tangible Personal, Business	2,912,604,259	7.28%	2,906,525,163	8.33%	2,920,075,811	8.53%
Tangible Personal, Other	285,694,722	0.71%	192,493,044	0.55%	192,709,454	0.56%
Real Property, Inventory	93,262,126	0.23%	134,043,788	0.38%	106,294,742	0.31%
Exempt	4,955,381,321	12.38%	662,712,843	1.90%	67,222,989	0.20%
Intangible Property	-	0.00%	-	0.00%	1,445	0.00%
Special Inventory	167,549,856	0.42%	159,337,819	0.46%	127,424,159	0.37%
Total Appraised Value Before Exemptions	$ 40,017,479,312	100.00%	$ 34,903,377,189	100.00%	$ 34,245,540,370	100.00%
Less: Total Exemptions/Reductions	9,052,319,887		4,657,180,478		4,600,006,299	
Adjustments	-		2,980		-	
Taxable Assessed Value	$ 30,965,159,425		$ 30,246,199,691		$ 29,645,534,071	

	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2012		2011	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 15,039,264,211	44.07%	$ 14,775,206,392	42.50%
Real, Residential, Multi-Family	1,032,129,171	3.02%	1,072,159,569	3.08%
Real, Vacant Lots/Tracts	1,538,176,005	4.51%	1,639,188,850	4.72%
Real, Acreage (Land Only)	4,512,115,716	13.22%	4,493,446,432	12.93%
Real, Farm and Ranch Improvements	562,148,362	1.65%	578,475,841	1.66%
Real, Commercial and Industrial	5,997,337,890	17.58%	5,941,059,780	17.09%
Real, Oil, Gas and Other Mineral Reserves	1,849,254,134	5.42%	2,538,773,356	7.30%
Real and Tangible Personal, Utilities	462,852,314	1.36%	503,474,958	1.45%
Tangible Personal, Business	2,720,943,070	7.97%	2,752,248,319	7.92%
Tangible Personal, Other	179,909,318	0.53%	170,324,443	0.49%
Real Property, Inventory	120,518,369	0.35%	153,518,667	0.44%
Exempt	499,060	0.00%	49,839,690	0.14%
Error	1,445	0.00%	-	0.00%
Special Inventory	108,524,692	0.32%	96,579,291	0.28%
Total Appraised Value Before Exemptions	$ 34,123,673,757	100.00%	$ 34,764,295,588	100.00%
Less: Total Exemptions/Reductions	4,520,851,196		4,549,571,737	
Adjustments	(84,647,222)		(125,064,874)	
Taxable Assessed Value	$ 29,518,175,339 (1)		$ 30,089,658,977 (1)	

NOTE: Valuations shown are certified taxable assessed values reported by the Hidalgo and Starr Counties Appraisal Districts to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal Districts update records.

(1) The Starr County Appraisal District does not provide the breakout by category for properties under review. Therefore, for purposes of this table, the value of all properties under review have been included in the Exempt category.

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TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population[1]	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2011	848,228	$ 30,089,658,977 [1]	$ 35,474	$ 61,389,287	0.20%	$ 72
2012	860,992	29,518,175,339 [1]	34,284	52,831,020	0.18%	61
2013	873,715	29,645,534,071 [1]	33,930	44,384,991	0.15%	51
2014	884,888	30,246,199,691 [1]	34,181	88,834,991	0.29%	100
2015	897,472	30,965,159,425 [2]	34,503	169,520,000 [3]	0.55% [3]	189 [3]

(1) As reported by South Texas College District Comprehensive Annual Financial Report. (Estimated for 2015.)
(2) As reported by the Hidalgo County Appraisal District and Starr County Appraisal District as per their tax roll; subject to change during the ensuing year.
(3) Projected. Includes the Bonds; preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY[1]

Fiscal Year Ended 8/31	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2011	$ 0.1497	$ 0.1100	$ 0.0397	$ 44,806,807 [1]	92.83% [1]	102.43% [1]
2012	0.1507	0.1100	0.0407	44,227,775 [1]	93.54% [1]	103.43% [1]
2013	0.1507	0.1100	0.0407	44,351,826 [1]	93.71% [1]	103.38% [1]
2014	0.1500	0.1100	0.0400	45,078,972 [1]	94.37% [1]	103.72% [1]
2015	0.1850	0.1400	0.0450	56,134,038	(In Process of Collection)	

(1) As reported by South Texas College District Comprehensive Annual Financial Report.

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TABLE 5 - FIFTEEN LARGEST TAXPAYERS[1]

Name of Taxpayer[1]	Nature of Property	2014/15 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
OXY USA Inc.	Oil and Gas	$ 480,051,211	1.55%
AEP Texas Central Co.	Electric Utility	261,746,510	0.85%
Wal-Mart Stores[2]	Retail Store	111,616,706	0.36%
H E BUTT Grocery Company	Grocery Chain	104,974,764	0.34%
Day Surgery at Renaissance LLC[3]	Healthcare	96,644,921	0.31%
Simon Property Group McAllen No 2	Development	85,303,024	0.28%
CPG Mercedes LP	Real Estate	71,900,000	0.23%
Frontera Generation LTD Ptnshp	Land and Improvements	67,964,220	0.22%
Sharyland Utilities LP	Electric Utility	67,452,860	0.22%
Calpine Const Fin (Magic VY GN)	Electric Utility	65,093,830	0.21%
Cantera Operating LLC	Real Estate	64,113,853	0.21%
Rio Grande Regional Hospital	Hospital	54,415,269	0.18%
Southwestern Bell Telephone	Telephone Utility	51,319,700	0.17%
Universal Health Services	Healthcare	46,786,593	0.15%
Palm Crossing Town Center LLC	Real Estate	41,915,932	0.14%
		$ 1,671,299,393	5.40%

(1) Includes both Starr and Hidalgo Counties.
(2) Includes Wal-Mart Stores Texas LLC, Wal-Mart Real Estate Business TR, and Wal-Mart Store # 1958.
(3) Includes Day Surgery at Renaissance LLC and Day Surgery at Renaissance.

TAX SUPPORTED DEBT LIMITATION

State law limits a community college district's total bond tax and maintenance tax rate to $1.00 per $100 taxable assessed valuation (of which a maximum of $0.50 may be pledged for bond debt service). Local referendum limits the District's maintenance and operations tax component to a total tax rate of $0.14 per $100 of assessed valuation.

TABLE 6 - TAX ADEQUACY

2015 Principal and Interest Requirements	$ 14,901,182
Less: Transfer from Interest & Sinking Fund	780,475 [1]
Less: Transfer from MTR Bond Series 2007	395,400
2015 Net Principal and Interest Requirements	$ 13,725,307
$0.0450 Tax Rate at 98.5% Collections Produces[2]	$ 13,725,307
Average Principal and Interest Requirements	$ 13,264,589
$0.0450 Tax Rate at 98.5% Collections Produces[2]	$ 13,725,307

(1) Estimated transfer from Interest and Sinking Fund balance.
(2) Preliminary, subject to change.

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TABLE 7 - ESTIMATED OVERLAPPING DEBT[1]

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax obligations ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	2014/15 Taxable Assessed Value	2014/15 Tax Rate	Total Tax Supported Debt	Estimated % Applicable	Direct and Overlapping Tax Debt As of 3/31/2015	Authorized But Unissued Debt As of 3/31/2015
South Texas College	$ 30,965,159,425	$ 0.1850	$ 177,559,991 (1)	100.00%	$ 177,559,991	$ -
Alamo, City of	412,447,504	0.5990	8,848,530	100.00%	8,848,530	-
Delta Lake ID	196,764,951	0.5800	-	100.00%	-	-
Donna ISD	1,072,709,509	1.2580	93,691,357 (2)	100.00%	93,691,357	-
Donna, City of	448,174,288	1.1420	33,036,440	100.00%	33,036,440	-
Edcouch-Elsa ISD	277,111,574	2.0500	42,148,291 (2)	100.00%	42,148,291	-
Edinburg Consolidated ISD	5,064,036,033	1.2400	191,385,067 (2)	100.00%	191,385,067	-
Edinburg, City of	3,567,314,644	0.6350	42,757,503	100.00%	42,757,503	700,000
Elsa, City of	117,122,411	0.9920	-	100.00%	-	-
Hidalgo-Cameron ID #9	624,283,916	0.2100	-	100.00%	-	-
Hidalgo County	28,613,115,990	0.5900	171,619,017	100.00%	171,619,017	-
Hidalgo County DD #1	28,325,686,228	0.0960	156,787,745	100.00%	156,787,745	100,000,000
Hidalgo ISD	413,279,700	1.5300	41,560,551 (2)	100.00%	41,560,551	-
Hidalgo, City of	486,185,977	0.3510		100.00%	-	-
La Joya ISD	2,022,219,355	1.3110	268,798,156 (2)	100.00%	268,798,156	-
La Joya, City of	119,452,077	0.5680	-	100.00%	-	-
La Villa ISD	100,447,343	1.3040	5,526,094 (2)	100.00%	5,526,094	-
La Villa, City of	42,835,547	0.7840	2,215,000	100.00%	2,215,000	-
Lyford CISD	679,858,164	1.2800	7,458,058 (2)	100.00%	7,458,058	530,000
McAllen ISD	5,833,716,540	1.1650	111,552,676 (2)	100.00%	111,552,676	-
McAllen, City of	7,533,469,430	0.4760	59,987,809	100.00%	59,987,809	3,200,000
Mercedes ISD	430,996,741	1.2900	73,140,440 (2)	100.00%	73,140,440	2,990,000
Mercedes, City of	521,888,570	0.7600	16,034,889	100.00%	16,034,889	-
Mission Consolidated ISD	1,624,999,091	1.3300	135,583,406 (2)	100.00%	135,583,406	-
Mission, City of	3,561,850,615	0.5290	31,966,567	100.00%	31,966,567	196,000
Monte Alto ISD	75,430,278	1.3500	14,800,748 (2)	100.00%	14,800,748	-
Pharr, City of	2,121,183,162	0.6800	9,011,379	100.00%	9,011,379	465,000
Pharr-San Juan-Alamo ISD	3,683,454,562	1.3590	366,347,339 (2)	100.00%	366,347,339	-
Progreso ISD	129,776,641	1.3280	29,418,364 (2)	100.00%	29,418,364	-
Progeso, City of	67,116,240	0.8130	-			
Rio Grande City ISD	1,060,472,660	1.4470	121,004,819 (2)	100.00%	121,004,819	-
Rio Grande City, City of	418,838,280	0.5150	6,005,000			
Roma ISD	347,680,240	1.4590	65,295,279 (2)	100.00%	65,295,279	-
Roma, City of	162,967,600	0.5230	9,301,000	100.00%	9,301,000	-
San Juan, City of	819,081,882	0.7390	13,861,448	100.00%	13,861,448	-
Sharyland ISD	2,623,368,054	1.3360	129,949,271 (2)	100.00%	129,949,271	-
Starr County	1,821,448,200	0.5520	1,708,803	100.00%	1,708,803	-
Valley View ISD	453,613,824	1.2770	48,057,725 (2)	100.00%	48,057,725	-
Weslaco ISD	1,932,935,566	1.1400	67,400,654	100.00%	67,400,654	-
Weslaco, City of	1,419,011,740	0.6870	25,647,651	100.00%	25,647,651	-
Total Direct and Overlapping Tax Supported Debt					$ 2,395,902,076	
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					7.74%	
Per Capita Direct and Overlapping Tax Supported Debt (Estimated 2015 population - 897,472)					$ 2,669.61	

(1) Includes the Bonds. Preliminary, subject to change.

(2) Represents only a portion of the school districts' total outstanding tax debt. Certain projected amounts of debt outstanding of school districts have been excluded as these bonds have either qualified for Existing Debt Allotment or Instructional Facilities Allotment debt service subsidy payments to be received from the Texas Education Agency. In the event that the Texas Legislature does not appropriate adequate funds, the Commissioner of Education is directed by statute to make a transfer from the Foundation School Program in an amount sufficient to cover the required payments of the State. These bonds are also secured by the Permanent School Fund guarantee.

Source: Texas Municipal Reports.

DEBT INFORMATION

TABLE 8 - PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Limited Tax Debt			The Bonds, Series 2015[1]			Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2015	$ 8,039,991	$ 6,861,191	$ 14,901,182	$ -	$ -	$ -	$ 14,901,182	
2016	8,590,000	3,939,650	12,529,650	115,000	5,064,682	5,179,682	17,709,332	
2017	8,885,000	3,561,050	12,446,050	120,000	4,423,150	4,543,150	16,989,200	
2018	8,820,000	3,153,000	11,973,000	125,000	4,420,750	4,545,750	16,518,750	
2019	3,025,000	2,715,650	5,740,650	3,580,000	4,418,250	7,998,250	13,738,900	23.26%
2020	2,385,000	2,573,750	4,958,750	4,540,000	4,239,250	8,779,250	13,738,000	
2021	2,505,000	2,454,500	4,959,500	4,765,000	4,012,250	8,777,250	13,736,750	
2022	2,630,000	2,329,250	4,959,250	3,850,000	3,774,000	7,624,000	12,583,250	
2023	2,760,000	2,197,750	4,957,750	4,045,000	3,581,500	7,626,500	12,584,250	
2024	2,900,000	2,059,750	4,959,750	4,245,000	3,379,250	7,624,250	12,584,000	42.76%
2025	3,045,000	1,914,750	4,959,750	4,460,000	3,167,000	7,627,000	12,586,750	
2026	3,195,000	1,762,500	4,957,500	4,685,000	2,944,000	7,629,000	12,586,500	
2027	3,355,000	1,602,750	4,957,750	4,915,000	2,709,750	7,624,750	12,582,500	
2028	3,525,000	1,435,000	4,960,000	5,160,000	2,464,000	7,624,000	12,584,000	
2029	3,700,000	1,258,750	4,958,750	5,420,000	2,206,000	7,626,000	12,584,750	66.11%
2030	3,885,000	1,073,750	4,958,750	5,690,000	1,935,000	7,625,000	12,583,750	
2031	4,080,000	879,500	4,959,500	5,975,000	1,650,500	7,625,500	12,585,000	
2032	4,285,000	675,500	4,960,500	6,275,000	1,351,750	7,626,750	12,587,250	
2033	4,500,000	461,250	4,961,250	6,585,000	1,038,000	7,623,000	12,584,250	
2034	4,725,000	236,250	4,961,250	6,915,000	708,750	7,623,750	12,585,000	95.91%
2035	-	-	-	7,260,000	363,000	7,623,000	7,623,000	100.00%
	$ 88,834,991	$ 43,145,541	$ 131,980,532	$ 88,725,000	$ 57,850,832	$ 146,575,832	$ 278,556,363	

(1) Preliminary, subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/15		$ 14,901,182
Interest and Sinking Fund, 8/31/14	$ 15,721,785	
$0.0450 Interest and Sinking Fund Tax Levy @ 98.5% Collection	13,725,307	29,447,092
Estimated Balance, 8/31/15		$ 14,545,910 [1]

(1) Approximately $10 million of this Interest and Sinking Fund balance will be used to pay a portion of the currently outstanding debt service through fiscal year 2018.

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date Authorized	Amount Authorized	Amount Heretofore Issued	Amount Being Issued	Unissued Balance
College Facilities	11/5/2013	$ 159,028,940	$ 60,000,000	$ 99,028,940	$ -
		$ 159,028,940	$ 60,000,000	$ 99,028,940	$ -

ANTICIPATED ISSUANCE OF TAX SUPPORTED DEBT. . . On November 5, 2013, District voters approved $159,028,940 limited tax bonds. The Board of Trustees is authorized to issue these bonds.

TABLE 11 - OTHER OBLIGATIONS

The District leases postage and copier equipment under non-callable operating leases. The future minimum lease rental payments under these leases having an initial term in excess of one year were as follows as of August 31, 2014:

Fiscal Year Ending	Minimum Future Lease Payments
2015	$ 119,241
2016	118,876
2017	78,913
2018	23,892
Total	$ 340,922

During the fiscal year 2014, the District leased office space at the Mid Valley Campus and Starr County Campus to nonprofit agencies. In fiscal year 2014, the District's rental income from these leases was $65,089. Annual future minimum receipts under these agreements for fiscal year 2015 are $55,021. No future receipts are expected for fiscal years 2016 and 2017.

PENSION FUND . . . Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount, currently 6.4%, of their salary to the System and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see APPENDIX B, "Excerpts from the District's Comprehensive Annual Financial Report" - Note 10.)

OPTIONAL RETIREMENT PLAN . . .

Plan Description…Participation in the Optional Retirement Program ("ORP") is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

Funding Policy…Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the State are 6.60% for fiscal year 2014 and 6.00% for 2013 and 2012. The percentages of participant salaries currently contributed by each participant are 6.65% for fiscal years 2014, 2013 and 2012, respectively. The District contributes 1.9% for fiscal year 2014, and 2.5% for fiscal Years 2013 and 2012 for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the State has no additional or unfunded liability for this program. S.B. 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

The retirement expense to the State for the District was $398,495, $740,019, and $740,120 for the fiscal years ended August 31, 2014, 2013 and 2012, respectively. This amount represents the portion of expended appropriations made by the State legislature on behalf of the District.

The total payroll of employees covered by ORP, associated District contributions and state contributions made on behalf of the District, and member contributions were as follows:

	August 31, 2014	August 31, 2013	August 31, 2012
Total payroll for ORP	$ 12,075,622	$ 12,333,625	$ 12,335,313
State Contributions	$ 398,495	$ 740,019	$ 740,120
District Contributions	444,511	59,838	66,236
Total Contributions	$ 843,006	$ 799,857	$ 806,356
Member Contributions	$ 826,227	$ 850,840	$ 856,796

The total payroll for all District employees was $74,608,758, $71,203,678, and $68,809,740 for fiscal years 2014, 2013, and 2012, respectively. The total payroll of employees covered by the Teacher Retirement System was $55,705,206, $51,811,943, and $49,181,881, and the total payroll of employees covered by the OPR was $12,075,622, $12,333,625, and $12,335,313, for fiscal years 2014, 2013, and 2012 respectively.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS . . . 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. South Texas College District contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit postemployment healthcare plan administered by the 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/.

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 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 30 years.

Beginning September 1, 2013, SB 1812 limited the State's contribution to 50% of eligible employees for community colleges.

The District's contributions to SRHP for the years ended August 31, 2014, 2013, and 2012, were $301,799, $245,562, and $198,862, respectively, which equaled the required contributions each year.

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FINANCIAL INFORMATION

TABLE 12 – STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Fiscal Year Ended August 31,				
Operating & Non-Operating Revenues:	2014	2013	2012	2011	2010
State Appropriation	$ 42,766,020	$ 38,977,829	$ 37,017,673	$ 36,676,953	$ 37,514,938
Tuition and Fees	20,488,244	21,051,377	19,583,509	18,281,708	17,153,615
Federal Grants and Contracts	60,075,946	61,781,609	66,698,143	73,144,761	68,069,473
State Grants and Contracts	4,441,747	5,160,704	6,794,060	6,335,567	6,711,706
Non-governmental Grants and Contracts	3,488,088	3,113,960	2,740,134	2,796,686	2,200,618
Auxiliary Expenses	1,835,353	1,810,240	1,872,734	1,877,501	1,666,738
Other Operating Revenues	1,787,326	1,891,640	1,735,570	1,926,537	3,244,176
Ad-Valorem Taxes	46,275,189	44,433,595	45,520,883	45,985,951	46,512,487
Gifts	323,100	351,843	418,605	309,868	663,193
Investment Income	214,915	389,519	417,075	327,497	388,426
Total Revenues	$ 181,695,928	$ 178,962,316	$ 182,798,386	$ 187,663,029	$ 184,125,370
Operating & Non-Operating Expenses:					
Instruction	$ 59,447,106	$ 57,766,578	$ 53,899,805	$ 57,359,050	$ 55,454,200
Research	-	4,516	67,273	6,303	-
Public Service	829,711	903,735	736,507	640,673	2,460,617
Academic Support	13,980,994	12,775,912	11,551,178	12,035,474	9,565,508
Student Services	10,403,814	10,090,241	9,681,946	9,939,104	10,264,591
Institutional Support	19,813,087	21,108,957	19,494,885	20,293,881	19,044,676
Operation and Maintenance of Plant	12,563,250	9,486,934	9,459,757	10,270,614	10,437,077
Scholarships and Fellowships	27,692,817	28,724,249	31,873,082	39,320,494	37,212,122
Auxiliary Enterprises	1,388,716	1,383,521	1,418,145	1,421,243	1,524,084
Depreciation Expense	6,731,486	6,589,876	6,414,932	6,265,826	5,923,105
Interest on Capital Related Debt	1,340,664	1,513,884	1,821,871	2,054,633	2,986,702
Other Non-Operating Expenses	3,260,875	1,706,410	2,438,446	1,360,759	3,299,526
Total Expenses	$ 157,452,520	$ 152,054,813	$ 148,857,827	$ 160,968,054	$ 158,172,208
Increase (Decrease) in Net Assets	$ 24,243,408	$ 26,907,503	$ 33,940,559	$ 26,694,975	$ 25,953,162
Capital Contributions	105,190	83,298	22,740	732,061	1,248,559
Additions to Permanent and Term Endowment	(2,655,340)	-	(4,700)	300	-
Special Item	-	(4,230,489)	2,010,294	-	-
Beginning Net Assets	315,848,253	293,087,941	257,119,048	229,691,712	202,489,991
Ending Net Assets	$ 337,541,511	$ 315,848,253	$ 293,087,941	$ 257,119,048	$ 229,691,712

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TABLE 13 – STATEMENT OF NET POSITION

	Fiscal Years Ended August 31,				
	2014	2013[1]	2012	2011	2010
Assets:					
Current Assets					
Cash and Cash Equivalents	$ 52,670,153	$ 34,750,068	$ 46,590,495	$ 27,783,464	$ 14,084,068
Restricted Cash and Cash Equivalents	11,902,904	4,766,682	-	-	-
Short-Term Investments	109,261,906	126,540,622	97,202,242	88,856,158	79,472,851
Accounts Receivable (Net of Allowance for Doubtful Accounts)	12,536,219	13,377,129	14,963,171	15,032,626	16,706,003
Deposit in Escrow	146,884	146,884	146,884	133,207	133,207
Other Assets	724,653	1,108,163	574,019	523,800	664,807
Total Current Assets	$ 187,242,719	$ 180,689,548	$ 159,476,811	$ 132,329,255	$ 111,060,936
Noncurrent Assets					
Restricted Cash and Cash Equivalents	$ 11,618,677	$ -	$ -	$ -	$ -
Restricted Short-Term Investments	55,351,325	4,454,419	5,590	5,590	5,590
Other Noncurrent Assets	28,078	487,662	560,343	716,998	819,245
Capital Assets (Net)	199,806,529	202,116,314	205,089,105	203,903,261	201,762,667
Total Non Current Assets	$ 266,804,609	$ 207,058,395	$ 205,655,038	$ 204,625,849	$ 202,587,502
Deferred Outflows of Resources:					
Total Deferred Outflows of Resources	$ 1,293,307	$ 1,581,885	$ -	$ -	$ -
Total Assets	$ 455,340,635	$ 389,329,828	$ 365,131,849	$ 336,955,104	$ 313,648,438
Liabilities and Net Assets					
Current Liabilities					
Accounts Payable	$ 2,817,327	$ 3,847,621	$ 2,281,123	$ 3,165,290	$ 6,329,790
Accrued Liabilities	1,539,853	1,421,074	897,990	677,135	779,060
Compensable Absences	639,686	551,119	533,469	568,839	647,563
Funds Held for Others	403,976	309,175	301,255	360,380	321,906
Deferred Revenue	14,503,234	20,038,190	13,677,961	11,678,089	3,700,256
Bonds Payable - Current Portion	8,912,810	9,839,914	8,512,158	9,044,244	8,192,797
Total Current Liabilities	$ 28,816,886	$ 36,007,093	$ 26,203,956	$ 25,493,977	$ 19,971,372
Noncurrent Liabilities					
Bonds Payable, Net	$ 88,905,069	$ 37,409,771	$ 45,784,890	$ 54,297,048	$ 63,943,608
Other Noncurrent Liabilities	77,169	64,711	55,062	45,031	41,746
Total Noncurrent Liabilities	88,982,238	37,474,482	45,839,952	54,342,079	63,985,354
Total Liabilities	$ 117,799,124	$ 73,481,575	$ 72,043,908	$ 79,836,056	$ 83,956,726
Net Assets					
Invested in Capital Assets, Net of Related Debt	$ 169,028,494	$ 162,064,429	$ 156,914,256	$ 147,207,945	$ 136,773,512
Restricted for:					
Expendable					
Loans	1,048,022	977,483	920,228	740,113	613,517
Debt Service	17,635,362	16,294,897	14,493,499	13,205,531	11,949,354
Other	3,288,922	3,052,775	2,565,044	3,216,245	4,533,032
Non-Expendable					
Endowment	339,445	339,444	340,664	346,360	346,050
Unrestricted	146,201,266	133,119,225	117,854,250	92,402,854	75,476,247
Total Net Assets	$ 337,541,511	$ 315,848,253	$ 293,087,941	$ 257,119,048	$ 229,691,712
Total Liabilities and Net Assets	$ 455,340,635	$ 389,329,828	$ 365,131,849	$ 336,955,104	$ 313,648,438

(1) Restated.

FINANCIAL POLICIES

Net Assets. The District's net assets are classified as follows:

Net Investment in Capital Assets. This represents the District's total investment in capital assets, net of outstanding debt obligations and accumulative depreciation related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of investment in capital assets, net of related debt.

Restricted Net Position - Expendable. Restricted expendable net position includes resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted Net Position – Non-expendable. Restricted non-expendable net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted Net Position. Unrestricted net position represents resources derived from student tuition and fees, state appropriations, sales and services of educational departments and auxiliary enterprises which are substantially self-supporting activities that provide services for students, faculty and staff.

These resources are used for transactions relating to the education and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose. When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources.

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 greater than three months but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Classification of Revenues. The District has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues: Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. As business-type activities, the District's operating revenues are defined as the result of exchange transactions with those who purchase, use, or directly benefit from the goods or services of the District. The principal operating revenues are tuition and related fees, net of discounts. The District also recognizes as operating revenue federal, state and local grants, non-governmental grants and contracts, auxiliary enterprises, and other operating revenues. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets.

Nonoperating Revenues: Non-operating revenues include activities that have the characteristic of non-exchange transactions, such as gifts and contributions, property tax and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, such as investment income. The major non-operating revenues are allocations from the State, including restricted revenues such as state insurance and benefit allocations, property tax collections, and Title IV funds. Transactions for which cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are reported as non-operating revenues or non-operating revenues or non-operating expenses. The operation for the bookstore is not performed by the District.

INVESTMENTS

The District invests its funds in investments authorized by Texas law in accordance with investment policies approved by the Board of Trustees of the District and the advice and counsel of its outside investment advisor. Both State law and the District's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under Texas law (Texas Public Funds Investment Act; Chapter 2256, Texas Government Code, as amended), the District is authorized to invest in the following:

(1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;

(2) direct obligations of the State of Texas or its agencies and instrumentalities;

(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

(5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent. The College will take all prudent measures that are consistent with its Investment Policy to liquidate an investment that does not have the minimum rating;

(6) bond issued, assumed or guaranteed by the State of Israel;

(7) certificates of deposit and share certificates, respectively, meeting the requirements of the Texas Public Funds Investment Act (a) that are issued, by or through an institution that has its main office or a branch office in Texas, and are guaranteed, respectively, or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) above, or in any other manner and amount provided by law for District deposits; or (b) that are invested by the District through (i) a broker whose services are legally procured by the District that has its main office or a branch office in this state and is selected from a list of qualified brokers reviewed, revised and adopted at least annually by the District to undertake investment transactions with the entity, or (ii) a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the Public Funds Investment Act (Chapter 2256 of the Texas Government Code); and (c) the selected broker or the depository institution selected by the District (i) arranges for the deposit of funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (ii) the District appoints (A) a qualified depository, or (B) a qualified custodian which may include: (I) a state or national bank (II) that is designated by the State Comptroller as a state depository; (III) has it main office or a branch office in this state; and (IV) has a capital stock and permanent surplus of $5 million or more; or (has its main office or a branch office in this state; or (V) the Texas Treasury Safekeeping Trust Company; a Federal Reserve Bank or a branch of a Federal Reserve Bank; or federal home loan bank;

(8) bankers' acceptances with the remaining term of 270 days or fewer from the date of issuance, which will be, in accordance with their terms, liquidated in full at maturity; are eligible collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency;

(9) commercial paper with the remaining term of 270 days or less from the date of issuance that is rated at least A-1 or P-1 or the equivalent by at least (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank,

(10) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share,

(11) no-load mutual fund registered with the United States Securities and Exchange Commission that: have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses and clause, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent;

(12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent and bonds issued, assumed or guaranteed by the State of Israel;

(13) If specifically authorized in the Order or Resolution authorizing the issuance of bonds or other policies, bond proceeds may be invested in guaranteed investment contracts ("GICs") that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds under such contract, other than as prohibited as described under "Prohibited Investments". For GICs to be eligible as an authorized investment, (1) GICs must be specifically authorized by the governing body of the District in the order, ordinance, or resolution authorizing the issuance of bonds; (2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received; (3) the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received; (4) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and (5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract; and

(14) The District may enter into securities lending programs if (a) the value of the securities loaned under the program, including the accrued interest thereon, are fully collateralized; a loan made under the program allows for termination at any time; and a loan made under the program is either secured by (i) obligations that are described in clauses (1) through (6) and clause (13) above, (ii) pledged irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (iii) cash invested in obligations described in clauses (1) through (6) and clauses 10, 11 and 12 above, or an authorized investment pool; (b) securities held as collateral under a loan are

pledged to the District or a third party designated by the District; (c) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (d) the agreement to lend securities has a term of one year or less.

PROHIBITED INVESTMENTS . . . The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to changes in a market index.

INVESTMENTS THROUGH AN INVESTMENT POOL . . . The District may invest its funds and funds under its control through an eligible investment pool if the board of trustees of the District by rule, order or resolution, as appropriate, authorizes investment in the particular pool. To be eligible, an investment pool must invest the funds it receives from the District in authorized investments permitted by the Act, including mutual funds and must furnish to the District's investment officer or other authorized representative of the District an offering circular or other similar disclosure instrument that contains, at a minimum, the following information: the types of investments in which money is allowed to be invested; the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool; the maximum stated maturity date any investment security within the portfolio has; the objectives of the pool; the size of the pool; the names of the members of the advisory board of the pool and the dates their terms expire; the custodian bank that will safe keep the pool's assets; whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation; whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment; the name and address of the independent auditor of the pool; the requirements to be satisfied for a District to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the District to invest funds in and withdraw funds from the pool; and the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios;

In order to maintain eligibility to receive funds from and invest funds on behalf of the District, an investment pool must disclose to the District's investment officer in its offering circular or other disclosure report, and, on its internet site if it operates an internet site, the information required to be disclosed under the previous paragraph hereof; and also furnish to the investment officer or other authorized representative of the District: investment transaction confirmations; and a monthly report that contains, at a minimum, the following information: (A) the types and percentage breakdown of securities in which the pool is invested; (B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool; (C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year; (D) the book value versus the market value of the pool's portfolio, using amortized cost valuation; (E) the size of the pool; (F) the number of participants in the pool; (G) the custodian bank that is safekeeping the assets of the pool; (H) a listing of daily transaction activity of the District participating in the pool; (I) the yield and expense ratio of the pool (yield, and how yield is calculated, must be reported to pool investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds,); (J) the portfolio managers of the pool; and (K) any changes or addenda to the offering circular; (L) an annual audited financial statement of the investment pool in which the District has funds; (M) if the pool in its advertising offers fee breakpoints based on fund balances invested, to include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

The District may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

A public funds investment pool created to function as a money market mutual fund must: mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a $1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005; must have an advisory board composed: (A) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool managed by a state agency; or (B) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

INVESTMENT POLICIES . . . Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize preservations and safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District and the maximum average dollar-weighted maturity allowed for pooled fund groups and methods to monitor the market price of investments acquired with public funds and the liquidation of such investments consistent with the requirement that investments not retaining a minimum rating do not qualify as an authorized investment and should be liquidated;. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived". At least quarterly the investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest District funds without express written authority from the Board of Trustees.

ADDITIONAL PROVISIONS . . . Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TABLE 14 - CURRENT INVESTMENTS

As of December 31, 2014, the District's investable funds were invested in the following categories:

Purpose	Market Value	% of Portfolio
Checking Account	$ 244,521,887	99.86%
Certificates of Deposit	331,908	0.14%
	$ 244,853,795	100.00%

As of such date, 100.00% of the District's investment portfolio will mature within three months, respectively. The market value of the investment portfolio was approximately 100.00% of its purchase price.

TAX MATTERS

The following is a summary of certain of the United States Federal income tax consequences of the ownership of the Bonds as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States Federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

ISSUER'S CERTIFICATE AND BOND COUNSEL OPINION . . . The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain requirements that must be met after the Limited Tax Bonds, Series 2015 (the "Bonds") have been validly issued and delivered in order that interest on the Bonds will be and will remain excludable from gross income pursuant to Section 103 of the Code. Such requirements may include the rebating of certain amounts earned from the investment of the proceeds of the Bonds. A certificate will be prepared and executed by the Vice President for Finance and Administrative Services of the District, and dated as of the date of delivery of the Bonds (the "Certificate"), which will be delivered concurrently with the delivery of the Bonds, will contain provisions and procedures regarding compliance with the requirements of the Code. The President and the Vice President for Finance and Administrative Services, in executing the Certificate, will certify that the District expects to be able to and will comply with the provisions and procedures set forth therein. The President and the Vice President for Finance and Administrative Services will also certify in the Certificate that, to the extent authorized by law, they will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds is excludable from gross income under Section 103 of the Code. The President and the Vice President for Finance and Administrative Services will also certify as to the use of the proceeds of the Bonds.

Assuming compliance with the provisions and procedures set forth in the Certificate and subsequent rebating, if any, and other requirements, Bond Counsel is of the opinion that, under the Code and other existing statutes, regulations, administrative rulings, and court decisions, interest on the Bonds is excludable from the gross income of the recipient thereof for Federal income tax purposes pursuant to Section 103 of the Code and that such interest will not be treated as a specific preference item in calculating the alternative minimum tax that may be imposed under the Code with respect to individuals and corporations. However, interest on the Bonds will be includable in adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax that may be imposed on such corporations.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the District as the "taxpayer," and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the Owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS . . . The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis

will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

STATE, LOCAL AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for as long as the District remains obligated to advance funds to the Bonds. Under the agreement, the District will be obligated to annually provide certain financial information and operating data ("Annual Financial Information"), to be updated annually, as well as timely notice of "Certain Specified Events", as defined below, to the Municipal Securities Rulemaking Board (the "MSRB") via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

The District's obligation to provide the information for the benefit of the holders of the Bonds is required by Section (b)(5)(i) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 CFR part 240, §240. 15c2-12; the "Rule"). The District is an "obligated person" within the meaning of the Rule, and as such undertakes to provide the following information to the MSRB on or before 6 months from the end of the District's fiscal year (the "Report Date"), beginning in the year 2013.

ANNUAL FINANCIAL INFORMATION . . .

(1) "Annual Financial Information" means the financial information (which shall be based on financial statements prepared in accordance with generally accepted accounting principles ("GAAP") for governmental units as prescribed by the Governmental Accounting Standards Board ("GASB") or operating data with respect to the District, provided at least annually, of the type included in those sections of the final official statement with respect to the Bonds contained in Tables 1 through 6 and 8 through 14 and Appendix B of the District's Official Statement.

(2) "Audited Financial Statements" means the Issuer's Annual financial statements prepared in accordance with GAAP for governmental units as prescribed by GASB which financial statements shall have been audited by such auditor as shall be then required or permitted by the laws of the State.

The District may adjust the Report Date if the District changes its fiscal year by providing written notice of the change of fiscal year and the new Report Date to the MSRB, provided that the new Report Date shall be no later than 6 months after the end of the new fiscal year and provided further that the period between the final Report Date relating to the former fiscal year and the initial Report Date relating to the new fiscal year shall not exceed one year in duration. It shall be sufficient if the District provides to the MSRB, the Annual Financial Information by specific reference to documents previously provided to the MSRB, or filed with the Securities and Exchange Commission and, if such a document is a final Official Statement within the meaning of the Rule, available from the MSRB. The current Report Date is March 1 of each year.

(3) If not provided as part of the Annual Financial Information, the District shall provide the Audited Financial Statements when and if available while any Bonds are Outstanding to the MSRB. If Audited Financial Statements are not available by the required time, the District will provide unaudited financial statements by the required time and Audited Financial Statements when and if such Audited Financial Statements become available.

CERTAIN SPECIFIED EVENTS . . . "Certain Specified Event" means any of the following events with respect to the Bonds: (1) Principal and interest payment delinquencies; (2) Non-payment related defaults; (3) Unscheduled draws on debt service reserves reflecting financial difficulties; (4) Unscheduled draws on credit enhancements reflecting financial difficulties; (5) Substitution of credit or liquidity providers, or their failure to perform; (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds; (7) Modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) Defeasances; (10) Release, substitution, or sale of property securing repayment of the Bonds, if material; (11) Rating changes; (12) Bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For these purposes, any event described in (12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

The District shall provide a Specified Event Notice in a timely manner not in excess of ten business days after the occurrence of the event. Each Specified Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds.

The District shall provide in a timely manner to the MSRB notice of any failure by the District while any Bonds are Outstanding to provide Annual Financial Information on or before the Report Date.

The continuing obligation hereunder of the District to provide Annual Financial Information, Audited Financial Statements, if any, and Certain Specified Event Notices shall terminate immediately once the Bonds no longer are Outstanding. The District's obligation hereunder, or any provision hereof, shall be null and void in the event that the District delivers to the MSRB the proposed amendment and an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance of this section and by the District with the Rule.

Any failure by the District to perform in accordance with this Section shall not constitute an event of default under this Order.

UNDER NO CIRCUMSTANCES SHALL THE DISTRICT BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR IN TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN

CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

The SEC has adopted amendments to the Rule which approve the establishment by the MSRB of the Electronic Municipal Market Access ("EMMA") which, as of its implementation effective date of July 1, 2009, is the sole national municipal securities information repository. On and after July 1, 2009, all information and documentation filing required to be made by the District will be made with the MSRB in electronic format only in accordance with MSRB guidelines. Access to such filings is provided, without charge to the general public, by the MSRB.

Nothing in this Section is intended, or shall act, to disclaim, waive, or otherwise limit the duties of the District under federal and state securities laws.

The District has agreed to update information and to provide notices of Certain Specified Events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although the registered and beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the registered and beneficial owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the continuing disclosure agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

Applications for contract ratings on the Bonds have been made to Moody's Investors Service, Inc. ("Moody's) and Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC Business ("S&P"). The presently outstanding tax supported debt of the District is rated "Aa2" by Moody's and "AA-" by S&P, without regard to credit enhancement. The District also has several issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P through insurance by various commercial insurance companies. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations, and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION

The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial statements of the District.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for

qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The District will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the District, and the legal opinion of The J. Ramirez Law Firm, Bond Counsel, San Juan, Texas, a copy of the proposed form of which is attached as APPENDIX C, to the effect that the Bonds are valid, legally binding, and enforceable obligations of the District and are payable from the proceeds of limited annual ad valorem tax levied within legal limits as to rate or amount, upon all taxable property within the District, except to the extent the enforceability of the Bonds may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under captions "PLAN OF FINANCING", "THE BONDS" (exclusive of subcaptions "Book-Entry-Only System"), "TAX INFORMATION" (exclusive of the tables and statistical information) "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" and the subcaptions "Legal Matters" and "Legal Investments and Eligibility to Secure Public Funds in Texas" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by The Perez Law Firm, PLLC, Pharr, Texas, Counsel to the Underwriters.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

The Financial Advisor to the District has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at an underwriting discount of $_____. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. The District's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the District will furnish a certificate to the Underwriters, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District since the date of the last audited financial statements of the District.

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters.

/s/

Chairman, Board of Trustees
South Texas College District

ATTEST:

/s/

Secretary, Board of Trustees
South Texas College District

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

SOUTH TEXAS COLLEGE DISTRICT[1]

THE DISTRICT . . . The District was created on September 1, 1993, by Texas Senate Bill 251, now codified as Section 130.0311, as amended, Texas Education Code, to serve Hidalgo and Starr Counties, and its boundaries are coterminous with the respective counties. South Texas College District (the "District") is the only community college in Texas to have been established prior to a taxing district being approved by local voters. A confirmation election, held on August 12, 1995, established a taxing district for the District. Seven districts, based on population, were also approved for single-member representation on the Board of Trustees. A community leader from each of the seven districts was originally appointed by the Texas Governor to serve on the founding Board of Trustees. Since then, elections have been held as required by State law, and all members were elected by the year 2000. The Board of Trustees serve staggered six-year terms with elections held in May of each even-numbered year. Policy making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the President, who is the Chief Executive Officer of the District.

The District's Board of Trustees voted unanimously at its June 24, 2004 meeting to change the name of the District from South Texas Community College to South Texas College to reflect the expanded scope and mission of the District.

South Texas College District has six campuses located throughout Hidalgo and Starr Counties. More than 2,000 faculty and staff serve South Texas College District's six campuses. The six campuses are as follows:

Pecan Campus - McAllen;
Technology Campus – McAllen;
Dr. Ramiro R. Casso Nursing and Allied Health Campus - McAllen;
Starr County Campus – Rio Grande City;
Mid-Valley Campus - Weslaco; and
*e*STC (newly established online virtual campus)

INSTRUCTIONAL PROGRAMS . . . The District offers academic, general occupational, development and continuing adult education programs through a network of locations in Hidalgo and Starr Counties. The District is accredited by the Commission on Districts of the Southern Association of Colleges and Schools to award Baccalaureate and Associate degrees. The District's offerings are approved by the Texas Higher Education Coordinating Board.

VISION . . . South Texas College is a world-class institution advancing regional prosperity through education for a better quality of life in our community.

PURPOSE STATEMENT . . . South Texas College is an innovative, public, post-secondary institution providing quality education and career pathways for the people and communities of Hidalgo and Starr Counties. The College achieves student success, nurtures talent development, and promotes economic vitality through collaborative and creative approaches to teaching, learning, and support services.

CORE VALUES . . .

- Student Success: We promote student success and completion through the implementation of diverse strategies and initiatives.
- Opportunity: We value providing access and opportunities to students to meet the needs of our communities.
- Excellence: We value excellence in teaching, learning, and all support services.
- Innovation: We encourage creativity and champion innovative approaches to teaching, learning, and services.
- Community: We value engaging the community in students' learning experiences and in the positive transformation if our region.
- Professionalism: We demonstrate professionalism through collegiality, respect, and recognition for each other.
- Collaboration: We value collaboration and communication among South Texas College employees and South Texas College constituents.
- Integrity: We value integrity through honest and transparent communication and courageous dialogue.

GUIDING PRINCIPLES . . .

- South Texas College shares collective responsibility for student learning, student success, and regional prosperity.
- Students succeed through mutual engagement with the College at each stage of their educational pathways.
- South Texas College champions innovation through its willingness to transform the College's systems to meet the educational and workforce needs and challenges of our region.
- Collaboration with educational and business partners is key to student, college, and community successes.

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(1) Source: South Texas College District Strategic Plan for 2013-2018.

STRATEGIC DIRECTIONS . . .

- Clear Pathways . . . South Texas College provides students with clear pathways to facilitate coherence educational experiences and timely completion of a post-secondary credential leading to relevant employment and/or further educational experiences.
- Access and Success . . . South Texas College is committed to increasing the college-going and college-completing rates in the region.
- High Success Rate . . . South Texas College engages in effective, proven efforts to ensure student success and positively affect the economic and social mobility of residents in our region.
- Collective Responsibility . . . South Texas College empowers faculty to work together within and across disciplines to design best learning experiences for students, leading to their academic success, career readiness, and timely completion.
- Collaboration . . . South Texas College commits to effective interdepartmental and interdivisional collaborations and advances mutually beneficial community and educational partnerships that create a collective impact on student success.
- Cost Efficiency . . . South Texas College seeks innovative redesign of college processes to promote new approaches to cost-consciousness and cost-efficiency.

ADMINISTRATION . . . ***Dr. Shirley A. Reed, President.*** Following a national search, the Board of Trustees appointed Dr. Reed founding president of the District in June of 1994. The Board's selection of Dr. Reed was based on her many strengths. In particular, was her extensive knowledge and experience in finance and administration at community colleges. This afforded her the tools necessary to establish and organize the District. The South Texas College District (formerly South Texas Community College) is the third community college Dr. Reed has helped found in her career. During her presidency, the District's enrollment has increased from 1,058 in Fall 1993 to an estimated 30,485 for the Spring 2015 Semester.

Dr. Reed began her education as a community college student and is a personal testimonial for the community college. She understands, on a personal and professional level, the mission and responsibility of the comprehensive community college. Dr. Reed has a total of five college degrees. Among these is a Doctorate in Higher Education Administration, as well as a Masters in Business Administration (M.B.A.), the latter of which she obtained ten years after she had her Doctorate. While serving as Vice President for Finance and Administrative Services, Dr. Reed decided it was time to learn from business and corporate America. Thus, she returned to college for her M.B.A. and has effectively applied the principles of quality control, customer service, and marketing to higher education.

Mrs. Maria G. Elizondo, Vice President, Finance and Administrative Services. Mrs. Elizondo received her Bachelor of Business Administration (B.B.A.) in Accounting from Texas A&I University, her M.B.A. from the University of Texas-Pan American, is a Certified Public Accountant, a Certified Fraud Examiner and a Chartered Global Management Accountant.

Before coming to South Texas College District, Mrs. Elizondo worked as an internal staff auditor and as an accountant at the University of Texas-Pan American. Mrs. Elizondo served as Comptroller at the District for 18 years before being promoted to Vice President for Finance and Administrative Services in September of 2013 following a national search.

As Vice President for Finance and Administrative Services, some of Mrs. Elizondo's responsibilities include the administration of business and financial operations, human resources, general services and facilities management operations including: financial planning, purchasing, fixed assets, budgeting, accounting, payroll, grants and contracts, student receivable, auxiliary enterprises (food services) and physical plant operations and new construction.

Dr. David Plummer, Interim Vice President for Information Services, Planning, and Strategic Initiative. Mr. Plummer received his B.B.A. and M.B.A. from the University of Texas-Pan American and his Ed.D. from Texas A&M University-Kingsville. Dr. Plummer's experience includes serving as an Infantry officer in the Military with a combat tour in Afghanistan, Senior Business Analyst at Intel Corporation and Dean of Administrative Services at Mesalands Community College. He has worked in various capacities at South Texas College. Dr. Plummer has served as a training manager and interim director of the Partnership for Business and Industry Training; Chief Project Administrator; and faculty member in both Business Administration and Bachelor Degree programs. Degree programs.

Dr Anahid Petrosian, Interim Vice President, Academic Affairs. Dr. Anahid Petrosian has been with South Texas College District since 1994 and has over 21 years of teaching experience and still continues to teach online classes. She joined South Texas College District as an adjunct faculty member and went on to serve as a full-time faculty member and program chair for the Public Service Administration program. In 2000, she became Chair of the Business Administration department and in 2005 moved to the Office of the Vice President for Academic Affairs to serve as Assistant to the Vice President for Academic Affairs. Soon thereafter, she was named as Assistant Vice President for Academic Advancement.

Dr. Petrosian's professional experience spans more than 22 years working in higher education, which includes two universities and one community college. At the University of Texas at Austin, she worked as the institution's first Advisor for International Students. Later she moved to Lubbock, Texas and worked for Texas Tech University as a Budget Analyst. When she moved to the Rio Grande Valley in 1986, she owned and operated a business for seven years, while completing her Master of Public Administration (M.P.A.) degree from the University of Texas-Pan American.

Dr. Anahid Petrosian has two bachelor's degrees: one in Marketing and the other in Accounting from the University of Texas at Austin. In 1996, she earned her M.P.A. from the University of Texas-Pan American. Most recently, she completed her Doctorate in Business Administration with a specialization in Management from Northcentral University in 2010.

As an Interim Vice President for Academic Affairs, Dr. Petrosian serves as the Chief Academic Officer for the District and oversees leadership of the four instructional divisions, the three campuses and two centers, Distance Education, Learning Communities, Honors and Honor Society, Professional Development, Instructional Grants, the Office of Instruction, and Public School and University Relations, through the participation of the Instructional Council.

Ms. Wanda Garza, Interim Vice President, Student Affairs and Enrollment Management. Ms. Garza received her Bachelor of Science from Livingston University in Livingston, Alabama. Ms. Garza joined South Texas College District in 1999. Her experience includes serving as the Assistant to the President for Workforce Development, and the Executive Officer for the North American Advanced Manufacturing Research and Education Initiative (NAAMREI) at South Texas College District. Prior to joining South Texas College District, Ms. Garza served as Executive Director for Valley Initiative for Development and Advancement as well as the Cameron County Private Industry Council, was Chair of the Instructional Development Department for Texas State Technical College, and Vocational Director at Los Fresnos CISD.

As Interim Vice-President for Student Services & Development Ms. Garza is responsible for leading all areas within the Division of Student Services & Development, which include Admissions & Records, Counseling & Advising, Financial Aid, Student Welcome Centers, Student Information Centers, Student Outreach Services, Testing Services, Career Services, Job Placement, Special Programs, Student Judicial Affairs, and Student Life.

The District offers the following programs:

Associate Degrees
Certificate Programs
Distant Learning
Online Degrees

Bachelor of Applied Technology
Bachelor of Applied Science

Transfer Education – two year associate – oriented courses acceptable for transfer to senior colleges.

Career Education – vocational-technical courses of varying lengths designated as training for careers in business, industry and government.

Community Education – non-credit, short courses in adult education.

Developmental Education – developmental courses to address the cognitive and affective growth of students.

Dual Enrollment – two year associate – Associate of Science programs for students during their junior and senior years of high school.

EXISTING AND FUTURE DISTRICT FACILITIES . . . On September 1, 1993, the District officially began operations at the Pecan Campus located at 3201 West Pecan, McAllen, Texas. Estimated enrollment at the District in Fall 2014 was 30,246. There were many developments in the first year of operation. The first off-campus courses were offered in temporary facilities in Starr County in December 1993. This pilot effort was followed by the addition of courses in Mercedes in March 1994. Courses in other communities and facilities soon followed. A mission statement for South Texas College District was adopted by the Board of Trustees in April 1994, and in May 1994, the Board approved a Strategic Plan for the District.

The first and founding president of the District, Dr. Shirley A. Reed, was officially appointed in June of 1994. A fundamental goal of developing facilities at South Texas College District is to provide access to educational opportunities for the residents of both Starr and Hidalgo counties which are served by the District. Since the combined area is almost 3,000 square miles, this obviously cannot be achieved by providing a single fixed delivery point. The master plan concept, therefore, comprises three key delivery components.

Although the District comprises two counties it can, from a demographic point-of view, be more appropriately divided into three general areas. One is the central part of Hidalgo County extending from the Rio Grande River in the south to the county line in the north and from Sullivan City in the west to Alamo in the east. This area is proposed to be served primarily by the Pecan Campus in McAllen.

The Pecan Campus in McAllen is at the heart of the highest population concentration in the two county areas. The buildings themselves are in good condition and land is available for expansion. It is therefore proposed that this location continue to be the central campus serving the local central population and, through Distance Learning, the entire District.

South Texas College District has experienced continuous growth since its inception in the Fall of 1993. South Texas College District's Fall 2011 enrollment had a 5% increase over the District's Fall 2010 enrollment. To meet the demands of its increasing enrollment, in May 2012, South Texas College District opened its newest addition, the Pecan Campus West Academic Building, a two-story, 50,000-square foot facility. The Pecan Campus provides a full range of academic, technical, and continuing education opportunities at the center of the greatest concentration of population.

The Technology Campus (formerly Center for Advanced and Applied Technology) was established near the Foreign Trade zone in McAllen. The Center was developed to provide technical training to support the tremendous industrial growth which is occurring along the border and is being fueled by NAFTA. A donated 138,000 square foot industrial building was donated to house this state of the art training center.

Renovation of the building has been completed and space was added to house additional workforce development programs.

The Ramiro R. Casso Nursing and Allied Health Campus is located at 1101 E. Vermont. The campus was developed to provide a facility for the nursing and allied health programs. The City of McAllen donated four (4) acres of land and $1.2 million for the construction of the facility. The Economic Development Administration, United States Department of Commerce provided a $1.6 million grant for Phase I and a $1.7 million grant for the Phase II construction. The District funded the remainder of the construction costs, the furniture, fixtures, and equipment. The 53,100 square foot facility opened in August 2000.

A second area is generally the same as the areas covered by Starr County in the west. It was proposed that because of the comparative remoteness of this area in relation to the central campus with driving times in excess of one hour that this campus be established to serve the Hidalgo and Starr counties population. A 30-acre location to the west of Rio Grande City was selected as the most appropriate location for the development of the Starr County Campus and is adjacent to the Rio Grande City High School. The campus opened in August 1999.

The third distinct demographic area is the concentration of population in the eastern part of Hidalgo County extending north from the Rio Grande to the Delta area and the county line in the east. This area, although less remote from the Pecan Campus than Starr County, comprises a substantial concentration of population who has benefited from the opportunity of having a college facility close at hand. A 20 acre site was selected close to Highway 83 in Weslaco and is located across the street from the Weslaco High School. It is the site for the South Texas College District Mid-Valley Campus which opened in August 2000.

The first phase of development was funded by a $20 million general obligation bond program and the $2.5 million per year new construction designated reserve fund. It was anticipated that this initial phase would accommodate the college district's facilities requirements through the year 2000.

In 1999 the District began a District Wide Campus Expansion Master Plan for construction of new facilities. The Facilities Master Plan was developed to coincide with the projected student enrollment through the year 2010 at all campuses. With the passage of the $98.7 million bond construction program with issues in 2002 and 2003, 763,136 square feet of construction projects were proposed to be constructed to accommodate the facilities requirements through 2007. The proposed construction projects have been completed.

The District purchased a 16,048 square foot building in September 2005. The building fit the needs of the information technology department. The building has since been renovated and houses the Human Resources Office and the Office of Institutional Research and Analytical Services.

South Texas College District completed a second expansion of the Learning Resource Center at the Pecan Campus. The Phase II addition increased the total space at the Learning Resource Center to 65,919 square feet.

During fiscal year 2009, South Texas College District completed construction of the Nursing Allied Health Pharmacy Technology lab improvements, Pecan Campus Memorial Garden Project, Pecan Campus Human Resources, Office of Institutional Research and Effectiveness, and the Office of Research and Analytical Services Building Renovation, Pecan Plaza Renovation, Pecan Campus Student Support Building K Faculty Offices Renovation, district wide site lighting improvements, district wide portable renovations, Mid-Valley Campus sidewalk for Building E and G and Starr County Building E steel frame improvements. South Texas College District also purchased an additional lot adjacent to its Pecan Campus for future expansion. South Texas College District's funding for these projects came from accumulated net assets.

In 2008, efforts began for developing an updated District Wide Campus Expansion Master Plan that would identify facilities needs for each campus through 2020. This master plan was completed in the spring of 2010 and identified an additional 1.3 million square feet of new facilities to accommodate the anticipated student enrollment growth.

Source. South Texas College District Comprehensive Annual Financial Report, Fiscal Years Ended August 31, 2012 and 2011.

Major construction completed during fiscal year 2012 included Pecan South Boulevard Entrance and West Loop, Pecan West Loop Road Phase II, Pecan West Academic Building and Technology Building B Welding Ventilation System. Also, completed during fiscal year 2012 were the Pecan Building G Science Lab Improvements, Mid-Valley ADA Walkway Improvements, Mid-Valley Portable Buildings Infrastructure, Mid-Valley Child Development Covered Walkway and Nursing Allied Health Respiratory Therapy Lab Expansion.

Major construction completed during fiscal year 2013 included Pecan Building G Fume Hood Additions, Pecan South Academic Building J Science Lab Additional Seating Improvements, Pecan Plaza Re-Roofing, Mid-Valley Building G Science Lab Improvements, Mid-Valley Parking Lot Expansion, Technology Southwest Building E Renovations and Starr HVAC Additional Chiller Improvements. Also completed during fiscal year 2013 were the Mid-Valley Child Development Center Building L Re-Roofing, Technology Campus Southwest Building E Repairs, District Wide Safety Film Installation for Library Windows and James Property Demolition for Pecan Campus.

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Source. South Texas College District Comprehensive Annual Financial Report, Fiscal Years Ended August 31, 2013 and 2012.

South Texas College District allows eligible high school students to enroll in college courses while attending high school and permits them to take courses in place of, or in addition to the normal course load at their high school through Dual Enrollment Program.

High school junior and senior students are eligible to participate in this program and to receive college credit. Students admitted to the program must meet the same requirements as all other college students. College credit earned upon successful completion of the course may be applied towards an associate degree at South Texas College District or may transfer to other colleges and universities.

South Texas College District has partnerships with 23 Independent School Districts:

- Donna Independent School District
- Edcouch-Elsa Independent School District
- Edinburg Independent School District
- Hidalgo Independent School District
- Juan Diego Catholic School
- La Joya Independent School District
- La Villa Independent School District
- McAllen Independent School District
- Mercedes Independent School District
- Mid-Valley Academy
- Mission Consolidated Independent School District
- Monte Alto Independent School District
- Pharr Oratory Athenaeum for University Preparation
- Premier Charter High School
- Progreso Independent School District
- Pharr-San Juan-Alamo Independent School District
- Rio Grande City Consolidated Independent School District
- Roma Independent School District
- Sharyland Independent School District
- South Texas Independent School District
- Valley View Independent School District
- Vanguard Academy
- Weslaco Independent School District

The District has grown rapidly since Fall 1993. The Fall 2014 enrollment was 31,325 students and the estimated enrollment for Spring 2015 is 30,485.

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HISTORICAL HEADCOUNT ENROLLMENT[1]

School Year Ending 8-31	Fall	Spring	Summer I/III[2]	Summer II	Annual
2005	17,035	16,718	5,015	3,483	23,847
2006	16,233	16,283	5,885	3,611	23,594
2007	18,460	17,334	4,728	3,832	25,423
2008	19,808	19,016	5,656	4,175	27,940
2009	21,666	22,702	7,695	6,985	30,734
2010	26,368	27,832	11,186	8,277	36,169
2011	28,006	28,678	10,344	8,190	36,951
2012	29,513	30,083	9,346	6,400	37,012
2013	29,812	31,534	10,334	7,032	38,667
2014	30,246	32,313	10,513	7,166	39,417

(1) Source: Office of Admissions and Records.
(2) Summer I and Summer III data are combined due to State reporting requirements.

SEMESTER HOURS REGISTERED FOR CREDIT HOURS[1]

School Year Ending 8-31	Fall	Spring	Summer I/III[2]	Summer II
2005	148,093	146,012	24,777	22,632
2006	139,742	142,882	34,394	17,377
2007	153,824	146,425	25,337	24,656
2008	165,180	160,501	30,082	23,384
2009	178,951	180,685	33,350	31,883
2010	223,192	222,962	50,622	40,764
2011	239,930	233,821	47,697	39,853
2012	252,785	239,870	40,634	29,143
2013	251,743	248,158	45,415	31,574
2014	253,680	252,765	46,103	32,732

(1) Source: Office of Admissions and Records.
(2) Summer I and Summer III data are combined due to State reporting requirements.

ENROLLMENT SUMMARY

	Fall 2014	Fall 2013	Fall 2012	Fall 2011	Fall 2010
Headcount Enrollment					
Full-time Students	8,703	9,077	9,273	9,800	9,272
Part-time Students	22,146	21,169	20,539	19,713	18,734
Total Headcount	30,849	30,246	29,812	29,513	28,006
Residence Status					
In District	29,057	28,868	28,649	28,611	27,105
Out-of-District	683	597	682	548	600
Out-of-State/Foreign	1,109	781	481	354	301

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FULL TIME EQUIVALENCY

School Year	Fall	Spring
2004-2005	12,341	12,168
2005-2006	11,645	11,907
2006-2007	12,819	12,202
2007-2008	13,765	13,375
2008-2009	14,913	15,057
2009-2010	18,599	18,580
2010-2011	19,994	19,485
2011-2012	21,065	19,998
2012-2013	20,979	20,680
2013-2014	21,140	21,064

TUITION AND FEES(1)(2)

Semester	Tuition		
Hours	In-District	Out-of-District	Non Resident
1	$ 135.00	$ 164.50	$ 200.00
2	220.00	264.00	344.00
3	264.00	310.20	414.00
4	312.00	361.60	488.00
5	390.00	452.00	610.00
6	438.00	503.40	684.00
7	511.00	587.30	798.00
8	584.00	671.20	912.00
9	612.00	696.60	954.00
10	680.00	774.00	1,060.00
11	748.00	851.40	1,166.00
12	804.00	913.20	1,260.00
13	871.00	989.30	1,365.00
14	938.00	1,065.40	1,470.00
15	1,005.00	1,141.50	1,575.00
16	1,072.00	1,217.60	1,680.00
17	1,139.00	1,293.70	1,785.00
18	1,206.00	1,369.80	1,890.00
19	1,273.00	1,445.90	1,995.00
20	1,340.00	1,522.00	2,100.00
21	1,407.00	1,598.10	2,205.00

(1) For fiscal year 2014-2015.
(2) Source: The Office of the Vice President for Finance and Administrative Services.

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TUITION AND FEES CONTINUED[1][2]

MANDATORY FEE:

Student Registration Fees

- If registered and paid or registered and financial aid complete BEFORE August 1st, January 1st, May 15th, and June 15th: ..... $ 90.00
- If registered or paid or financial aid processed AFTER July 31st, December 31st, May 14th, and June 14th 150.00

Information Technology Fee per credit hour 20.00
Learning Support Fee per credit hour 13.00

COURSE FEES:

Lab Fee per Lab Credit Hour (for applicable courses with labs) 24.00
Electronic Distance Education Fee (per credit hour) 15.00
Developmental Studies Fee (one-time fee) 50.00
Physical Education Special Activity Fee per Course 55.00
Hybrid Course Fee per credit hour 5.00
NAH Student Clinical Data Fee (per year) 60.00
Course Repeat Fee per credit hour:
First repeat (excludes Developmental) 50.00
Second repeat (includes Developmental) 75.00
Third or more repeat (includes Developmental) 100.00

DIFFERENTIAL TUITION PER CREDIT HOUR FOR:

Biology 10.00
3000/4000 level courses 30.00
Associate Degree Nursing 50.00
Emergency / Medical Technology (EMT) 35.00
Pharmacy Technology 40.00
Occupational Therapy Assistant 40.00
Patient Care Assistant 20.00
Physical Therapist Assistant 40.00
Radiologic Technology 40.00
Respiratory Therapy 40.00
Vocational Nursing 50.00

DUAL ENROLLMENT TUITION AND FEES:

Adjusted Tuition Rate per credit hour for dual enrollment students attending STC independent of their school's participation
Non "S" courses (per credit hour): In-district tuition 50.00
Adjusted Tuition Rate per credit hour for dual enrollment students attending STC independent of their school's participation
Non "S" courses (per credit hour): Out-of-district tuition $78.00
Fees applicable to non "S" course ..... waived
Dual credit late process fee per course per student $150.00

CONTINUING EDUCATION TUITION AND FEES:

Workforce/Continuing Education per contact hour ..... 6.00 or variable tuition
Workforce/Continuing Education Late Registration Fee 10.00
Continuing Education Installment Plan Fee 5.00
Continuing Education Installment Plan Late Payment Fee 10.00

BACHELOR OF APPLIED SCIENCE IN ORGANIZATIONAL LEADERSHIP:

Competency-Based Format for Seven Week Term 750.00

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(1) For fiscal year 2014-2015.
(2) Source: The Office of the Vice President for Finance and Administrative Services and College's web page.

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CHILD DEVELOPMENT CENTER:

Registration Fee:

- Fall and Spring Semesters 40.00
- Summer Session 20.00

Reservation Fee:

- Fall and Spring Semester Breaks 65.00
- Summer 20.00

Supply Fee:

- Fall and Spring Semesters 30.00
- Summer Session 10.00

Tuition fee per week 120.00

Late Pick-up Fee ..... $5/first five minutes and $1/each additional minute

OTHER NON-REFUNDABLE FEES:

Add/Drop Fee (one-time fee) – 1st class day through Census date 25.00

Withdrawal Fee (one-time fee) after Census date 50.00

Audit Fee ..... Tuition and Lab Fees

Credit by Examination ..... Tuition

Installment Plan Fee 30.00

Installment Late Payment Fee (for each late payment) 30.00

Emergency Loan Late Payment Fee (for each late payment) 30.00

Reinstatement Fee (after Census date) 200.00

Student I.D. Replacement fee 15.00

Lost or Damaged Library Item Processing Fee 30.00

Lost or Damaged Library Item Fee ..... Cost of item plus a processing fee

Overdue Library Book/Media Fee per day ..... .25

Overdue Library Equipment Fee per day 1.00

Overdue Library Reserve Item Fee per hour 1.00

Overdue Inter-Library Loan or TexShare Item Fee per day ..... Fine as assessed and charged by lending library

Lost or Damaged Inter-Library Loan or TexShare Item Fee per day ..... Fine and/or replacement cost as assessed and charged by lending library

Returned Check 30.00

Wellness Center Student Membership Fee per semester (may be prorated) 72.00

Workforce/Continuing Education/Conferences/Seminars/Summer Camps/Workshops/ Customized Training/ Other Training Activities and Events ..... Recovery of costs and processing fees to be negotiated

Collegiate Assessment of Academic Proficiency (CAAP) Exam Fee 50.00

Student Insurance Fee (voluntary) ..... (Obtain information from the Cashier's Office)

NAH and other Course Fees: Liability Insurance/Exams/Booklets/Badges/ Special Program ID/Certificates/Pinning Ceremony/Other Activities ..... Recovery of costs and processing fees to be negotiated

Parking Permit Fee 25.00

Parking Permit Replacement fee 25.00

Parking Permit Violations First 30.00, Second 50.00, Third 70.00, Fourth 90.00, Fifth 110.00

Handicap Parking Violations 150.00

Vehicle Boot Removal Fee 100.00

Moving Traffic Violations First 30.00, Second 50.00, Third 70.00

TSI Assessment Reservation Fee 25.00

TSI Assessment Exam (All Exams) 29.00

- TSI Assessment Exam Fee – Reading only 10.00
- TSI Assessment Exam Fee – Writing only 10.00
- TSI Assessment Exam Fee – Math only 10.00

GED Exam(s) Fee ..... Student will register and pay fees to Pearson VUE for Online testing services

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(1) For fiscal year 2014-2015.

(2) Source: The Office of the Vice President for Finance and Administrative Services and College's web page.

HIDALGO AND STARR COUNTIES

Hidalgo County was formed in 1852 from portions of Cameron and Starr Counties. Hidalgo County is located in South Texas adjacent to the Republic of Mexico. Hidalgo County's economy is diversified by tourism, agribusiness and international trade with Mexico. Cotton, grain, vegetables, citrus and sugar cane are the principal sources of agricultural income. Hidalgo County is a leading producer of cotton and sorghum. Gas, sand and gravel are the minerals produced in Hidalgo County. Hidalgo County is a tourist center located in the Lower Rio Grande Valley with access to Old Mexico, and with facilities to accommodate the summer and winter visitors.

Starr County is located in South Texas and borders Mexico. The County is traversed by U.S. 83 and State Highways 649 and 755. The economy is based on agriculture, with sorghums, cotton and vegetables being the principal sources of agricultural income. Oil, gas and sand are the minerals produced in the County.

LABOR FORCE STATISTICS FOR HIDALGO COUNTY[1]

	2015[2]	2014[3]	2013[3]	2012[3]	2011[3]
Civilian Labor Force	333,843	334,457	332,303	328,304	326,225
Total Employed	308,703	305,428	298,245	293,518	288,356
Total Unemployed	25,140	29,029	34,058	34,786	37,869
Unemployment Rate	7.5%	8.7%	10.2%	10.6%	11.6%
% Unemployed (Texas)	4.2%	5.1%	6.2%	6.7%	7.8%
% Unemployed (U.S.)	5.6%	6.2%	7.4%	8.1%	8.9%

(1) Source: Texas Workforce Commission.
(2) As of March 2015
(3) Average Annual.

LABOR FORCE STATISTICS FOR STARR COUNTY[1]

	2015[2]	2014[3]	2013[3]	2012[3]	2011[3]
Civilian Labor Force	26,557	26,234	26,412	26,044	26,146
Total Employed	22,988	22,690	22,497	22,269	21,915
Total Unemployed	3,569	3,544	3,915	3,775	4,231
Unemployment Rate	13.4%	13.5%	14.8%	14.5%	16.2%
% Unemployed (Texas)	4.2%	5.1%	6.2%	6.7%	7.8%
% Unemployed (U.S.)	5.6%	6.2%	7.4%	8.1%	8.9%

(1) Source: Texas Workforce Commission.
(2) As of March 2015.
(3) Average Annual.

EMPLOYMENT AND WAGES BY INDUSTRY FOR HIDALGO COUNTY[1][2]

	Third Quarter				
	2014	2013	2012	2011	2010
Natural Resources and Mining	5,621	5,253	5,397	5,217	5,117
Construction	7,095	6,880	6,609	6,577	6,667
Manufacturing	6,182	6,178	5,983	5,741	5,778
Trade, Transportation & Utilities	51,888	50,040	48,502	46,670	44,938
Information	2,217	2,142	1,924	2,056	1,898
Financial Activities	8,812	8,830	8,628	8,338	7,655
Professional and Business Services	15,038	14,966	14,648	14,614	13,483
Education and Health Services	61,501	59,513	57,620	57,285	54,824
Leisure and Hospitality	21,870	21,067	19,900	19,659	19,051
Other Services	3,950	3,877	3,804	3,799	3,754
Unclassified	42	63	111	30	76
State Government	6,109	5,995	5,905	5,778	6,065
Local Government	41,270	40,994	40,276	40,155	40,626
Total Employment	231,595	225,799	219,308	215,926	209,937
Total Wages	$ 1,800,611,076	$ 1,696,125,957	$ 1,627,465,195	$ 1,652,703,710	$ 1,538,021,327

(1) Source: Texas Workforce Commission.
(2) Statistics do not include Federal employees or their wages.

EMPLOYMENT AND WAGES BY INDUSTRY FOR STARR COUNTY[1][2]

	Third Quarter				
	2014	2013	2012	2011	2010
Natural Resources and Mining	288	298	272	274	260
Construction	212	308	313	279	224
Manufacturing	42	41	41	62	68
Trade, Transportation & Utilities	2,005	1,997	1,842	1,818	1,837
Information	32	26	18	21	26
Financial Activities	302	302	297	290	277
Professional and Business Services	342	335	181	135	135
Education and Health Services	4,769	4,935	5,111	4,880	4,730
Leisure and Hospitality	880	754	732	650	646
Other Services	147	137	154	162	296
Unclassified	0	0	0	6	0
State Government	170	164	176	175	184
Local Government	4,759	4,591	4,447	4,363	4,533
Total Employment	13,947	13,887	13,582	13,118	13,220
Total Wages	$ 86,660,315	$ 84,135,068	$ 80,393,117	$ 81,625,840	$ 79,142,821

(1) Source: Texas Workforce Commission.
(2) Statistics do not include Federal employees or their wages.

APPENDIX B

EXCERPTS FROM THE

SOUTH TEXAS COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2014

The information contained in this Appendix consists of excerpts from the South Texas College District's Comprehensive Annual Financial Report for the Year Ended August 31, 2014, and is not intended to be a complete statement of the South Texas College District's financial condition. Reference is made to the complete Report for further information.

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
LONG CHILTON, LLP
A PARTNERSHIP OF PROFESSIONAL CORPORATIONS AND INDIVIDUALS

Members - Division of Firms,
American Institute of CPAs

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Independent Auditor's Report

To the President and Board of Trustees
South Texas College

Dr. Shirley Reed and Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of South Texas College (the College) as of and for the years ended August 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 about 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 College'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 presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Texas College as of August 31, 2014 and August 31, 2013 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 26 through 44 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 South Texas College's basic financial statements. The introductory section, supplementary schedules (schedules A-D) as described in the table of contents, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards (schedule E) and schedule of expenditures of state awards (schedule F) are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Texas Governor's Office of Budget and Planning, State of Texas Single Audit Circular, respectively, and are also not a required part of the basic financial statements.

The supplementary schedules (schedules A-D) and the schedules of expenditures of federal and 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 supplementary schedules (schedules A-D) and schedules of expenditures of federal and

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 11, 2014, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Texas College's internal control over financial reporting and compliance.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
December 11, 2014

INTRODUCTION

This section of South Texas College District's Comprehensive Annual Financial Report presents management's discussion and analysis of the District's financial position and activities for the year ended August 31, 2014, and comparative information for the year ended August 31, 2013. This discussion focuses on current activities, resulting changes and currently known facts. It should be read in conjunction with the transmittal letter, the District's basic financial statements and notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the District.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was $337,541,511 at August 31, 2014. Of this amount, $146,201,266 was unrestricted and may be used to meet the District's ongoing obligations.

- Total combined net position increased by $21,693,258 in fiscal year 2014. Unrestricted net position increased by $13,082,041.

- During fiscal year 2014, the balance of cash and cash equivalents, and short-term and other investments increased by $70,293,174 from $170,511,791 at August 31, 2013, to $240,804,965 on August 31, 2014, or 41.22%. This can be attributed to the issuance of South Texas College Limited Tax Bonds, Series 2014.

- Capital assets, net of accumulated depreciation, at August 31, 2014, had a decrease of $2,309,785 from August 31, 2013, due to a decrease of $1,917,456 in buildings, a decrease in land improvements of $1,172,019, a decrease in library books of $71,546, and a decrease in construction in progress of $36,900, offset by an increase in furniture and equipment of $874,812 and an increase in telecommunication equipment of $13,324.

FINANCIAL STATEMENTS

The financial statements of this annual report consist of three parts – Management's Discussion and Analysis, the Basic Financial Statements, and Required Supplementary Information. The financial statements, consisting of the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows are prepared in accordance with the Governmental Accounting Standards Board Statements No. 34 (GASB 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments;* and No. 35 (GASB 35), *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.*

These three statements will assist the reader in determining whether the District, as a whole, is performing financially better this year as compared to last year. The financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

The Statements of Net Position report all of the District's assets and liabilities. Net position, the difference between assets and liabilities, is subdivided into three categories to indicate the limitations on its use. Net investment in capital assets is not available for general use, since these are resources that have been invested in capital assets such as land, buildings and improvements, and equipment of the District. Restricted net position is not accessible for general use because the use of these assets is subject to third-party restrictions. Any remaining net position is classified as unrestricted and is available for general use.

Over time, increases or decreases in net position indicate the improvement or erosion of the District's financial health when considered with non-financial facts, such as enrollment levels and the condition of the facilities.

The Statements of Revenues, Expenses, and Changes in Net Position present the revenues earned and expenses incurred over the course of the fiscal year. Activities are reported as either operating or non-operating. Operating revenues are primarily those that result from instruction, the operation of the District's auxiliary services, and federal and state grants. State appropriations and ad-valorem taxes, while budgeted for operations, are considered to be non-operating revenue. Depreciation on capital assets is included in operating expenses. Since state appropriations and ad-valorem taxes are a significant portion of maintenance and operations funding, classification of this revenue as non-operating will usually result in an operating deficit.

Another important factor to consider when evaluating financial viability is the District's ability to meet financial obligations as they mature. The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing and investing activities.

This discussion and analysis of the District's financial statements provides an overview of its financial activities for the fiscal year.

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND CONDENSED FINANCIAL INFORMATION

Statements of Net Position

The Statements of Net Position presents end of year data concerning assets (current and noncurrent), liabilities (current and noncurrent) and net position (assets minus liabilities).

Current assets consist mainly of cash and cash equivalents, short-term investments and receivables. Cash and short-term investments are maintained at levels necessary to cover current liabilities as they come due and to ensure adequate liquidity as funds are needed for expenditures associated with building and expansion projects. Receivables are from students, property taxes, and federal, state and local grants and contracts.

From the data presented, readers of the financial statements are able to determine the assets available to continue operations of the District. They are also able to determine how much the District owes vendors, investors and lending institutions.

The following is prepared from the District's Statements of Net Position and provides a summary of its assets, liabilities and net position for the years ended August 31:

	Statements of Net Position		
	2014	2013	2012
Assets			
Current assets	$ 187,242,719	$ 180,689,548	$ 155,603,514
Capital assets, net	199,806,529	202,116,314	205,089,105
Noncurrent assets	66,998,080	4,942,081	4,439,230
Total Assets	**454,047,328**	**387,747,943**	**365,131,849**
Deferred Outflows of Resources			
Deferred amount of debt refundings	1,293,307	1,581,885	2,272,693
Total Deferred Outflows of Resources	**1,293,307**	**1,581,885**	**2,272,693**
Liabilities			
Current liabilities	28,816,886	36,007,093	26,583,979
Noncurrent liabilities	88,982,238	37,474,482	47,732,622
Total Liabilities	**117,799,124**	**73,481,575**	**74,316,601**
Net Position			
Net investment in capital assets	169,028,494	162,064,429	156,914,256
Restricted expendable	21,972,306	20,325,155	17,978,771
Restricted non-expendable	339,445	339,444	340,664
Unrestricted	146,201,266	133,119,225	117,854,250
Total Net Position	**$ 337,541,511**	**$ 315,848,253**	**$ 293,087,941**

Fiscal Year 2014 Compared To 2013

Total assets increased by $66,299,385 from $387,747,943 at August 31, 2013, to $454,047,328 on August 31, 2014. A review of the Statements of Net Position will reveal that the increase was attributable to an increase of $17,920,085 in cash and cash equivalents, an increase of $18,754,899 in restricted cash and cash equivalents and an increase of $50,896,906 in restricted short-term investments. This was mainly offset by a decrease of $17,278,716 in short-term investments and a decrease of $2,309,785 in capital assets, net of accumulated depreciation.

Total liabilities from 2013 to 2014 increased by $44,317,549 from $73,481,575 at August 31, 2013, to $117,799,124 on August 31, 2014. The major factor contributing to the change was an increase in total bonds payable of $50,568,194, due to principal payments and associated amortization of bond premium. This was mainly offset by a decrease in unearned revenue of $5,534,956 and a decrease in accounts payable of $1,030,294.

The combination of the increase in total assets and deferred outflows of resources from 2013 to 2014 of $66,010,807 and the increase in total liabilities of $44,317,549 yields an increase in total net position of $21,693,258. Fifty percent of net position, $169,028,494, reflects the District's substantial net investment in capital assets, net of outstanding debt obligations and accumulated depreciation related to those capital assets. Restricted net position such as endowment gifts with specific restrictions, grants from third-party agencies with expenditure restrictions, student loan funds and assets designated for debt service represent an additional 7.0% of net position. The remaining unrestricted net position may be used for educational or general operations of the District.

Fiscal Year 2013 Compared To 2012

Total assets increased by $22,616,094 from $365,131,849 at August 31, 2012, to $387,747,943 on August 31, 2013. A review of the Statements of Net Position will reveal that the increase was primarily attributable to an increase of $2,965,741 in cash and cash equivalents and an increase of $33,787,209 in short-term investments. This was mainly offset by a decrease of $10,039,486 in restricted cash and cash equivalents, $2,972,791 in capital assets, net of accumulated depreciation, and $1,586,042 in accounts receivable.

Total liabilities from 2012 to 2013 decreased by $835,026 from $74,316,601 at August 31, 2012, to $73,481,575 on August 31, 2013. The major factor contributing to the change was a decrease in total bonds payable of $9,320,056, due to principal payments and associated amortization of bond premium. This was mainly offset by an increase in accounts payable of $1,566,498 and an increase in unearned revenue of $6,360,229.

The combination of the increase in total assets and deferred outflows of resources from 2012 to 2013 of $21,925,286 and the decrease in total liabilities of $835,026 yields an increase in total net position of $22,760,312. Fifty-one percent of net position, $162,064,429, reflects the District's substantial net investment in capital assets, net of outstanding debt obligations and accumulated depreciation related to those capital assets. Restricted net position such as endowment gifts with specific restrictions, grants from third-party agencies with expenditure restrictions, student loan funds and assets designated for debt service represent an additional 6.5% of net position. The remaining unrestricted net position may be used for educational or general operations of the District.

The following is a graphic illustration of net position at August 31, 2014, 2013 and 2012:

Statements of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statements of Net Position are based on the activity presented in the Statements of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues earned by the District, both operating and non-operating, and the expenses incurred by the District, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the District.

Operating revenues are received for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the District. Non-operating revenues are revenues received for which goods and services are not provided.

The following summary is prepared from the District's Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended August 31:

Statements of Revenues, Expenses, and Changes in Net Position

	2014	2013	2012
Operating revenues	$ 36,728,902	$ 37,658,223	$ 37,471,221
Operating expenses	152,850,981	148,834,519	144,597,510
Operating loss	(116,122,079)	(111,176,296)	(107,126,289)
Non-operating revenues and expenses	140,365,487	138,083,799	141,066,848
Capital contributions	105,190	83,298	22,740
Additions (deductions) to permanent and term endowment	-	-	(4,700)
Extraordinary item	(2,655,340)	(4,230,489)	2,010,294
Increase in net position	21,693,258	22,760,312	35,968,893
Net position-beginning of year, as restated	315,848,253	293,087,941	257,119,048
Net Position-End of Year	**$ 337,541,511**	**$ 315,848,253**	**$ 293,087,941**

Fiscal Year 2014 Compared To 2013

An operating loss of $116,122,079 resulted in fiscal year 2014. State appropriations, ad-valorem taxes, investment income and Title IV revenue, 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. This will usually cause the District to show a significant operating loss.

The operating loss increased by $4,945,783 or 4.5%, from $111,176,296 in fiscal year 2013 to $116,122,079 in fiscal year 2014. Operating revenues decreased by $929,321, and total operating expenses increased by $4,016,462.

The decrease in operating revenues of $929,321 primarily consisted of a decrease of $718,957 in state grants and contracts and a decrease of $563,133 in tuition and fees. This was mainly offset by an increase of $374,128 in non-governmental grants and contracts.

The decrease in tuition and fee revenue was attributed to a decrease in non-dual enrollment students in the fiscal year 2014 fall and spring semesters.

Grants and contracts include restricted revenues made available by government agencies as well as private agencies. Grant funding is recognized as revenue at the point when all eligibility requirements imposed by the provider have been met. This source of revenue was approximately 37% of total revenues, a decrease from $14,175,342 in fiscal year 2013 to $13,759,494 in fiscal year 2014.

In fiscal year 2014, the increase in operating expenses of $4,016,462 was due to increased personnel costs and increased operating costs due to strategic initiatives for the upcoming fiscal year's budget.

An analysis of operating expenses by function indicates an increase in instruction by $1,680,528 or 3%, an increase in academic support of $1,205,082 or 9%, an increase in operations and maintenance of $3,076,316 or 32%, a decrease in institutional support of $1,295,870 or 6% and a decrease in scholarships and fellowships of $1,031,432 or 4%. The increase in operations and maintenance of $3,076,316 is related to an increase in personnel costs due to functional classification changes from fiscal year 2013 to fiscal year 2014. The increase of $1,680,528 in instruction costs is related to an increase in faculty salaries and associated benefits. The decrease of $1,295,870 in institutional support is related to a decrease in personnel costs due to functional classification changes from fiscal year 2013 to fiscal year 2014. Operating expenses under the remaining elements of costs increased due to the budgeted level of spending associated with increased personnel costs and increased operating costs.

Fiscal Year 2013 Compared To 2012

An operating loss of $111,176,296 resulted in fiscal year 2013. State appropriations, ad-valorem taxes, investment income and Title IV revenue, 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. This will usually cause the District to show a significant operating loss.

The operating loss increased by $4,050,007 or 3.8%, from $107,126,289 in fiscal year 2012 to $111,176,296 in fiscal year 2013. Operating revenues increased by $187,002, and total operating expenses increased by $4,237,009.

The increase in operating revenues of $187,002 primarily consisted of an increase of $1,467,868 in tuition and fees and $373,826 in non-governmental grants and contracts. This was mainly offset by a decrease of $1,633,356 in state grants and contracts.

The increase in tuition and fee revenue was attributed to changes in fees and differential tuition in fiscal year 2013. The changes included an increase of $10 per semester credit hour in tuition charges related to the following programs: Associate Degree Nursing, Vocational Nursing and Biology. For parking permits, the second, third, fourth and fifth permit violation increased by $10; handicap parking violations increased by $50, and the vehicle boot removal fee increased by $20. Additional fees approved were GED exam fees, parking permit fee, child care center tuition and reservation fees, and moving traffic violations. Conversely, the fees for Emotional Skills Assessment Process (ESAP) and graduation gown purchase were eliminated.

Grants and contracts include restricted revenues made available by government agencies as well as private agencies. Grant funding is recognized as revenue at the point when all eligibility requirements imposed by the provider have been met. This source of revenue was approximately 37.6% of total revenues, a decrease from $15,575,336 in fiscal year 2012 to $14,175,342 in fiscal year 2013.

In fiscal year 2013, the increase in operating expenses of $4,237,009 was due to budgeted level of spending associated with the reduction of state funding and increased operating costs associated with increased enrollment.

An analysis of operating expenses by function indicates an increase in instruction by $3,866,773 or 7%, an increase in academic support of $1,224,734 or 11%, an increase in institutional support of $1,614,072 or 8% and a decrease in scholarships and fellowships of $3,148,833 or 10%. The increase of $3,866,773 in instruction costs is related to an increase in faculty salaries and associated benefits. The decrease of $3,148,833 in scholarships and fellowships is directly related to the reduced federal financial aid to students. Operating expenses under the remaining elements of costs increased due to the budgeted level of spending associated with increased personnel costs and increased operating costs.

Operating revenues, used to fund operating expenses, consisted of the following percentages of the total:

	2014		2013		2012	
Operating Revenues	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Tuition and fees (net of discounts of $58,099,649, $56,202,456, and $55,255,652)	$ 20,488,244	55.78%	$ 21,051,377	55.90%	$ 19,583,509	52.26%
Federal grants and contracts	4,723,984	12.86%	4,630,302	12.30%	4,748,007	12.67%
State grants and contracts	4,441,747	12.09%	5,160,704	13.70%	6,794,060	18.13%
Local and non-governmental grants and contracts	4,593,763	12.51%	4,384,336	11.64%	4,033,269	10.77%
Auxiliary enterprises	1,835,353	5.00%	1,810,240	4.81%	1,872,734	5.00%
General operating revenues	645,811	1.76%	621,264	1.65%	439,642	1.17%
Total	**$ 36,728,902**	**100.00%**	**$ 37,658,223**	**100.00%**	**$ 37,471,221**	**100.00%**

Operating Revenues
Comparison - Fiscal Years 2014, 2013 and 2012

Operating expenses, including depreciation, may be viewed by their function or by natural (object) classification as illustrated below:

	2014		2013		2012	
Operating Expenses by Function	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Instruction	$ 59,447,106	38.89%	$ 57,766,578	38.81%	$ 53,899,805	37.27%
Research	-	0.00%	4,516	0.00%	67,273	0.05%
Public service	829,711	0.54%	903,735	0.61%	736,507	0.51%
Academic support	13,980,994	9.15%	12,775,912	8.58%	11,551,178	7.99%
Student services	10,403,814	6.81%	10,090,241	6.78%	9,681,946	6.70%
Institutional support	19,813,087	12.96%	21,108,957	14.18%	19,494,885	13.48%
Operations and maintenance of plant	12,563,250	8.22%	9,486,934	6.38%	9,459,757	6.54%
Scholarships and fellowships	27,692,817	18.12%	28,724,249	19.30%	31,873,082	22.04%
Auxiliary enterprises	1,388,716	0.91%	1,383,521	0.93%	1,418,145	0.98%
Depreciation	6,731,486	4.40%	6,589,876	4.43%	6,414,932	4.44%
Total	**$ 152,850,981**	**100.00%**	**$ 148,834,519**	**100.00%**	**$ 144,597,510**	**100.00%**

Operating Expenses by Function
Comparison - Fiscal Years 2014, 2013 and 2012

Operating Expenses by Classification	2014 Amount	2014 Percentage of Total	2013 Amount	2013 Percentage of Total	2012 Amount	2012 Percentage of Total
Salaries and wages	$ 74,608,758	48.81%	$ 71,203,678	47.84%	$ 68,809,740	47.59%
State benefits	6,311,371	4.13%	5,095,698	3.42%	4,851,654	3.36%
Local benefits	13,716,088	8.97%	14,781,992	9.93%	11,052,442	7.64%
Other (travel, operating and depreciation)	30,521,947	19.97%	29,028,902	19.51%	28,010,592	19.37%
Scholarships and fellowships	27,692,817	18.12%	28,724,249	19.30%	31,873,082	22.04%
Total	**$ 152,850,981**	**100.00%**	**$ 148,834,519**	**100.00%**	**$ 144,597,510**	**100.00%**

Operating Expenses by Classification
Comparison - Fiscal Years 2014, 2013 and 2012

Non-operating revenues consisted of the following:

	2014		2013		2012	
Non-Operating Revenues	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
State allocations	$ 42,766,020	29.50%	$ 38,977,829	27.58%	$ 37,017,673	25.47%
Ad-valorem taxes – maintenance and operations	33,983,319	23.44%	32,403,363	22.93%	33,244,142	22.88%
Ad-valorem taxes – debt service	12,291,870	8.48%	12,030,232	8.51%	12,276,741	8.45%
Federal revenue, non-operating	55,351,962	38.18%	57,151,307	40.45%	61,950,136	42.63%
Gifts	323,100	0.22%	351,843	0.25%	418,605	0.29%
Investment income (net of investment expenses)	214,915	0.15%	389,519	0.28%	417,075	0.28%
Gain on disposal of capital assets	-	0.00%	-	0.00%	2,793	0.00%
Other non-operating revenues	35,840	0.03%	-	-	-	-
Total	**$144,967,026**	**100.00%**	**$141,304,093**	**100.00%**	**$ 145,327,165**	**100.00%**

Non-operating expenses consisted of the following:

	2014		2013		2012	
Non-Operating Expenses	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
Interest on capital related debt	$ 1,340,664	29.14%	$ 1,513,884	47.01%	$ 1,821,871	42.76%
Loss on sale/disposal/return of capital assets	10,154	0.22%	217	0.01%	-	0.00%
Non-capital construction costs	1,715,994	37.29%	849,455	26.38%	1,400,934	32.88%
Bond costs amortization	1,326,043	28.82%	566,261	17.58%	536,677	12.60%
Other non-operating expenses	208,684	4.53%	290,477	9.02%	500,835	11.76%
Total	**4,601,539**	**100.00%**	**3,220,294**	**100.00%**	**4,260,317**	**100.00%**
Net non-operating revenues (expenses)	**$140,365,487**		**$ 138,083,799**		**$ 141,066,848**	

The Statements of Revenues, Expenses, and Changes in Net Position reflect a positive year with an increase in the net position at the end of the year.

Some highlights of the information presented on the Statements of Revenues, Expenses, and Changes in Net Position are as follows:

- Tuition and fees were discounted by $58,099,649, $56,202,456 and $55,255,652 in fiscal years 2014, 2013 and 2012, respectively, which consisted of federal, state, local and private grants that were provided as financial aid to students and other remissions and exemptions.

- In fiscal year 2014, state allocations received increased by $3,788,191 due mainly to an increase in contact hour funding of $2,014,538 and an increase in state on-behalf benefits of $1,215,672. State allocations totaling $42,766,020 consisted of $35,896,669 of contact hour funding, $464,567 of professional nursing shortage reduction, $93,414 of Hazelwood reimbursement and $6,311,370 of state on-behalf benefits, which consisted of state group insurance of $4,182,296 and state retirement matching of $2,129,074. The contact hour allocations are received in 10 monthly payments, September through December and March through August.

- The District's state allocation for contact hour funding was increased by $2,014,538 from $33,882,131 in fiscal year 2013 to $35,896,669 in fiscal year 2014.

- The tax base, net assessed valuation, for Hidalgo and Starr Counties increased by $600,665,620 or 2% from $29,645,534,071 in fiscal year 2013 to $30,246,199,691 in fiscal year 2014. Tax collections, net of penalties and interest, increased 2.1% from $44,193,706 in fiscal year 2013, to $45,108,905 in fiscal year 2014.

- The District's federal Title IV grant programs revenue decreased by $1,799,345 from $57,151,307 in fiscal year 2013 to $55,351,962 in fiscal year 2014 due mainly to the reduced federal financial aid to students resulting from a change in provisions allowing students to use 2014 awards for Summer 2013.

- In fiscal year 2013, state allocations received increased by $1,960,156 due to an increase in contact hour funding of $1,716,112 and an increase in state on-behalf benefits of $244,044. State allocations totaling $38,977,829 consisted of $33,882,131 of contact hour funding and $5,095,698 of state on-behalf benefits, which consisted of state group insurance of $3,075,251 and state retirement matching of $2,020,447. The contact hour allocations are received in 10 monthly payments, September through December and March through August.

- The District's state allocation for contact hour funding was increased by $1,716,112 from $32,166,019 in fiscal year 2012 to $33,882,131 in fiscal year 2013.

- The tax base, net assessed valuation, for Hidalgo and Starr Counties increased by $127,358,732 or 0.43% from $29,518,175,339 in fiscal year 2012 to $29,645,534,071 in fiscal year 2013. Tax collections, net of penalties and interest, increased 0.08% from $44,157,110 in fiscal year 2012, to $44,193,705 in fiscal year 2013.

- The District's federal Title IV grant programs revenue decreased by $4,798,829 from $61,950,136 in fiscal year 2012 to $57,151,307 in fiscal year 2013 due mainly to the reduced federal financial aid to students resulting from a change in provisions allowing students to use 2013 awards for Summer 2012.

Statement of Cash Flows

The final statement presented by the District is the Statements of Cash Flows, which details information about the cash activity of the District during the year. The statement is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing and non-capital financing purposes. The third section reflects cash flows from capital and related financing activities. This section reflects the cash used for the acquisition and construction of capital assets and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statements of Revenues, Expenses, and Changes in Net Position.

The following summary is prepared from the District's Statements of Cash Flows for the fiscal years ended August 31:

	Statements of Cash Flows		
	2014	2013	2012
Cash provided (used) by:			
Operating activities	$ (116,819,299)	$ (98,040,156)	$ (98,917,463)
Non-capital financing activities	129,790,915	126,806,700	131,723,386
Capital and related financing activities	57,059,038	(2,387,111)	(6,068,632)
Investing activities	(33,355,670)	(33,453,178)	(7,930,260)
Net change in cash and cash equivalents	36,674,984	(7,073,745)	18,807,031
Cash and cash equivalents-September 1,	39,516,750	46,590,495	27,783,464
Cash and cash equivalents-August 31,	**$ 76,191,734**	**$ 39,516,750**	**$ 46,590,495**

Fiscal Year 2014 Compared To 2013

The Statements of Cash Flows indicates an overall increase in cash and cash equivalents of $36,674,984 at August 31, 2014 and an overall decrease in cash and cash equivalents of $7,073,745 at August 31, 2013.

Net cash used by operating activities increased by $18,779,143. The primary use of cash in operations was in payment of salaries and benefits, which increased by $3,491,281 from $86,954,708 in fiscal year 2013 to $90,445,989 in fiscal year 2014, followed by payments for scholarships and fellowships, which decreased by $925,064 from $28,616,017 in fiscal year 2013 to $27,690,953 in fiscal year 2014 and payments to suppliers for goods and services, which increased by $3,236,255, from $21,143,163 in fiscal year 2013 to $24,379,418 in fiscal year 2014. Sources of cash from operating activities are primarily from students and other customers, and grants and contracts. Students and other customers decreased by $11,878,841 from $29,163,637 in fiscal year 2013 to $17,284,796 in fiscal year 2014. Grants and contracts decreased by $720,302 from $14,529,542 in fiscal year 2013 to $13,809,240 in fiscal year 2014.

Net cash provided by non-capital financing activities increased by $2,984,215. Sources of cash from non-capital financing activities are primarily from non-operating federal revenue, state allocations and ad-valorem taxes for maintenance and operations. Non-operating federal revenue decreased by $1,799,345 from $57,151,307 in fiscal year 2013 to $55,351,962 in fiscal year 2014. State allocations increased by $2,681,146 from $35,902,578 in fiscal year 2013 to $38,583,724 in fiscal year 2014. Ad-valorem taxes for maintenance and operations had an increase of $663,236 from $33,535,414 in fiscal year 2013 to $34,198,650 in fiscal year 2014.

Net cash provided by capital and related financing activities increased by $59,446,149. Capital and related financing activities include proceeds on issuance of capital debt and ad-valorem taxes for debt service and payment of capital debt, both, principal and interest, as well as capital asset acquisitions. The major source of cash from capital and related financing activities is from proceeds on issuance of capital debt, which increased by $60,578,664 and ad-valorem taxes-debt services, which increased by $55,760 from $12,404,690 in fiscal year 2013 to $12,460,450 in fiscal year 2014. Capital asset acquisitions increased by $623,165 from $3,586,941 in fiscal year 2013 to $4,210,106 in fiscal year 2014. Payment of capital debt had an increase of $570,994 from $11,147,420 in fiscal year 2013 to $11,718,414 in fiscal year 2014.

Net cash used by investing activities decreased by $97,508. Investing activities include purchase of investments, proceeds from sale and maturity of investments, and receipts from interest on investments. Purchase of investments increased by $23,500,000 from $54,500,000 in fiscal year 2013 to $78,000,000 in fiscal year 2014. Proceeds from sale and maturity of investments increased by, $23,669,019 from $20,712,791 in fiscal year 2013 to $44,381,810 in fiscal year 2014. Receipts from interest on investments decreased by $71,511 from $334,031 in fiscal year 2013 to $262,520 in fiscal year 2014.

Fiscal Year 2013 Compared To 2012

The Statements of Cash Flows indicates an overall decrease in cash and cash equivalents of $7,073,745 at August 31, 2013 and an overall increase in cash and cash equivalents of $18,807,031 at August 31, 2012.

Net cash used by operating activities decreased by $877,307. The primary use of cash in operations was in payment of salaries and benefits, which increased by $5,116,267 from $81,838,441 in fiscal year 2012 to $86,954,708 in fiscal year 2013, followed by payments for scholarships and fellowships, which decreased by $3,329,285 from $31,945,302 in fiscal year 2012 to $28,616,017 in fiscal year 2013 and payments to suppliers for goods and services, which decreased by $1,413,177, from $22,556,340 in fiscal year 2012 to $21,143,163 in fiscal year 2013. Sources of cash from operating activities are primarily from students and other customers, and grants and contracts. Students and other customers increased by $6,403,730 from $22,759,907 in fiscal year 2012 to $29,163,637 in fiscal year 2013. Grants and contracts decreased by $1,628,288 from $16,157,830 in fiscal year 2012 to $14,529,542 in fiscal year 2013. A major change in net cash used was in payments for non-operating construction costs, which increased by $3,680,610 from $1,399,334 in fiscal year 2012 to $5,079,944 in fiscal year 2013.

Net cash provided by non-capital financing activities decreased by $4,916,686. Sources of cash from non-capital financing activities are primarily from non-operating federal revenue, state allocations and ad-valorem taxes for maintenance and operations. Non-operating federal revenue decreased by $4,798,829 from $61,950,136 in fiscal year 2012 to $57,151,307 in fiscal year 2013. State allocations increased by $1,802,088 from $34,100,490 in fiscal year 2012 to $35,902,578 in fiscal year 2013. Ad-valorem taxes for maintenance and operations had an increase of $51,248 from $33,484,166 in fiscal year 2012 to $33,535,414 in fiscal year 2013.

Net cash used by capital and related financing activities decreased by $3,681,521. Capital and related financing activities include receipts from ad-valorem taxes for debt service and payment of capital debt, both, principal and interest, as well as capital asset acquisitions. Capital asset acquisitions decreased by $3,644,021 from $7,230,962 in fiscal year 2012 to $3,586,941 in fiscal year 2013. Payment of capital debt had a decrease of $4,480 from $11,151,900 in fiscal year 2012 to $11,147,420 in fiscal year 2013. The major source of cash from capital and related financing activities is from ad-valorem taxes-debt services, which increased by $19,347 from $12,385,343 in fiscal year 2012 to $12,404,690 in fiscal year 2013.

Net cash used by investing activities increased by $25,522,918. Investing activities include purchase of investments, proceeds from sale and maturity of investments, and receipts from interest on investments. Purchase of investments increased by $40,500,000 from $14,000,000 in fiscal year 2012 to $54,500,000 in fiscal year 2013. Proceeds from sale and maturity of investments increased by, $15,058,875 from $5,653,916 in fiscal year 2012 to $20,712,791 in fiscal year 2013. Receipts from interest on investments decreased by, $81,793 from $415,824 in fiscal year 2012 to $334,031 in fiscal year 2013.

CAPITAL ASSET AND LONG-TERM DEBT ADMINISTRATION

The District had $267,406,372 in capital assets and $67,599,843 in accumulated depreciation at August 31, 2014.

	Capital Assets (Net of Depreciation)		
	2014	2013	2012
Land	$ 29,554,510	$ 29,554,510	$ 29,554,510
Collections	11,000	11,000	11,000
Construction in progress	538,533	575,433	2,189,607
Buildings	140,717,095	142,634,551	142,678,791
Land improvements	17,726,538	18,898,557	19,269,253
Library books	1,916,448	1,987,994	2,046,324
Furniture, machinery, vehicles, and other equipment	9,290,384	8,415,572	9,264,646
Telecommunications and peripheral equipment	52,021	38,697	74,974
Net capital assets	**$ 199,806,529**	**$ 202,116,314**	**$ 205,089,105**

The following is a graphic illustration of capital assets, net of depreciation at August 31, 2014, 2013 and 2012.

Fiscal Year 2014 Compared To 2013

From fiscal year 2013 to fiscal year 2014, buildings, net of depreciation, decreased by $1,917,456, construction in progress decreased by $36,900 and land improvements decreased by $1,172,019.

Fiscal Year 2013 Compared To 2012

From fiscal year 2012 to fiscal year 2013, buildings, net of depreciation, decreased by $44,240, construction in progress decreased by $1,614,174 and land improvements decreased by $370,696.

The bonds payable liability balances at August 31, 2014, 2013 and 2012 are as follows:

Outstanding Debt – Bonds

	2014	2013	2012
South Texas College Tax Bonds, Series 2003	$ -	$ -	$ 1,595,000
South Texas College Tax Bonds, Series 2004	-	-	8,190,000
South Texas College Tax Bonds, Series 2007 MTR	1,760,000	2,070,000	2,370,000
South Texas College Tax Bonds, Series 2007 LTR	21,559,991	21,844,991	22,119,991
South Texas College Tax Bonds, Series 2010 LTR	6,985,000	13,975,000	18,556,029
South Texas College Tax Bonds, Series 2013 LTR	4,780,000	6,495,000	-
South Texas College Tax Bonds, Series 2014 LT	53,750,000	-	-
Total Bonds Payable	**$ 88,834,991**	**$ 44,384,991**	**$ 52,831,020**

The District's bond ratings on the outstanding bonds are AA- by Standard & Poor's Ratings Services and Aa2 by Moody's Investors Service.

The bonds were issued to address the facility requirements of the District. The enrollment has increased over the years since the District's inception. Over the last five years, the unduplicated annual headcount enrollment has increased by 9%, from 36,169 in fiscal year 2010 to 39,417 in fiscal year 2014. During the same period, the total contact hour generation has increased 10%, from 10,973,760 contact hours in 2010 to 12,073,392 contact hours in 2014.

For additional information concerning capital assets and debt administration, see Notes No. 5, No. 6, No. 7, No. 8 and No. 9 in the Notes to the Financial Statements.

See Note No. 26 in the Notes to Financial Statements for contractual commitments for capital expenditures at August 31, 2014. In fiscal years 1997 through 2014, the District has set aside a total of $89,750,000 for construction of facilities and a total of $29,713,236 for deferred maintenance purposes. The amounts set aside are funded from current year revenue and net position.

The District is authorized to issue, per Education Code Section 130.122, $0.50 per $100 valuation of taxable property for bonded debt. The District's debt tax rate in fiscal year 2014 was $0.0400 per $100 valuation of taxable property.

ECONOMIC OUTLOOK

The District is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the coming fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

The District's overall financial position is strong. Increases in tuition and fee revenues and conservative spending practices have contributed to the District's ability to realize an increase in net position.

REQUEST FOR INFORMATION

This financial report is intended to provide a general overview of South Texas College District's finances. Requests for additional financial information may be addressed to South Texas College District, Business Office, P.O. Box 9701, McAllen, Texas 78502-9701.

South Texas College District **Exhibit 1**

Statements of Net Position

August 31, 2014 and 2013

	FY 2014	FY 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 52,670,153	$ 34,750,068
Restricted cash and cash equivalents	11,902,904	4,766,682
Short-term investments	109,261,906	126,540,622
Accounts receivable (net of allowance for doubtful accounts of $5,810,957 in 2014 and $5,137,044 in 2013)	12,536,219	13,377,129
Deposits in escrow	146,884	146,884
Prepaid expenses	724,653	1,108,163
Total Current Assets	**187,242,719**	**180,689,548**
Noncurrent Assets:		
Restricted cash and cash equivalents	11,618,677	-
Endowment investments	5,590	5,590
Restricted short-term investments	55,345,735	4,448,829
Deferred bond issuance costs (net of related amortization of $459,584 in 2014 and $72,681 in 2013)	28,078	487,662
Capital assets, net (note 5)	199,806,529	202,116,314
Total Noncurrent Assets	**266,804,609**	**207,058,395**
Total Assets	**454,047,328**	**387,747,943**
Deferred Outflows of Resources:		
Deferred amount on debt refundings	1,293,307	1,581,885
Total Deferred Outflows of Resources	**1,293,307**	**1,581,885**
Total Assets & Deferred Outflows of Resources	**$ 455,340,635**	**$ 389,329,828**
LIABILITIES		
Current Liabilities:		
Accounts payable	2,817,327	3,847,621
Accrued liabilities	1,539,853	1,421,074
Accrued compensable absences - current portion	639,686	551,119
Funds held for others	403,976	309,175
Unearned revenue	14,503,234	20,038,190
Bonds payable - current portion	8,912,810	9,839,914
Total Current Liabilities	**28,816,886**	**36,007,093**
Noncurrent Liabilities:		
Accrued compensable absences	77,169	64,711
Bonds payable, net	88,905,069	37,409,771
Total Noncurrent Liabilities	**88,982,238**	**37,474,482**
Total Liabilities	**117,799,124**	**73,481,575**
NET POSITION		
Net investment in capital assets	169,028,494	162,064,429
Restricted for:		
Expendable		
Student aid	2,097,439	1,670,849
Instructional programs	734,312	919,646
Institutional activities	457,171	462,280
Loans	1,048,022	977,483
Debt service	17,635,362	16,294,897
Non-expendable		
Endowment	339,445	339,444
Unrestricted	146,201,266	133,119,225
Total Net Position (Schedule D)	**337,541,511**	**315,848,253**
Total Liabilities & Net Position	**$ 455,340,635**	**$ 389,329,828**

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

South Texas College District **Exhibit 2**

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended August 31, 2014 and 2013

	FY 2014	FY 2013
OPERATING REVENUES		
Tuition and fees (net of discounts of $58,099,649 in 2014 and $56,202,456 in 2013)	$ 20,488,244	$ 21,051,377
Federal grants and contracts	4,723,984	4,630,302
State grants and contracts	4,441,747	5,160,704
Local grants and contracts	1,105,675	1,270,376
Non-governmental grants and contracts	3,488,088	3,113,960
Auxiliary enterprises	1,835,353	1,810,240
General operating revenues	645,811	621,264
Total Operating Revenues (Schedule A)	**36,728,902**	**37,658,223**
OPERATING EXPENSES		
Educational and general		
Instruction	59,447,106	57,766,578
Research	-	4,516
Public service	829,711	903,735
Academic support	13,980,994	12,775,912
Student services	10,403,814	10,090,241
Institutional support	19,813,087	21,108,957
Operations and maintenance of plant	12,563,250	9,486,934
Scholarships and fellowships	27,692,817	28,724,249
Auxiliary enterprises	1,388,716	1,383,521
Depreciation	6,731,486	6,589,876
Total Operating Expenses (Schedule B)	**152,850,981**	**148,834,519**
OPERATING LOSS	**(116,122,079)**	**(111,176,296)**
NON-OPERATING REVENUES (EXPENSES)		
State allocations	42,766,020	38,977,829
Ad-valorem taxes		
Taxes for maintenance and operations	33,983,319	32,403,363
Taxes for debt service	12,291,870	12,030,232
Federal revenue, non-operating	55,351,962	57,151,307
Gifts	323,100	351,843
Investment income (net of investment expenses)	214,915	389,519
Interest on capital related debt	(1,340,664)	(1,513,884)
Gain (loss) on disposal of capital assets	(10,154)	(217)
Non-capital construction costs	(1,715,994)	(849,455)
Bond costs amortization	(1,326,043)	(566,261)
Other non-operating revenues (expenses)	(172,844)	(290,477)
Net Non-Operating Revenues (Expenses) (Schedule C)	**140,365,487**	**138,083,799**
Income Before Contributions and Extraordinary Item	**24,243,408**	**26,907,503**
Capital contributions	105,190	83,298
Extraordinary item	(2,655,340)	(4,230,489)
Increase In Net Position	**21,693,258**	**22,760,312**
NET POSITION		
Net Position-Beginning of Year	315,848,253	293,087,941
Net Position-End of Year	**$ 337,541,511**	**$ 315,848,253**

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

South Texas College District **Exhibit 3**

Statements of Cash Flows

For the Years Ended August 31, 2014 and 2013

	FY 2014	FY 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from students and other customers	$ 17,284,796	$ 29,163,637
Receipts from grants and contracts	13,809,240	14,529,542
Payments to suppliers for goods or services	(24,379,418)	(21,143,163)
Payments to or on behalf of employees	(90,445,989)	(86,954,708)
Payments for scholarships and fellowships	(27,690,953)	(28,616,017)
Payments for loans issued to students	(1,186,665)	(798,106)
Receipts from collection of loans to students	1,066,812	659,887
Other receipts	533,767	454,928
Payments for non-operating construction costs	(5,633,854)	(5,079,944)
Payments for non-operating transactions	(177,035)	(256,212)
Net cash used by operating activities	**(116,819,299)**	**(98,040,156)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from state allocations	38,583,724	35,902,578
Receipts from ad-valorem taxes-maintenance and operation	34,198,650	33,535,414
Receipts from non-operating federal revenue	55,351,962	57,151,307
Payments for collection of taxes for maintenance and operation	(117,856)	(119,240)
Receipts from gifts or grants for other than capital purposes	281,003	296,344
Receipts from student organizations and other agency transactions	2,695,230	1,981,358
Payments to student organizations and other agency transactions	(2,500,544)	(1,941,989)
Receipts from endowment interest	386	928
Proceeds from insurance claims	1,298,360	-
Net cash provided by non-capital financing activities	**129,790,915**	**126,806,700**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds on issuance of capital debt	60,578,664	-
Refund of overpayment of issuance cost bond	782	-
Receipts from ad-valorem taxes-debt services	12,460,450	12,404,690
Payments for collection of taxes for debt service	(62,338)	(67,440)
Contribution received in aid of construction	10,000	10,000
Purchases of capital assets	(4,210,106)	(3,586,941)
Payments on capital debt-principal	(9,300,000)	(8,376,028)
Payments on capital debt-interest and fees	(1,839,750)	(2,771,392)
Bond issue costs paid on new capital debt issue	(578,664)	-
Net cash provided (used) by capital and related financing activities	**57,059,038**	**(2,387,111)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturity of investments	44,381,810	20,712,791
Receipts from interest on investments	262,520	334,031
Purchase of investments	(78,000,000)	(54,500,000)
Net cash used by investing activities	**(33,355,670)**	**(33,453,178)**
Increase (decrease) in cash and cash equivalents	**36,674,984**	**(7,073,745)**
Cash and cash equivalents-September 1,	39,516,750	46,590,495
Cash and cash equivalents-August 31,	**$ 76,191,734**	**$ 39,516,750**

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

(Continued)

South Texas College District **Exhibit 3**
Statements of Cash Flows
For the Years Ended August 31, 2014 and 2013

	FY 2014	FY 2013
Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	$ (116,122,079)	$ (111,176,296)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation expense	6,731,486	6,589,876
Payments made directly by state for benefits	4,182,296	3,075,251
Payments for non-operating construction costs	(5,633,854)	(5,079,944)
Payments for non-operating transactions	(177,035)	(256,212)
Changes in assets and liabilities:		
Receivables, net	602,628	341,905
Prepaid expenses	383,510	(534,144)
Accounts payable	(1,194,934)	1,632,809
Accrued liabilities	(93,093)	1,024,107
Compensable absences	101,025	27,299
Deferred revenues	(5,599,249)	6,315,193
Net cash used by operating activities	**$ (116,819,299)**	**$ (98,040,156)**

Non-cash investing, capital, and financing activities for fiscal year 2014:

In June 2014, a Diesel Engine (Paccar MX10) in the amount of $40,392 was donated to the Diesel Technology Department.

Library books donated to the District during the fiscal year amounted to $3,215.

During the fiscal year, General Motors donated the following vehicles to the Automotive Technology Department for a total of $28,083: 2008 Buick Enclave $ 8,500, 2014 Cadillac ATS $5,500, 2007 Saturn Outlook $8,500, and 2014 Chevrolet Malibu $5,583.

An Acuson 128 XP/10 Ultrasound Equipment and a Siemens Acuson Ultrasound Unit with 4 Transducers for instructional use were donated to the Radiology Technology Program during the fiscal year in the amounts of $7,000 and $6,500, respectively.

During the fiscal year, a 15 Ton Roof Top Package Unit in the amount of $10,000 was donated to the HVACR Department.

In-kind contributions provided by vendors for the Valley Scholars Program during the fiscal year amounted to $34,597.

Bond discount and premiums are amortized over the debt repayment period for the following bond series.

Premium - MTR Bond Series 2007	1,666
Premium - LTR Bond Series 2007	204,458
Premium - LTR Bond Series 2010	248,625
Premium - LTR Bond Series 2013	85,164
Premium - LT Bond Series 2014	(6,658,107)

The deferred loss ending balance as of August 31, 2014 is $39,391, $385,261, $788,756, and $79,899 for MTR Bond Series 2007, LTR Bond Series 2007, LTR Bond Series 2010 and LTR Bond Series 2013, respectively, which will be amortized over the debt repayment period.

The bond issuance costs are amortized over the debt repayment period for the following bond series.

MTR Bond Series 2007	20,613
LTR Bond Series 2007	144,273
Bond Series 2010	179,203
Bond Series 2013	115,495

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

South Texas College District **Exhibit 3**
Statements of Cash Flows
For the Years Ended August 31, 2014 and 2013

Pledge contributions as of August 31, 2014, consisted of $30,620 non-cash and $18,500 cash.

Payments made directly by the state for benefits as of August 31, 2014, consisted of $4,182,296.

Non-cash investing, capital, and financing activities for fiscal year 2013:

Three Dell Force 10 Network Switch were donated to the District with a fair value of $59,804 in September 2012.

Library books donated to the District during the fiscal year amounted to $1,440.

Firefighter gear and truck donated to the District during the fiscal year amounuted to $7,053 and $5,000, respectively.

In-kind contributions provided by vendors for the Valley Scholars Program during the fiscal year amounted to $44,736.

On June 12, 2013 a $6,630,000 Limited Tax Refunding Bonds, Series 2013 was issued to refund a portion of the District's $6,700,000 of Limited Tax General Obligation Bonds, Series 2004, which resulted in $70,000 non-cash.

Bond discount and premiums are amortized over the debt repayment period for the following bond series.

Premium - Bond Series 2003	53,644
Premium - Bond Series 2002 & 2003 I&S	316
Premium - Bond Series 2004	705,975
Premium - MTR Bond Series 2007	1,666
Premium - LTR Bond Series 2007	204,458
Premium - LTR Bond Series 2010	248,625
Premium - LTR Bond Series 2013	(340,657)

The deferred loss ending balance as of August 31, 2013, is $42,270, $481,576, $946,507, and $106,532 for MTR Bond Series 2007, LTR Bond Series 2007, and LTR Bond Series 2010 and LTR Bond Series 2013, respectively, which will be amortized over the debt repayment period.

The bond issuance costs are amortized over the debt repayment period for the following bond series.

Bond Series 2003	20,608
Bond Series 2004	99,902
MTR Bond Series 2007	3,972
LTR Bond Series 2007	33,827
Bond Series 2010	29,867
Bond Series 2013	(115,495)

Pledge contributions as of August 31, 2013, consisted of $27,671 non-cash and $11,000 cash.

Payments made directly by the state for benefits as of August 31, 2013, consisted of $3,075,251.

Note 1 – Reporting Entity

South Texas College District ("STC", "the District") was established on June 1, 1993, in accordance with the laws of the State of Texas, to serve the educational needs of Hidalgo and Starr Counties and the surrounding communities. South Texas College District is considered to be a special-purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the District 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.

Note 2 – Summary of Significant Accounting Policies

A. Reporting Guidelines

The significant accounting policies followed by South Texas College District in preparing these financial statements are in accordance with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community Colleges* and in accordance with U.S. Generally Accepted Accounting Principles, as established by the Governmental Accounting Standards Board (GASB). The District applies all applicable GASB pronouncements. The District is reported as a special-purpose government engaged in business-type activities (BTA).

Selected separate financial statements are provided, as required by the Texas Higher Education Coordinating Board (THECB), even though the latter are excluded from the government-wide financial statements. The District adheres to the financial statement presentation required by the THECB.

B. Nature of Operations

South Texas College District is a political subdivision of the State of Texas located in Hidalgo and Starr Counties, Texas. The District offers academic, general occupational, developmental and continuing adult education programs through a network of locations. The District is governed by a seven member Board of Trustees who serve staggered six-year terms with elections held in May of each even-numbered year.

C. 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 Section 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 dispersed directly to the student, the amount is recorded as a scholarship expense.

Title IV, Higher Education Act Program (HEA) Funds
Certain Title IV HEA Program funds are received by the District to pass through to the student. These

Note 2 – Summary of Significant Accounting Policies (Continued)

C. Tuition Discounting (Continued)

funds are initially received by the District and recorded as revenue. When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

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

D. Basis of Accounting, Measurement Focus & Financial Statement Presentation

The financial statements of South Texas College District have been prepared on the accrual basis, whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay. The District's financial statements are prepared using the economic resources measurement focus. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

E. Operating and Non-Operating Revenue and Expense Policy

The District distinguishes operating revenues and expenses from non-operating items. The District reports as a BTA and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. As business-type activities, the District's operating revenues are defined as the result of exchange transactions with those who purchase, use or directly benefit from the goods or services of the District. The principal operating revenues are tuition and related fees, net of discounts. The District also recognizes as operating revenue federal, state and local grants, non-governmental grants and contracts, auxiliary enterprises and other operating revenues. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. Non-operating revenues include activities that have the characteristic of non-exchange transactions, such as gifts and contributions, property tax and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, such as investment income. The major non-operating revenues are allocations from the state, including restricted revenues such as state insurance and benefit allocations, property tax collections and Title IV funds. Transactions for which cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are reported as non-operating revenues or non-operating expenses. The operation of the bookstore is not performed by the District.

Note 2 – Summary of Significant Accounting Policies (Continued)

F. 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 District's Board of Trustees adopts the budget, for internal management use at the individual fund and account group level on which the books of the District are maintained, and it 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, the Legislative Budget Board, the Legislative Reference Library and the Governor's Office of Budget and Planning by December 1.

G. Elimination of Internal Activity

The internal activity and balances reflected in the internal use only fund financial statements are eliminated in the preparation of the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position, to avoid the inappropriate "grossing-up" effects that internal activity would otherwise have on aggregated amounts.

H. Cash and Cash Equivalents

The District'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.

I. Restricted Cash and Cash Equivalents and Investments

Restricted cash and cash equivalents and investments reserved for payment of restricted current liabilities are included as current assets. Cash and cash equivalents and investments that are externally restricted as to their use are classified as noncurrent assets in the Statements of Net Position. This category includes cash and investment balances restricted to make debt service payments, maintain sinking or reserve funds, or purchase or construct capital or other noncurrent assets, or that are restricted by donors.

J. 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 greater than three months but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

K. Inventories

Inventories consist of consumable office supplies, physical plant supplies and food service supplies. Inventories are valued at cost under the "first-in, first-out" method and are charged to expenses as consumed.

Note 2 – Summary of Significant Accounting Policies (Continued)

L. Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are valued at their estimated fair value at the date of donation. South Texas College District capitalization policy includes real and personal property with a unit cost equal to or greater than $5,000 and an estimated useful life in excess of one year. Renovations of $100,000 or more to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred. Library books and materials purchased, in total for the year, are subject to the $5,000 capitalization threshold.

The District reports depreciation under a single-line item as a business-type activity. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following useful lives are used:

Buildings	50 years
Facilities and land improvements	20 years
Library books and materials	15 years
Furniture, machinery, vehicles and equipment	10 years
Telecommunications and peripheral equipment	5 years

Residual values of 10% are maintained for facilities and land improvements and buildings.

M. Collections/Works of Art

The District's capitalization policy includes works of art, historical treasures and similar assets with a $5,000 threshold whether they are held as individual items or in a collection. Collections are not depreciated as they are deemed to have permanent value.

N. Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are only permitted to report deferred outflows in circumstances specifically authorized by the GASB. A typical deferred outflow for community colleges is a deferred charge on refunding debt.

O. Unearned Revenues

Tuition and fees of $14,073,913 and $19,403,380 and federal, state, local, and private grants of $429,321 and $634,810 have been reported as unearned revenues at August 31, 2014, and 2013, respectively. Total unearned revenues were $14,503,234 and $20,038,190 at August 31, 2014, and 2013, respectively.

Note 2 – Summary of Significant Accounting Policies (Continued)

P. Noncurrent Liabilities

Noncurrent liabilities include (1) principal amount of bonds payable, notes payable and capital lease obligations with contractual maturities greater than one year, (2) other liabilities that will not be paid within the next fiscal year and (3) other liabilities that, although payable within a year, are to be paid from funds that are classified as noncurrent assets.

Q. Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Governments are only permitted to report deferred inflows in circumstances specifically authorized by the GASB.

R. Estimates

The preparation of the financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

S. Net Position

The District's net position is classified as follows:

Net investment in capital assets: This represents the District's total investment in capital assets, net of outstanding debt obligations and accumulated depreciation related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net position–expendable: Restricted expendable net position includes resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted net position–non-expendable: Restricted non-expendable net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, sales and services of educational departments and auxiliary enterprises which are substantially self-supporting activities that provide services for students, faculty and staff.

Note 2 – Summary of Significant Accounting Policies (Continued)

S. Net Position (Continued)

These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose. When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources.

T. Capitalization of Interest

Interest cost during the construction period is capitalized in accordance with GASB Statement No. 62. The District's policy is to capitalize interest cost as a component of construction in progress upon completion of capital assets. As of August 31, 2014, the District incurred $2,051,622 in interest cost expense. As of August 31, 2013, the District incurred $2,270,369 in interest cost expense and $10,508 was capitalized.

U. Bond Discounts/Premiums

Bond discounts/premiums and issuance costs are deferred and amortized over the term of the bond. Bond discounts/premiums are presented as a reduction/addition of the face amount of bonds payable, whereas issuance costs for insurance premiums are recorded as deferred charges.

V. Gain or Loss on Retirement of Debt

The gain or loss on the early retirement of debt is deferred and amortized over the shorter of (1) the remaining amortization period that was used in the original refunding or (2) the life of the newly issued debt. This deferred amount is reported as a deduction from the new debt liability on the statement of net position.

W. Characterization of Title IV Grant Revenues

In response to guidance provided by the Government Accounting Standards Board (GASB) as question/answer 7.72.10 in the Implementation Guide, beginning fiscal year 2009, the Texas Higher Education Coordinating Board required colleges to reclassify the revenue received for federal Title IV grant programs (i.e. Pell grants) from operating revenue to non-operating revenue.

X. Designation of Unrestricted Net Position

In fiscal year 2014, the District's Board of Trustees designated a total of $15,000,000 of the unrestricted net position. The designation includes $7,500,000 for infrastructure maintenance and renewal of the District's Enterprise Resource Planning system, $4,000,000 for the deferred maintenance of facilities, and a reserve of $3,500,000 for the District's business continuity and disaster plan. In fiscal year 2013, the District's Board of Trustees designated $2,000,000 of the unrestricted net position for the purpose of supplementing future employee health insurance costs. In fiscal year 2011 and fiscal year 2012, the District's Board of Trustees had designated $5,000,000 and

Note 2 – Summary of Significant Accounting Policies (Continued)

X. Designation of Unrestricted Net Position (Continued)

$2,500,000, respectively, for the same purpose. As a result, the District has designated $24,500,000 of the unrestricted net position at August 31, 2014.

Y. Prior-Year Reclassifications

A reclassification in the Statements of Net Position was necessary in the assets section to segregate cash and cash equivalents and short-term investments into their properly titled category of restricted cash and cash equivalents and restricted short-term investments and their classified format of current assets and noncurrent assets. A reclassification was necessary in the liabilities section to segregate deferred amount on debt refundings into its proper classified format of deferred outflows of resources.

A reclassification in the Statements of Revenues, Expenses, and Changes in Net Position was necessary to segregate non-capital construction costs into its proper titled category of extraordinary item.

Note 3 – Authorized Investments

The District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas, or its agencies and instrumentalities, (3) obligations of political subdivisions rated not less than "A" by a national investment rating firm, (4) certificates of deposit, (5) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission, (6) no-load mutual funds registered with the Securities and Exchange Commission, (7) eligible investment pools organized and operating in compliance with the Public Funds Investment Act and continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service, (8) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, (9) other obligations, the principal and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the FDIC or by the explicit full faith and credit of the United States, and (10) other instruments and obligations authorized by statute.

Note 4 – Cash, Cash Equivalents and Investments

The Public Funds Investment Act allows funds belonging to South Texas College District to be invested. District policy delegates this authority to three investment officers. It is the policy of the District to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all state and local statutes governing the investment of public funds, using the "prudent person"

Note 4 – Cash, Cash Equivalents and Investments (Continued)

standard for managing the overall portfolio. The primary objectives of the policy are preservation of capital, safety of District funds, and maintenance of sufficient liquidity, maximization of return within acceptable risk constraints and diversification of investments. At August 31, 2014, and 2013, the carrying amount of South Texas College's District bank deposits and investments was $240,804,965 and $170,511,791, respectively. Federal Deposit Insurance Corporation (FDIC) coverage of $250,000 served as collateral for interest checking accounts and $250,000 served as collateral for certificate of deposits. In addition, the collateral held by the depository bank in South Texas College's District name had a fair value of $264,000,000 and $188,000,000 for the years ended August 31, 2014, and 2013, respectively. The District is subject to collateral credit risk in the event of the bank's nonperformance of collateral requirements under the collateral agreement.

Cash and cash equivalents reported on Exhibit 1, Statements of Net Position, consist of the items reported below:

	August 31, 2014	August 31, 2013
Demand deposits	$ 76,182,784	$ 39,507,800
Change funds on hand	8,950	8,950
Total Cash and Cash Equivalents	**$ 76,191,734**	**$ 39,516,750**

Total deposits and investments at August 31, 2014, and 2013, are as follows:

Reconciliation of Cash and Cash Equivalents and Investments to Statements of Net Position

Type of Security	Fair Value August 31, 2014	Fair Value August 31, 2013
Certificates of deposit	$ 164,607,641	$ 130,989,451
Endowment investment	5,590	5,590
Total Investments	164,613,231	130,995,041
Total Cash and Cash Equivalents	76,191,734	39,516,750
Total Cash and Cash Equivalents and Investments	**$ 240,804,965**	**$ 170,511,791**
Exhibit 1		
Cash and cash equivalents	$ 52,670,153	$ 34,750,068
Restricted cash and cash equivalents-current	11,902,904	4,766,682
Short-term investments-current	109,261,906	126,540,622
Restricted cash and cash equivalents-noncurrent	11,618,677	-
Endowment investment	5,590	5,590
Restricted short-term investments	55,345,735	4,448,829
Total Reconciliation to Exhibit 1	**$ 240,804,965**	**$ 170,511,791**

Note 4 – Cash, Cash Equivalents and Investments (Continued)

Endowment investment consists of a donated coin collection.

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

Investment Type	Fair Value	Weight Average Maturity (Years)
Certificates of Deposit	$ 164,607,641	0.4721

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

Investment Type	Fair Value	Weight Average Maturity (Years)
Certificates of Deposit	$ 130,989,451	0.5620

Interest Rate Risk–In accordance with its Investment Policy, the District limits its exposure to interest rate risk by investing in securities whose maturities will not exceed the anticipated cash flow requirements for the funds and limits the weighted average maturity of its investment portfolio to 270 days or less with a maximum allowable maturity of two years for any one investment. The investment maturities of Unexpended Plant Funds and of Funds for Retirement of Indebtedness are generally limited to the anticipated cash flow requirements of the funds.

Credit Risk–In accordance with State law and the District's Investment Policy, investments in no-load mutual funds registered with the SEC must be continuously rated not less than AAA or its equivalent, eligible investment pools must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service and obligations, including letters of credit, of the United States or its agencies and instrumentalities, direct obligations of the State of Texas, obligations of states, agencies, counties, cities and other political subdivisions of any State must be rated not less than "A" or its equivalent. Certificates of deposit must be guaranteed or insured by the FDIC or its successors or the National Credit Union Share Insurance Fund or its successor, secured by obligations described above, or secured in any other manner provided by law and governed by a depository agreement. All of the District's investments are in the form of certificates of deposit, which at August 31, 2014 were collateralized by a letter of credit and were FDIC insured.

Concentration of Credit Risk–The District's Investment Policy seeks to minimize its concentration of credit risk by establishing the following maximum percentages of investment types for the total District investment portfolio: U.S. Treasury Bills/Notes/Bonds 100%; U.S. Agencies and Instrumentalities 100%; States, Counties, Cities, and Other 25%; Certificates of Deposit 100%; Money Market Mutual Funds 25%; and Eligible Investment Pools 50%. At August 31, 2014, 100% of the District's investment portfolio is in certificates of deposit.

Note 5 – Capital Assets

Capital assets activity for the year ended August 31, 2014, was as follows:

	Balance September 1, 2013	Increases	Decreases	Balance August 31, 2014
Not Depreciated:				
Land	$ 29,554,510	$ -	$ -	$ 29,554,510
Collections	11,000	-	-	11,000
Construction in progress	575,433	1,166,855	1,203,755	538,533
Subtotal	30,140,943	1,166,855	1,203,755	30,104,043
Buildings and Other Capital Assets:				
Buildings	169,828,785	1,187,836	-	171,016,621
Land improvements	25,755,131	15,919	-	25,771,050
Total Buildings and Other Land Improvements	195,583,916	1,203,755	-	196,787,671
Library books	5,339,028	237,214	-	5,576,242
Furniture, machinery, vehicles, and other equipment	22,216,613	3,003,861	206,101	25,014,373
Telecommunications and peripheral equipment	10,392,711	23,925	492,593	9,924,043
Total Buildings and Other Capital Assets	233,532,268	4,468,755	698,694	237,302,329
Accumulated Depreciation:				
Buildings	27,194,234	3,105,292	-	30,299,526
Land improvements	6,856,574	1,187,938	-	8,044,512
Library books	3,351,034	308,760	-	3,659,794
Furniture, machinery, vehicles, and other equipment	13,801,041	2,118,895	195,947	15,723,989
Telecommunications and peripheral equipment	10,354,014	10,601	492,593	9,872,022
Total Accumulated Depreciation	61,556,897	6,731,486	688,540	67,599,843
Net Buildings and Other Capital Assets	171,975,371	(2,262,731)	10,154	169,702,486
Total Capital Assets, Net	**$ 202,116,314**	**$ (1,095,876)**	**$ 1,213,909**	**$ 199,806,529**
Net Buildings and Other Capital Assets-Detail				
Buildings	$ 142,634,551	$ (1,917,456)	$ -	$ 140,717,095
Land improvements	18,898,557	(1,172,019)	-	17,726,538
Library books	1,987,994	(71,546)	-	1,916,448
Furniture, machinery, vehicles, and other equipment	8,415,572	884,966	10,154	9,290,384
Telecommunications and peripheral equipment	38,697	13,324	-	52,021
Total Net Buildings and Other Capital Assets	**$ 171,975,371**	**$ (2,262,731)**	**$ 10,154**	**$ 169,702,486**

Note 5 – Capital Assets (Continued)

In addition to the $11,000 art work/collection, which is capitalized but not depreciated (see Note 2M-Collections/Works of Art), the District has other art work/collections that it does not capitalize in the amount of $65,618. These collections adhere to the District's policy which are (a) held for public exhibitions, education or research in furtherance of public service, rather than financial gain, (b) protected, kept unencumbered, cared for and preserved and (c) require the proceeds from sales of collection items to be used to acquire other items for collections, may be charged to operations at time of purchase rather than capitalized.

Construction in progress as of August 31, 2014, including capitalized interest of $488, consists of the following:

Project	Balance September 1, 2013	Additions / Deductions	Completed	Balance August 31, 2014
Pecan DMARC Relocation	$ 2,455	$ (2,455)	$ -	$ -
Pecan Annex Grant/Accountability Improvements	-	19,793	-	19,793
Pecan Student Services Admission Office Improvements	-	48,260	-	48,260
Pecan Plaza Police Department Renovation	28,247	954,394	937,835	44,806
Pecan Plaza Cashier/Continuing Education Renovation	-	98,596	-	98,596
Nursing Allied Health Parking Lot Expansion	-	43,240	-	43,240
Technology Welding Lab Expansion	17,274	110,502	127,776	-
Mid Valley Parking Expansion	20,452	(17,021)	3,431	-
Mid Valley Art Lab Improvements	352	(352)	-	-
Mid Valley North Academic Building Science Labs	122,225	-	122,225	-
Starr Parking Lot Light and South Drive	-	107,403	-	107,403
Bond 2014 Pecan Campus	-	53,276	-	53,276
Bond 2014 Nursing Allied Health Campus	-	24,664	-	24,664
Bo nd 2014 Technology Campus		16,030	-	16,030
Bond 2014 Mid Valley Campus	-	32,048	-	32,048
Bond 2014 Starr Campus	-	24,149	-	24,149
Bond 2014 Regional Center for Public Safety Excellence	-	4,182	-	4,182
Bond 2014 La Joya Jimmy Carter Teaching Site	-	1,513	-	1,513
Pecan Hail Damage Repairs	196,571	(196,571)	-	-
Pecan Building M, N, and L Repainting Purple areas	-	7,459		7,459
Pecan Plaza Resurface Parking Lot & Replace Lighting	19,753	(19,753)	-	-
Technology Cooling Tower Replacement/Improvements	-	13,114		13,114
Mid Valley Resurface Parking Lot	153,154	(153,154)	-	-
Starr HVAC Chiller Replacement	14,950	(2,462)	12,488	-
Total	**$ 575,433**	**$ 1,166,855**	**1,203,755**	**538,533**

Note 5 – Capital Assets (Continued)

For comparison purposes, capital assets activity for the year ended August 31, 2013, was as follows:

	Balance September 1, 2012	Increases	Decreases	Balance August 31, 2013
Not Depreciated:				
Land	$ 29,554,510	$ -	$ -	$ 29,554,510
Collections	11,000	-	-	11,000
Construction in progress	2,189,607	2,178,128	3,792,302	575,433
Subtotal	31,755,117	2,178,128	3,792,302	30,140,943
Buildings and Other Capital Assets:				
Buildings	166,819,821	3,008,964	-	169,828,785
Land improvements	24,971,794	783,337	-	25,755,131
Total Buildings and Other Land Improvements	191,791,615	3,792,301	-	195,583,916
Library books	5,090,599	248,429	-	5,339,028
Furniture, machinery, vehicles, and other equipment	20,950,594	1,348,106	82,087	22,216,613
Telecommunications and peripheral equipment	10,401,975	-	9,264	10,392,711
Total Buildings and Other Capital Assets	228,234,783	5,388,836	91,351	233,532,268
Accumulated Depreciation:				
Buildings	24,141,030	3,053,204	-	27,194,234
Land improvements	5,702,541	1,154,033	-	6,856,574
Library books	3,044,275	306,759	-	3,351,034
Furniture, machinery, vehicles, and other equipment	11,685,948	2,196,963	81,870	13,801,041
Telecommunications and peripheral equipment	10,327,001	36,277	9,264	10,354,014
Total Accumulated Depreciation	54,900,795	6,747,236	91,134	61,556,897
Net Buildings and Other Capital Assets	173,333,988	(1,358,400)	217	171,975,371
Total Capital Assets, Net	**$ 205,089,105**	**$ 819,728**	**$ 3,792,519**	**$ 202,116,314**
Net Buildings and Other Capital Assets-Detail				
Buildings	$ 142,678,791	$ (44,240)	$ -	$ 142,634,551
Land improvements	19,269,253	(370,696)	-	18,898,557
Library books	2,046,324	(58,330)	-	1,987,994
Furniture, machinery, vehicles, and other equipment	9,264,646	(848,857)	217	8,415,572
Telecommunications and peripheral equipment	74,974	(36,277)	-	38,697
Total Net Buildings and Other Capital Assets	**$ 173,333,988**	**$ (1,358,400)**	**$ 217**	**$ 171,975,371**

Note 5 – Capital Assets (Continued)

In addition to the $11,000 art work/collection, which is capitalized but not depreciated (see Note 2N-Collections/Works of Art), the District has other art work/collections that it does not capitalize in the amount of $58,365. These collections adhere to the District's policy which are (a) held for public exhibitions, education or research in furtherance of public service, rather than financial gain, (b) protected, kept unencumbered, cared for and preserved and (c) require the proceeds from sales of collection items to be used to acquire other items for collections, may be charged to operations at time of purchase rather than capitalized.

Construction in progress as of August 31, 2013, including capitalized interest of $9,686, consists of the following:

Project	Balance September 1, 2012	Additions / Deductions	Completed	Balance August 31, 2013
Pecan West Academic Building	$ -	$ (66,253)	(66,253)	-
Pecan Building G Fume Hoods	103,708	5,605	109,313	-
Pecan DMARC Relocation	3,150	(695)	-	2,455
Pecan South Academic Building Science Labs	-	100,288	100,288	
Tech Southwest Building Renovation	44,990	196,488	241,478	-
Tech Southwest Building	1,593,429	-	1,593,429	-
Tech Welding Lab Expansion	-	17,274	-	17,274
Mid Valley Building G Science Lab Improvements	347,141	1,593	348,734	-
Mid Valley Parking Expansion	53,317	434,519	467,384	20,452
Mid Valley Art Lab Improvements	-	352	-	352
Mid Valley North Academic Building Science Labs	-	122,225	-	122,225
Pecan Plaza Police Department Renovation	-	28,247	-	28,247
Pecan Plaza Re-roofing	19,246	662,729	681,975	-
Pecan Plaza Resurface Parking & Replace Lighting	-	19,753	-	19,753
Hail Damage Repairs	-	196,571	-	196,571
MV Resurface Parking Lot	-	153,154	-	153,154
Starr HVAC Chiller Replacement	24,626	306,278	315,954	14,950
Total	**$ 2,189,607**	**$ 2,178,128**	**3,792,302**	**575,433**

Note 6 – Long Term Liabilities

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

	Balance September 1, 2013	Additions	Reductions	Balance August 31, 2014	Current Portion
Bonds					
South Texas College District Tax Bonds, Series 2007 MTR	$ 2,070,000	$ -	$ 310,000	$ 1,760,000	$ 325,000
South Texas College District Tax Bonds, Series 2007 LTR	21,844,991	-	285,000	21,559,991	4,324,991
South Texas College District Tax Bonds, Series 2010 LTR	13,975,000	-	6,990,000	6,985,000	1,835,000
South Texas College District Tax Bonds, Series 2013 LTR	6,495,000	-	1,715,000	4,780,000	1,555,000
South Texas College District Tax Bonds, Series 2014 LT	-	53,750,000	-	53,750,000	-
Subtotal	44,384,991	53,750,000	9,300,000	88,834,991	8,039,991
Accrued Compensable Absences	615,830	136,341	35,316	716,855	639,686
Total Liabilities	**$ 45,000,821**	**$ 53,886,341**	**$ 9,335,316**	**$ 89,551,846**	**$ 8,679,677**
Bonds Detail					
Total Bonds Payable	44,384,991	53,750,000	9,300,000	88,834,991	8,039,991
Premium on Bonds Payable	2,864,694	6,828,664	710,470	8,982,888	872,819
Total Bonds Payable	**$ 47,249,685**	**$ 60,578,664**	**$ 10,010,470**	**$ 97,817,879**	**$ 8,912,810**
Less Current Bonds Payable				(8,912,810)	
Total Noncurrent Bonds Payable				**$ 88,905,069**	
Deferred Amount on Debt Refundings	**(1,581,885)**	**-**	**(288,578)**	**(1,293,307)**	**(288,578)**

Note 6 - Long Term Liabilities (Continued)

Unamortized bond discount/premium, bond issue costs and deferred loss for the year ended August 31, 2014, on the above bond issues are as follows:

	Deferred Bond Issuance Cost	Bond Premium	Deferred Loss
South Texas College District Tax Bonds, Series 2007 MTR	$ 3,219	$ 8,330	$ 39,391
South Texas College District Tax Bonds, Series 2007 LTR	24,859	817,834	385,261
South Texas College District Tax Bonds, Series 2010 LTR	-	1,243,124	788,756
South Texas College District Tax Bonds, Series 2013 LTR	-	255,493	79,899
South Texas College District Tax Bonds, Series 2014 LT	-	6,658,107	-
Total	**$ 28,078**	**$ 8,982,888**	**$ 1,293,307**

Arbitrage

IRS rules governing arbitrage are designed to minimize arbitrage benefits by investing the proceeds of tax-exempt bonds in higher interest rate investments. Any excess earnings resulting from arbitrage must be rebated to the federal government. The District calculates arbitrage at the end of each five-year period that bonds are outstanding and at maturity. At August 31, 2014, the District did not have a liability.

Note 6 – Long Term Liabilities (Continued)

For comparison purposes, the long-term liabilities activity for the year ended August 31, 2013, was as follows:

	Balance September 1, 2012	Additions	Reductions	Balance August 31, 2013	Current Portion
Bonds					
South Texas College District Tax Bonds, Series 2003	$ 1,595,000	$ -	$ 1,595,000	$ -	$ -
South Texas College District Tax Bonds, Series 2004	8,190,000	-	8,190,000	-	-
South Texas College District Tax Bonds, Series 2007 MTR	2,370,000	-	300,000	2,070,000	310,000
South Texas College District Tax Bonds, Series 2007 LTR	22,119,991	-	275,000	21,844,991	285,000
South Texas College District Tax Bonds, Series 2010 LTR	18,556,029	-	4,581,029	13,975,000	6,990,000
South Texas College District Tax Bonds, Series 2013 LTR	-	6,630,000	135,000	6,495,000	1,715,000
Subtotal	52,831,020	6,630,000	15,076,029	44,384,991	9,300,000
Accrued Compensable Absences	588,531	86,194	58,895	615,830	551,119
Total Liabilities	**$ 53,419,551**	**$ 6,716,194**	**$ 15,134,924**	**$ 45,000,821**	**$ 9,851,119**
Bonds Detail					
Total Bonds Payable	52,831,020	6,630,000	15,076,029	44,384,991	9,300,000
Premium on Bonds Payable	3,738,721	359,323	1,233,350	2,864,694	539,914
Total Bonds Payable	**$ 56,569,741**	**$ 6,989,323**	**$ 16,309,379**	**$ 47,249,685**	**$ 9,839,914**
Less Current Bonds Payable				(9,839,914)	
Total Noncurrent Bonds Payable				**$ 37,409,771**	
Deferred Amount on Debt Refundings	**(2,272,693)**	**(112,369)**	**(803,177)**	**(1,581,885)**	**(288,578)**

Note 6 – Long Term Liabilities (Continued)

Unamortized bond discount/premium, bond issue costs and deferred loss for the year ended August 31, 2013, on the above bond issues are as follows:

	Deferred Bond Issuance Cost	Bond Premium	Deferred Loss
South Texas College District Tax Bonds, Series 2007 MTR	$ 23,832	$ 9,996	$ 47,270
South Texas College District Tax Bonds, Series 2007 LTR	169,132	1,022,292	481,576
South Texas College District Tax Bonds, Series 2010 LTR	179,203	1,491,749	946,507
South Texas College District Tax Bonds, Series 2013 LTR	115,495	340,657	106,532
Total	**$ 487,662**	**$ 2,864,694**	**$ 1,581,885**

Arbitrage

IRS rules governing arbitrage are designed to minimize arbitrage benefits by investing the proceeds of tax-exempt bonds in higher interest rate investments. Any excess earnings resulting from arbitrage must be rebated to the federal government. The District calculates arbitrage at the end of each five-year period that bonds are outstanding and at maturity. At August 31, 2013, the District did not have a liability.

Note 7 – Debt and Lease Obligations and Rental Agreements

As of August 31, 2014, bonds payable are due in annual installments varying from $325,000 to $6,380,000 with interest rates from 2.0% to 5.6% and the final installment due in 2034. The principal and interest expense requirements for the next five years and beyond are summarized below for bonds issued:

	General Obligation Bond		
Fiscal Year	Principal	Interest	Total
2015	$ 8,039,991	$ 6,861,191	$ 14,901,182
2016	8,590,000	3,939,650	12,529,650
2017	8,885,000	3,561,050	12,446,050
2018	8,820,000	3,153,000	11,973,000
2019	3,025,000	2,715,650	5,740,650
2020-2024	13,180,000	11,615,000	24,795,000
2025-2029	16,820,000	7,973,750	24,793,750
2030-2034	21,475,000	3,326,250	24,801,250
Total	**$ 88,834,991**	**$ 43,145,541**	**$ 131,980,532**

For comparison purposes, as of August 31, 2013, bonds payable were due in annual installments varying from $135,000 to $6,990,000 with interest rates from 2.0% to 5.6% and the final installment due in 2019. The principal and interest expense requirements for the next five years and beyond are summarized below for bonds issued:

	General Obligation Bond		
Fiscal Year	Principal	Interest	Total
2014	$ 9,300,000	$ 1,839,750	$ 11,139,750
2015	8,039,991	2,912,059	10,952,050
2016	8,590,000	1,252,150	9,842,150
2017	8,885,000	873,550	9,758,550
2018	8,820,000	465,500	9,285,500
2019	750,000	28,150	778,150
Total	**$ 44,384,991**	**$ 7,371,159**	**$ 51,756,150**

Included in current expenditures are the following amounts of facility rental paid or due:

Fund Group	August 31, 2014	August 31, 2013
Unrestricted Current Funds	$ 445,009	$ 544,868

Note 7 – Debt and Lease Obligations and Rental Agreements (Continued)

The District leases postage and copier equipment under non-cancelable operating leases. The future minimum lease rental payments under these leases having an initial term in excess of one year are as follows:

Year Ended	August 31, 2014 Minimum Future Lease Payments	August 31, 2013 Minimum Future Lease Payments
2014	$ -	$ 69,307
2015	119,241	55,244
2016	118,876	53,991
2017	78,913	29,001
2019	23,892	9,923
Total	**$ 340,922**	**$ 217,466**

During fiscal year 2014, the District leased office space at the Mid Valley Campus and Starr County Campus to nonprofit agencies. In fiscal year 2014, the District's rental income from these leases was $65,089. Annual future minimum receipts under these agreements for fiscal year 2015 are $55,021. No future receipts are expected for fiscal years 2016 and 2017.

Note 8 – Bonds Payable

General information related to bonds payable and balances at August 31, are summarized below:

	2014	2013
$2,985,000 South Texas College District Maintenance Tax Refunding Bonds, Series 2007 due in varying installments through 2019, interest at 4.0%.		
Purpose: To current refund a portion of the District's maintenance tax debt, in order to lower the overall annual debt service requirements of the District, and to pay for the costs of issuance of the bonds.		
Issued: March 29, 2007.		
Source of revenue for debt service: Ad-valorem taxes	$ 1,760,000	$ 2,070,000

Note 8 – Bonds Payable (Continued)

	2014	2013
$23,589,991 South Texas College District Limited Tax Refunding Bonds, Series 2007 due in varying installments through 2018, interest at 4.0%-5.0%. Purpose: To advance refund a portion of the District's outstanding debt, in order to lower the overall annual debt service requirements of the District, and to pay for the cost of issuance of the bonds. Issued: March 29, 2007 Source of revenue for debt service: Ad-valorem taxes	21,559,991	21,844,991
$19,550,011 South Texas College District Limited Tax Refunding Bonds, Series 2010 due in varying installments through 2019, interest at 3.0%-5.6%. Purpose: To advance refund a portion of the District's outstanding debt, in order to lower the overall annual debt service requirements of the District, and to pay for the cost of issuance of the bonds. Issued: November 18, 2010 Source of revenue for debt service: Ad-valorem taxes	6,985,000	13,975,000
$6,630,000 South Texas College District Limited Tax Refunding Bonds, Series 2013 due in varying installments through 2017, interest at 2.0%-3.0%. Purpose: To advance refund a portion of the District's outstanding debt, in order to lower the overall annual debt service requirements of the District, and to pay for the cost of issuance of the bonds. Issued: June 12, 2013 Source of revenue for debt service: Ad-valorem taxes	4,780,000	6,495,000
$53,750,000 South Texas College District General Obligation Debt Limited Tax Bonds, Series 2014 due in varying installments through 2034, interest at 5.0%. Purpose: Construction and equipping of College buildings to accommodate increased student enrollment and to pay for cost of issuance of the bonds. Issued: February 26, 2014. Source of revenue for debt service: Ad-valorem taxes	53,750,000	-
Total Bonds Payable	**$ 88,834,991**	**$ 44,384,991**

Note 8 – Bonds Payable (Continued)

Bonds Payable are due in annual installments varying from $325,000 to $6,380,000 with interest rates from 2.0% to 5.6% with the final installment due in 2034.

Note 9 – Advance Refunding of Bonds

On June 12, 2013, South Texas College District approved the issuance of a Limited Tax Refunding Bonds, Series 2013 totaling $6,630,000 and is being issued to refund a portion of the District's outstanding debt South Texas College District Limited Tax General Obligation Bonds, Series 2004, in order to lower the overall debt service requirements of the District and to pay the cost associated with the issuance of the bonds. A total of $6,700,000 of Limited Tax General Obligation Bonds, Series 2004 was refunded. The amount outstanding at year end on the Limited Tax Refunding Bonds, Series 2013 was $6,495,000. The average interest rate of bonds refunded was 3.53% for Bonds Series 2004. In order to refund the bonds, the proceeds of the new bonds in the amount of $6,867,500 (after payments of $121,823 for underwriting fees, insurance, bond counsel fees, and other issuance costs) were deposited and held in an escrow fund by Bank of Texas. The refunding resulted in a reduction of the total debt service payments over the next four years by $595,530 and gave the District an economic gain of $570,035. The portion of post refunding Limited Tax General Obligation Bonds, Series 2004, were paid as of August 31, 2013. The accounting loss resulting from the advance refunding totaled $112,370. At August 31, 2013, the Limited Tax General Obligation Bonds, Series 2004 are considered fully defeased.

On November 18, 2010, South Texas College District approved the issuance of a Limited Tax Refunding Bonds, Series 2010 totaling $19,550,011 and is being issued to current interest bonds and capital appreciation bonds to advance refund a portion of the South Texas College District Limited Tax General Obligation Bonds, Series 2002 and South Texas College District Limited Tax General Obligation Bonds, Series 2003, in order to lower the overall debt service requirements of the District and to pay the cost associated with the issuance of the bonds. A total of $10,020,000 of Limited Tax General Obligation Bonds, Series 2002 and a total of $9,540,000 of Limited Tax General Obligation Bonds, Series 2003 totaling $19,560,000 were refunded. Outstanding on the Limited Tax Refunding Bonds, Series 2010 at year end was $13,975,000. The average interest rate of bonds refunded were 5.27% for Bonds Series 2002 and 4.61% for Bonds Series 2003. The portion of post refunding Limited Tax General Obligation Bonds, Series 2002, were paid as of August 31, 2012, and Limited Tax General Obligation Bonds, Series 2003, were paid as of August 31, 2013. At August 31, 2013, the Limited Tax General Obligation Bonds, Series 2002 and Limited Tax General Obligation Bonds, Series 2003 are considered fully defeased.

Note 10 – Employees' Retirement Plan

The State of Texas has joint contributory retirement plans for almost all its employees.

Teacher Retirement System of Texas-Defined Benefit Plan

Plan Description. South Texas College District contributes to the Teacher Retirement System of Texas (TRS), 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. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas State Legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

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% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2014, 2013, and 2012, and a state contribution rate of 6.8% for fiscal year 2014, 6.4% for fiscal year 2013, and 6.0% for fiscal year 2012. In certain instances the reporting district is required to make all or a portion of the state's 6.8% contribution for fiscal year 2014, 6.4% for fiscal year 2013, and 6.0% for fiscal year 2012. State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2014, 2013, and 2012 were $1,651,059, $1,280,428, and $1,194,351, respectively. The District paid additional state contributions for the years ended August 31, 2014, 2013, and 2012 in the amounts of $2,136,855, $3,500,138, and $318,568, respectively. Senate Bill (S.B) 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

Note 10 – Employees' Retirement Plan (Continued)

The total payroll of employees covered by TRS, associated District contributions and state contributions made on behalf of the District, and member contributions were as follows:

	August 31, 2014	August 31, 2013	August 31, 2012
Total payroll for TRS	$ 55,705,206	$ 51,811,943	$ 49,188,881
State contributions	$ 1,651,059	$ 1,280,428	$ 1,194,351
District contributions	2,136,855	3,500,138	318,568
Total Contributions-active	3,787,914	4,780,566	1,512,919
District contributions-retirees	32,241	26,760	31,468
Total Contributions	**$ 3,820,155**	**$ 4,807,326**	**$ 1,544,387**
Member Contributions	$ 3,566,961	$ 3,320,549	$ 3,175,434

Optional Retirement Plan-Defined Contribution Plan

Plan Description. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas Legislature. The percentages of participant salaries currently contributed by the state are 6.6% for fiscal year 2014, 6.0% for fiscal years 2013 and 2012. The percentages of participant salaries currently contributed by each participant are 6.65% for fiscal years 2014, 2013, and 2012, respectively. The District contributes 1.9% for fiscal year 2014, 2.5% for fiscal years 2013 and 2012 for employees who were participating in the optional retirement program prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. S.B. 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

The retirement expense to the state for the District was $398,495, $740,019, and $740,120, for the fiscal years ended August 31, 2014, 2013, and 2012, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the District.

The total payroll of employees covered by ORP, associated District contributions and state contributions made on behalf of the District, and member contributions were as follows:

Note 10 – Employees' Retirement Plan (Continued)

	August 31, 2014	August 31, 2013	August 31, 2012
Total payroll for ORP	$ 12,075,622	$ 12,333,625	$ 12,335,313
State contributions	$ 398,495	$ 740,019	$ 740,120
District contributions	444,511	59,838	66,236
Total Contributions	**$ 843,006**	**$ 799,857**	**$ 806,356**
Member Contributions	$ 826,227	$ 850,840	$ 856,796

The total payroll for all District employees was $74,608,758, $71,203,678, and $68,809,740 for fiscal years 2014, 2013, and 2012, respectively. The total payroll of employees covered by the Teacher Retirement System was $55,705,206, $51,811,943, and $49,181,881, and the total payroll of employees covered by the Optional Retirement Program was $12,075,622, $12,333,625, and $12,335,313, for fiscal years 2014, 2013, and 2012, respectively.

Note 11 – Deferred Compensation Program

District employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001.

As of August 31, 2014, the District has 87 employees participating in Section 403(b) Tax Sheltered Annuity (TSA) Program and 85 participated in 2013. A total of $392,796 and $329,237 in payroll deductions have been invested in approved 403(b) plans during the fiscal years 2014 and 2013, respectively.

As of August 31, 2014, the District has 73 employees participating in Section 457 Deferred Compensation Plan (DCP) and 84 participated in 2013. A total of $172,590 and $171,556 in payroll deductions have been invested in Section 457 Deferred Compensation Plan (DCP) during the fiscal years 2014 and 2013, respectively.

The deferred compensation program is not included in the basic financial statements because the program assets are assets of the plan participants and not of the District.

Note 12 – Compensable Absences

With the exception of faculty members who have appointments of less than 12 months, all full-time benefit eligible employees accrue vacation leave time at the rate of 8 hours per month. Less than full-time employees accrue vacation on a pro-rated basis.

Note 12 – Compensable Absences (Continued)

All hours of unused accumulated vacation leave, except as authorized by the Board of Trustees, must be used by March 1, following the fiscal year in which it was accumulated. Any vacation leave not used by that date is forfeited. A time extension may be requested from the District's President for extenuating circumstances. The Board has made an exception to these guidelines and the associated cost is included in the long-term portion. Full-time benefit eligible employees are expected to utilize accrued vacation leave prior to their separation from the District. However, the employee will be compensated for accrued vacation leave if the leave is not taken prior to separation.

	August 31, 2014	August 31, 2013
Compensable absences-beginning	$ 615,830	$ 588,531
Net additions and reductions	101,025	27,299
Total Compensable Absences	**$ 716,855**	**$ 615,830**
Current portion	$ 639,686	$ 551,119

Sick leave, which can be accumulated up to 720 hours, is earned at the rate of 8 hours per month. It is paid to an employee who misses work under the criteria of board-approved guidelines for sick leave. Sick leave does not vest, therefore no liability is recorded. Employees retiring under the Texas Retirement System (TRS) after September 1, 2001, may have the option to use accrued sick leave towards years of service credit under TRS rules.

Note 13 – Pending Lawsuits and Claims

A. *Litigation*

On August 31, 2014, various lawsuits and claims involving the District were pending. While the ultimate liability with respect to litigation and other claims asserted against the District 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 District.

B. *Federal and State Assisted Grant Programs*

The District participates in several federal and state assisted grant programs. Although the District's grant programs have been audited in accordance with the provisions of OMB Circular A-133 and the State of Texas Single Audit Circular through August 31, 2014, these programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures that may be disallowed by the grantor agencies cannot be determined at this time. The District expects such amounts, if any, to be immaterial.

Note 14 – Disaggregation of Receivable and Payable Balances

Receivables

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

	August 31, 2014	August 31, 2013
Student receivables-delinquent	$ 5,124,391	$ 5,004,057
Student receivables-other	66,088	155,549
Taxes receivables	11,228,544	11,205,036
Federal receivables	1,242,066	1,401,055
Interest receivables	6,573	54,565
Accounts receivables		
Bookstore and auxiliary	123,818	51,265
State, local and private	341,333	382,395
Pledges receivable	49,120	38,671
Agency	2,076	416
Other receivables	163,167	221,164
Subtotal	18,347,176	18,514,173
Allowance for doubtful accounts-student	(4,139,260)	(3,691,253)
Allowance for doubtful accounts-taxes	(1,671,697)	(1,445,791)
Total Receivables–Exhibit 1	**$ 12,536,219**	**$ 13,377,129**

Taxes receivables may not all be collected within one year.

Payables

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

	August 31, 2014		August 31, 2013	
	Accounts Payable	Accrued Liabilities	Accounts Payable	Accrued Liabilities
Vendor payable				
Vendors	$ 2,207,318	$ -	$ 3,315,488	$ -
Construction	336,913	-	29,558	-
Construction retainage	62,211	-	241,763	-
Salaries & benefits	-	1,247,992	-	1,341,085
Students payable	59,439	-	57,575	-
Accrued interest	-	291,861	-	79,989
Other Payables	151,446	-	203,237	-
Total Payables–Exhibit 1	**$ 2,817,327**	**$ 1,539,853**	**$ 3,847,621**	**$ 1,421,074**

Note 15 – Funds Held for Others

At August 31, 2014, and at August 31, 2013, the District held, in trust funds, amounts of $403,976 and $309,175, respectively that pertain primarily to student organizations. These funds are not available to support the District's programs.

Note 16–Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the American Institute of Certified Public Accountants. 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 award funds already committed (e.g. multi-year awards) or funds awarded during fiscal years ended 2014 and 2013, for which monies have not been received nor funds expended totaled $6,512,367 and $2,635,362, respectively.

These amounts are comprised of the following:

	August 31, 2014	August 31, 2013
Federal contracts and grant awards	$ 5,750,950	$ 1,936,232
State contracts and grant awards	761,417	615,475
Private contracts and grant awards	-	83,655
Total	**$ 6,512,367**	**$ 2,635,362**

Note 17 –Health Care and Life Insurance Benefits

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee was $503.14 per month for the year ended August 31, 2014 for United Health Select of Texas and $470.38 per month for the year ended August 31, 2013 for United Health Select of Texas. The state's contribution totaled $4,182,296 for fiscal year 2014 and $3,075,251 for fiscal year 2013.

The cost of providing those benefits for forty-one retirees in the year ended August 31, 2014, was $277,357 and for thirty-seven retirees in the year ended August 31, 2013, was $228,628. For 1,218 United Health Select of Texas active employees, the cost of providing benefits was $3,904,939 for the year ended August 31, 2014. Active employee benefits for 1,172 United Health Select of Texas active employees cost was $2,846,623 for the year ended August 31, 2013. S.B. 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

Note 17 –Health Care and Life Insurance Benefits (Continued)

The number of employees and retirees and associated District contributions and state contributions made on behalf of the District were as follows:

	August 31, 2014	August 31, 2013
Full time employees	1,218	1,172
Number of retirees	41	37
Active employee-state	$ 3,904,939	$ 2,846,623
Retiree-state	277,357	228,628
Total State Contributions	4,182,296	3,075,251
District contributions	5,205,833	5,398,075
Total Health Insurance Cost	**$ 9,388,129**	**$ 8,473,326**

Note 18 – Ad Valorem Tax

The District's ad valorem property taxes are levied each October 1, on the assessed value listed as of the lien date, which is the prior January 1, for all real and business personal property located in the District.

	August 31, 2014	August 31, 2013
Assessed valuation of the District	$ 39,073,962,437	$ 38,329,106,121
Less: Exemptions	(8,827,762,746)	(8,683,572,050)
Less: Abatements	-	-
Net Assessed Valuation of the District	**$ 30,246,199,691**	**$ 29,645,534,071**

	Fiscal Year 2014			Fiscal Year 2013		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Authorized tax rate per $100 valuation (maximum per enabling legislation)	$ 0.1100	$ 0.5000	$ 0.6100	$ 0.1100	$ 0.5000	$ 0.6100
Assessed tax rate per $100 valuation	$ 0.1100	$ 0.0400	$ 0.1500	$ 0.1100	$ 0.0407	$ 0.1507

Taxes levied for the year ended August 31, 2014, and 2013 amounted to $46,726,234 and $46,010,568, respectively, including any penalty and interest assessed. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

Note 18 – Ad Valorem Tax (Continued)

The Hidalgo County Tax Assessor-Collector and the Starr County Tax Assessor-Collector are the collecting agencies for the tax levy and remit the collections to the District, net of a collection fee.

	August 31, 2014			August 31, 2013		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current taxes collected	$ 31,198,100	$ 11,344,780	$ 42,542,880	$30,337,769	$11,224,976	$ 41,562,745
Delinquent taxes collected	1,871,485	694,540	2,566,025	1,918,510	712,450	2,630,960
Penalties & interest collected	1,203,463	443,800	1,647,263	1,208,040	450,702	1,658,742
Total Gross Collections	34,273,048	12,483,120	46,756,168	33,464,319	12,388,128	45,852,447
Tax Appraisal & Collection Fees	(589,947)	(62,668)	(652,615)	(619,787)	(62,668)	(682,455)
Bad Debt Expense	(127,388)	(98,518)	(225,906)	(905,623)	(267,255)	(1,172,878)
Total Net Collections	**$33,555,713**	**$ 12,321,934**	**$ 45,877,647**	**$ 31,938,909**	**$12,058,205**	**$43,997,114**

Tax collections for the year ended August 31, 2014, and 2013, were 94.37% and 93.71%, respectively, of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted for the use of maintenance and operations and/or general obligation debt service.

Note 19 – Income Taxes

The District is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.,* although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, Etc., Organizations*. The District had no unrelated business income tax liability for the year ended August 31, 2014 and 2013.

Note 20 – Related Parties

One member of the Board of Trustees is employed at the District's depository bank. Another member of the Board of Trustees provided professional services to the District's depository bank and other entities that conducted business with the District during fiscal year 2014.

Note 21 – Subsequent Events

On August 26, 2014, the Department of Education awarded the Developing Hispanic-Serving Institutions Grant (STC in Focus) to the District in the amount of $2,568,075. The award, with a performance period of October 1, 2014 through September 30, 2019, was accepted by the Board of Trustees at the September 23, 2014 Board meeting.

Note 22 – Postemployment Benefits Other than Pensions

This footnote is in accordance with GASB Statement 45.

Plan Description. 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. South Texas College District contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit postemployment healthcare plan administered by the 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 45.

Note 22 – Postemployment Benefits Other than Pensions (Continued)

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 30 years.

Beginning September 1, 2013, SB 1812 limited the state's contribution to 50% of eligible employees for community colleges.

The District's contributions to SRHP for the years ended August 31, 2014, 2013, and 2012, were $301,799, $245,562, and $198,862, respectively, which equaled the required contributions each year.

Note 23 – On-Behalf Payments

For the fiscal years ended August 31, 2014 and 2013, the District recorded state on-behalf contributions for the Teacher Retirement System of $1,730,579 and $1,280,428, respectively, contributions for the Optional Retirement Program of $398,495 and $740,019, respectively, and contributions for health insurance of $4,182,296 and $3,075,251, respectively. For fiscal year 2014, the TRS on-behalf contributions include $79,520 from fiscal year 2013. The state's total on-behalf contributions for the fiscal years ended August 31, 2014, and 2013 of $6,311,370 and $5,095,698, respectively, were recorded as revenues and expenses in the accompanying basic financial statements.

Note 24 – Auxiliary Operations

The District currently outsources its auxiliary bookstore operations to Barnes and Noble College Booksellers, Inc. The Dr. Ramiro R. Casso Nursing Allied Health campus cafeteria operations are outsourced to Domine Catering, LLP.

Note 25 – Risk Management

The District controls risk through participation in a governmental risk management pool, the purchase of insurance from commercial insurance providers, or a combination of both. Each year, the district solicits competitive proposals from insurance providers to cover various risks such as injuries to employees; natural disasters; theft, damage or destruction of assets; errors and omissions; and injuries to persons and property. Both governmental risk pools and commercial insurance companies may respond to the solicitation. The District evaluates responses for each type of insurance and awards to the respondent who affords the best value.

The more significant coverage's include $5,000,000 of general liability insurance for fiscal year 2014 and $1,0000,000 for fiscal year 2013, property insurance covering the District's buildings and properties including commercial inland marine in an aggregate amount of $227,609,407 and

Note 25 – Risk Management (Continued)

$219,708,986 for fiscal years 2014 and 2013 respectively, business income with extra expense coverage of $34,000,000 and $34,441,000 for fiscal year 2014 and 2013 respectively, and $5,000,000 in education legal and employment practices liability for fiscal years 2014 and 2013. Employees were covered by a fully insured health insurance plan. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 26 – Construction and Improvement Commitments

Construction and improvement commitments for August 31, 2014, were as follows:

Project	Contracted Amount	Spent to Date	Commitments
Pecan Campus	$ 9,321,730	$ 8,836,045	$ 485,685
Technology Campus	141,000	141,000	-
Nursing Allied Campus	110,918	110,918	-
Mid Valley Campus	574,273	574,273	-
Starr Campus	387,000	387,000	-
District Wide	465,369	465,369	-
Total	**$ 11,000,290**	**$ 10,514,605**	**$ 485,685**

At August 31, 2014, the District had $485,685 of remaining contractual commitments in construction and improvement projects.

Construction and improvement commitments for August 31, 2013, were as follows:

Project	Contracted Amount	Spent to Date	Commitments
Pecan Campus	$ 8,011,763	$ 4,855,867	$ 3,155,896
Technology Campus	467,193	361,193	106,000
Mid Valley Campus	1,050,862	995,114	55,748
Starr Campus	299,000	299,000	-
Total	**$ 9,828,818**	**$ 6,511,174**	**$ 3,317,644**

At August 31, 2013, the District had $3,317,644 of remaining contractual commitments in construction and improvement projects.

Note 27 – Deposits in Escrow

South Texas College District entered into the following infrastructure improvement escrow agreements with the City of McAllen. In fiscal year 2012, $13,677 was deposited into an escrow account for a sidewalk along Military Road at the Technology Campus. In fiscal year 2010, $6,406 was deposited into an escrow account for a sidewalk along Ivy Avenue at the Pecan Campus and $126,801 was deposited into an escrow account for the thirty foot portion of the Quince Avenue roadway dedication at the District's west 15 acre parking lot.

Note 28 – Endowments

The District is the recipient of six endowments. By District policy, the net appreciation is earmarked for student scholarships. The amount of net appreciation on investments that was available for spending was $381, $922 and $1,242, in fiscal years 2014, 2013, and 2012, respectively.

The endowments are presented in Restricted Non-Expendable Net Position.

The fund balances of the endowments were as follows:

Endowment	August 31, 2014	August 31, 2013
Alfredo De Los Santos Endowment	$ 15,100	$ 15,100
Futuro Brillante Endowment	200,100	200,100
Glen & Rita K. Roney Endowment	116,700	116,700
Martin Harvey Endowment	1,051	1,050
Roberto Gutierrez Sr. Endowment	904	904
Edwynne G. Cooper Endowment	5,590	5,590
Total Endowments	**$ 339,445**	**$ 339,444**

In fiscal year 2012, the District's Board of Trustees accepted the Mission Economic Development Authority (MEDA) Scholarship Fund Endowment. The MEDA deposited $3,151,875 into the MEDA Scholarship Fund Trust for the purpose of awarding and distributing scholarships to students of South Texas College District who reside in the City of Mission, Texas, and/or to establish educational facility(ies) within the City of Mission, Texas. Edward Jones Trust Company will serve as the initial sole trustee. South Texas College District, as the Trust's initial sole beneficiary, will receive, each fiscal year of the Trust, distributions not to exceed an amount equal to the greater of the following: 1) the net income of the Trust and 2) 5% of the fair market value of the undistributed income and corpus of the Trust as of the last day of the Trust's previous fiscal year. At August 31, 2014, the market value of the Trust was $3,743,186. The Trust made a distribution to the District in the amount of $185,937 in fiscal year 2014. At August 31, 2013, the market value of the Trust was $3,408,176. The Trust made a distribution to the District in the amount of $160,785 in fiscal year 2013. The funds are presented in Restricted Expendable Net Position.

Note 29 –Pledges of Gifts

The District records pledges of gifts when an unconditional promise to pay is received. At August 31, 2014, pledges receivable totaled $49,120, which consisted of non-cash gifts of $30,620 and $18,500 in cash gifts. At August 31, 2013, pledges receivable totaled $38,671, which consisted of non-cash gifts of $27,671 and $11,000 in cash gifts. All the pledges are expected to be received within the next fiscal year. Pledges receivable are recorded on the statement of financial position as assets net of allowance for uncollectible accounts.

Note 30 – Extraordinary Item

In fiscal year 2014, South Texas College District reported an extraordinary item in the amount of $1,262,519 for the insurance proceeds for hail damaged roofs and related equipment at the Pecan Campus, Technology Campus and Pecan Plaza located in McAllen that occurred in fiscal year 2012. The cost of repairs related to the extraordinary event was $3,917,859 and $4,230,489 for fiscal year 2014 and 2013, respectively.

Note 31 – Recent Accounting Pronouncements – Governmental Accounting Standards Board

GASB Statement No. 68

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27." The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. Management of the College is currently evaluating the effects of this Statement, which will become effective in fiscal year 2015.

Note 31 – Recent Accounting Pronouncements – Governmental Accounting Standards Board (Continued)

GASB Statement No. 71

The GASB has issued Statement No. 71, "Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68." The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

SOUTH TEXAS COLLEGE

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South Texas College District
Schedule of Operating Revenues
Year Ended August 31, 2014 (With Totals for the Year Ended August 31, 2013)

Schedule A

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	FY 2014 Total	FY 2013 Total
Tuition:						
State funded credit courses						
In-district resident tuition	$ 38,403,563	$ -	$ 38,403,563	$ -	$ 38,403,563	$ 38,767,086
Out-of-district resident tuition	1,055,403	-	1,055,403	-	1,055,403	1,071,957
Non-resident tuition	3,930,120	-	3,930,120	-	3,930,120	3,645,624
TPEG state (set aside) *	1,746,570	-	1,746,570	-	1,746,570	1,814,291
State funded continuing education	1,084,757	-	1,084,757	-	1,084,757	711,649
TPEG non-credit (set aside) *	69,240	-	69,240	-	69,240	45,424
State funded workforce development	429,437	-	429,437	-	429,437	499,135
TPEG non-credit (set aside) *	27,411	-	27,411	-	27,411	31,859
Non-state funded continuing education	815,954	-	815,954	-	815,954	786,413
TPEG non-credit (set aside) *	53,244	-	53,244	-	53,244	50,878
Non-state funded workforce development	116,537	-	116,537	-	116,537	192,575
TPEG non-credit (set aside) *	7,438	-	7,438	-	7,438	12,291
Total Tuition	**47,739,674**	**-**	**47,739,674**	**-**	**47,739,674**	**47,629,182**
Fees:						
Student registration fee	7,740,350	-	7,740,350	-	7,740,350	7,714,740
Laboratory fees	1,354,535	-	1,354,535	-	1,354,535	1,293,939
Incidental fees	21,753,334	-	21,753,334	-	21,753,334	20,615,972
Total Fees	**30,848,219**	**-**	**30,848,219**	**-**	**30,848,219**	**29,624,651**
Scholarship Allowances and Discounts:						
Remissions and exemptions	(21,762,139)	-	(21,762,139)	-	(21,762,139)	(19,380,034)
TPEG allowances	(1,519,770)	-	(1,519,770)	-	(1,519,770)	(1,461,625)
Local grants to students	(495,119)	-	(495,119)	-	(495,119)	(565,284)
Private grants to students	(385,124)	-	(385,124)	-	(385,124)	(371,865)
State grants to students	(2,076,663)	-	(2,076,663)	-	(2,076,663)	(2,277,177)
Federal grants to students	(31,860,834)	-	(31,860,834)	-	(31,860,834)	(32,146,471)
Total Scholarship Allowances and Discounts	**(58,099,649)**	**-**	**(58,099,649)**	**-**	**(58,099,649)**	**(56,202,456)**
Total Net Tuition and Fees	**20,488,244**	**-**	**20,488,244**	**-**	**20,488,244**	**21,051,377**
Additional Operating Revenues:						
Federal grants and contracts	201,559	4,522,425	4,723,984	-	4,723,984	4,630,302
State grants and contracts	14,419	4,427,328	4,441,747	-	4,441,747	5,160,704
Local grants and contracts	-	1,105,675	1,105,675	-	1,105,675	1,270,376
Non-governmental grants and contracts	2,564,771	923,317	3,488,088	-	3,488,088	3,113,960
General operating revenues	443,379	202,432	645,811	-	645,811	621,264
Total Additional Operating Revenues	**$ 3,224,128**	**$ 11,181,177**	**$ 14,405,305**	**$ -**	**$ 14,405,305**	**$ 14,796,606**

South Texas College District
Schedule of Operating Revenues
Year Ended August 31, 2014 (With Totals for the Year Ended August 31, 2013)

Schedule A

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	FY 2014 Total	FY 2013 Total
Auxiliary Enterprises:						
Bookstore	$ -	$ -	$ -	$ 549,395	$ 549,395	$ 526,825
Food service	-	-	-	703,081	703,081	765,095
Vending commissions	-	-	-	146,102	146,102	159,521
Copier commissions	-	-	-	18,720	18,720	20,978
Wellness center	-	-	-	32,412	32,412	37,299
Child care center	-	-	-	296,250	296,250	257,753
General conferences	-	-	-	79,803	79,803	39,192
Other	-	-	-	9,590	9,590	3,577
Total Auxiliary Enterprises	**-**	**-**	**-**	**1,835,353**	**1,835,353**	**1,810,240**
Total Operating Revenues	**$ 23,712,372**	**$ 11,181,177**	**$ 34,893,549**	**$ 1,835,353**	**$ 36,728,902**	**$ 37,658,223**
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.033, $1,903,903 and $1,954,743 of tuition was set aside for Texas Public Education Grants (TPEG) for the years ended 2014 and 2013, respectively.

South Texas College District **Schedule B**

Schedule of Operating Expenses by Object

Year Ended August 31, 2014 (With Totals for the Year Ended August 31, 2013)

	Operating Expenses					
	Salaries and Wages	Benefits State	Benefits Local	Other Expenses	FY 2014 Total	FY 2013 Total
Unrestricted-Educational Activities						
Instruction	$ 43,527,567	$ -	$ 7,050,489	$ 4,157,654	$ 54,735,710	$ 53,506,749
Public service	189,149	-	15,068	121,412	325,629	263,026
Academic support	7,434,536	-	1,310,915	2,150,166	10,895,617	9,549,716
Student services	6,608,201	-	1,252,026	1,325,680	9,185,907	9,117,706
Institutional support	9,149,011	-	1,790,870	7,734,318	18,674,199	19,711,880
Operation and maintenance of plant	4,717,996	-	1,539,423	6,291,487	12,548,906	9,463,217
Total Unrestricted Educational Activities	**71,626,460**	**-**	**12,958,791**	**21,780,717**	**106,365,968**	**101,612,294**
Restricted-Educational Activities						
Instruction	495,196	3,874,271	88,800	253,129	4,711,396	4,259,829
Research	-	-	-	-	-	4,516
Public service	298,972	-	51,436	153,674	504,082	640,709
Academic support	1,362,272	701,761	333,120	688,224	3,085,377	3,226,196
Student services	320,563	721,417	37,957	137,970	1,217,907	972,535
Institutional support	116,745	1,013,921	3,297	4,925	1,138,888	1,397,077
Operation and maintenance of plant	14,344	-	-	-	14,344	23,717
Scholarships and fellowships	-	-	-	27,692,817	27,692,817	28,724,249
Total Restricted Educational Activities	**2,608,092**	**6,311,370**	**514,610**	**28,930,739**	**38,364,811**	**39,248,828**
Total Educational Activities	**74,234,552**	**6,311,370**	**13,473,401**	**50,711,456**	**144,730,779**	**140,861,122**
Auxiliary Enterprises	**374,206**	**-**	**242,688**	**771,822**	**1,388,716**	**1,383,521**
Depreciation expense-buildings and other real estate improvements	-	-	-	4,981,770	4,981,770	4,141,012
Depreciation expense-books	-	-	-	308,760	308,760	306,759
Depreciation expense-equipment and furniture	-	-	-	1,440,956	1,440,956	2,142,105
Total Operating Expenses	**$ 74,608,758**	**$ 6,311,370**	**$ 13,716,089**	**$ 58,214,764**	**$ 152,850,981**	**$ 148,834,519**
					(Exhibit 2)	(Exhibit 2)

Schedule C

South Texas College District
Schedule of Non-Operating Revenues and Expenses
Year Ended August 31, 2014 (With Totals for the Year Ended August 31, 2013)

	Unrestricted	Restricted	Auxiliary Enterprises	FY 2014 Total	FY 2013 Total
NON-OPERATING REVENUES:					
State allocations:					
Education and general state support	$ 35,334,195	$ -	$ -	$ 35,334,195	$ 33,527,444
Education and general state support BAT	562,474	-	-	562,474	354,687
State group insurance	-	4,182,296	-	4,182,296	3,075,251
State retirement matching	-	2,129,074	-	2,129,074	2,020,447
Hazelwood reimbursement	93,414	-	-	93,414	-
Professional nursing shortage reduction	-	464,567	-	464,567	-
Total State Allocations	**35,990,083**	**6,775,937**	**-**	**42,766,020**	**38,977,829**
Ad-valorem taxes-maintenance and operations	33,983,319	-	-	33,983,319	32,403,363
Ad-valorem taxes-debt service	-	12,291,870	-	12,291,870	12,030,232
Federal revenue, non operating	-	55,351,962	-	55,351,962	57,151,307
Gifts	-	323,100	-	323,100	351,843
Investment income (net of investment expenses)	213,014	398	1,503	214,915	389,519
Other non-operating revenue	35,840	-	-	35,840	-
Total Non-Operating Revenues	**70,222,256**	**74,743,267**	**1,503**	**144,967,026**	**141,304,093**
NON-OPERATING EXPENSES:					
Interest on capital related debt	1,340,664	-	-	1,340,664	1,513,884
Loss on disposal of capital assets	10,154	-	-	10,154	217
Non-capital construction costs	1,715,994	-	-	1,715,994	849,455
Bond costs amortization	1,326,043	-	-	1,326,043	566,261
Other non-operating expenses	24,516	184,168	-	208,684	290,477
Total Non-Operating Expenses	**4,417,371**	**184,168**	**-**	**4,601,539**	**3,220,294**
Net Non-Operating Revenues	**$ 65,804,885**	**$ 74,559,099**	**$ 1,503**	**$ 140,365,487**	**$ 138,083,799**
				(Exhibit 2)	(Exhibit 2)

South Texas College District
Schedule of Net Position by Source and Availability
Year Ended August 31, 2014 (With Totals for the Year Ended August 31, 2013)

	Detail by Source				
		Restricted			
	Unrestricted	Expendable	Non-Expendable	Net Investment in Capital Assets	FY 2014 Total
Current:					
Unrestricted	$ 87,171,492	$ -	$ -	$ -	$ 87,171,492
Board designated	24,500,000	-	-	-	24,500,000
Restricted					
Student Aid	-	2,097,439	-	-	2,097,439
Instructional Programs	-	734,312	-	-	734,312
Institutional Activities	-	457,171	-	-	457,171
Auxiliary enterprises	2,608,047	-	-	-	2,608,047
Loan	-	1,048,022	-	-	1,048,022
Endowment:					
Quasi:					
Unrestricted	-	-	-	-	-
Restricted	-	-	-	-	-
Endowment					
True	-	-	339,445	-	339,445
Term (per instructions at maturity)	-	-	-	-	-
Life income contracts	-	-	-	-	-
Annuities	-	-	-	-	-
Plant:					
Unexpended	10,767,128	-	-	-	10,767,128
Renewals & replacements	21,154,599	-	-	-	21,154,599
Debt service	-	17,635,362	-	-	17,635,362
Investment in plant	-	-	-	169,028,494	169,028,494
Total Net Position, August 31, 2014	**146,201,266**	**21,972,306**	**339,445**	**169,028,494**	**337,541,511**
					(Exhibit 1)
Total Net Position, August 31, 2013	**133,119,225**	**20,325,155**	**339,444**	**162,064,429**	**315,848,253**
					(Exhibit 1)
Net Increase (Decrease) in Net Position	**$ 13,082,041**	**$ 1,647,151**	**$ 1**	**$ 6,964,065**	**$ 21,693,258**
					(Exhibit 2)

Note: The Unexpended Plant Fund is earmarked in the fiscal year 2014 board approved budget for construction projects. The Renewals & Replacements Plant Fund is earmarked in the fiscal year 2014 board approved budget for deferred maintenance projects.

Schedule D

Available for Current Operations	
Yes	No
$ 87,171,492	$ -
-	24,500,000
-	2,097,439
-	734,312
-	457,171
2,608,047	-
-	1,048,022
-	-
-	-
-	339,445
-	-
-	-
-	-
-	10,767,128
-	21,154,599
-	17,635,362
-	169,028,494
89,779,539	**247,761,972**
93,944,806	**221,903,447**
$ (4,165,267)	**$ 25,858,525**

South Texas College
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2014

Schedule E

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
U.S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster			
SEOG	84.007	594423	$ 567,933
Federal Work-Study Program	84.033		440,494
Federal Pell Grant Program	84.063		54,343,535
Childcare Access Means Parents In School	84.335		270,750
Pass-Through From:			
Texas Higher Education Coordinating Board			
Career and Technical Education-Basic Grants	84.048		1,308,257
Pharr San Juan Alamo School District			
Title 1 Grants to Local Educational Agencies	84.010		282,415
Sharyland ISD			
Title 1 Grants to Local Educational Agencies	84.010		2,098
McAllen ISD			
Title 1 Grants to Local Educational Agencies	84.010		27,326
Subtotal			311,839
Region One Education Service Center			
Migrant Education-State Grant Program	84.011		18,375
La Joya Independent School District			
Migrant Education-High School Equivalency Program	84.141		2,309
Texas A&M University			
Migrant Education-High School Equivalency Program	84.141		2,905
University Texas Pan-American Foundation			
Migrant Education-High School Equivalency Program	84.141		5,570
Subtotal			10,784
Hidalgo Independent School District			
Twenty-First Century Community Learning Centers	84.287		30,139
Pharr San Juan Alamo School District			
Twenty-First Century Community Learning Centers	84.287		11,232
Progresso Independent School District			
Twenty-First Century Community Learning Centers	84.287		28,866
Subtotal			70,237
University Texas Pan-American Foundation			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		2,775
Sharyland Independent School District			
Improving Teacher Quality State Grants	84.367		460
Total U.S. Department of Education			**57,345,439**
U.S Department of Agiculture			
Pass-Through From:			
Texas A & M University Kingsville			
Hispanic-Serving Institutions Education Grants	10.223	12-0109	67,264
U.S. Department of Defense			
Direct Programs:			
Military Spouse Career Advancement	12.000		4,075
Pass-Through From:			
University of Texas Pan American			
Basic, Applied and Advanced Research in Science and Engineering	12.630		34,269
Total U.S. Department of Defense			$ **38,344**

See Accompanying Notes to Schedule of Expenditures of Federal Awards

(Continued)

South Texas College
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2014

Schedule E

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
U.S. Department of Housing and Urban Development			
Direct Programs:			
Hispanic-Serving Institutions Assisting Communities	14.514		$ 6,437
U.S. Department of Labor			
Pass-Through From:			
Texas Workforce Commission			
Employment Service/Wagner-Peyser Funded Activities	17.207	2313WPB000	16,045
Employment Service/Wagner-Peyser Funded Activities	17.207	2314WPB000	274,606
Subtotal			290,651
Lower Rio Grande Valley Workforce			
WIA Cluster			
Workforce Investment Act - Adult Program	17.258		360,097
Workforce Investment Act - Adult Program	17.258	2313WSW000	(495)
Workforce Investment Act - Youth Activities	17.259		6,081
Workforce Investment Act - Dislocated Workers	17.260		200,143
Motivation Education & Training, Inc.			
Workforce Investment Act - Adult Program	17.258		470,313
Texas Higher Education Coordinating Board			
Workforce Investment Act - National Emergency Grant	17.277		76,241
Total U.S. Department of Labor			**1,403,031**
U.S. Department of Veterans' Affairs			
Direct Programs:			
Post 9/11 Veterans Educational Assistance, Recovery Act	64.027		763,284
Vocational and Educational Counseling for Servicemembers and Veterans	64.125		210,626
Total U.S. Department of Veterans' Affairs			**973,910**
U.S. Department of Health & Human Services			
Pass-Through From:			
Texas Workforce Commission			
Temporary Assistance for Needy Families	93.558	2313SSF000	23,934
Temporary Assistance for Needy Families	93.558	2314SSF000	86,671
Subtotal			110,605
South Texas Development Council			
Community Services Block Grant	93.569		240
Lower Rio Grande Valley Workforce			
Child Care and Development Block Grant	93.575		16,504
ARRA-Community Services Block Grant	93.710		12,292
Hidalgo County Headstart			
Head Start Program	93.600		(4)
Texas Migrant Council			
Head Start Program	93.600		27,115
Subtotal			27,111
Baylor College of Medicine			
Geriatric Education Center	93.969		20,125
Total U.S. Department of Health & Human Services			$ **186,877**

See Accompanying Notes to Schedule of Expenditures of Federal Awards

South Texas College
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2014

Schedule E

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures and Pass Through Disbursements
Corporation for National and Community Service			
Direct Programs:			
AmeriCorps - National Service Award	94.006		54,644
Total Federal Financial Assistance			$ **60,075,946**

Note 1: Federal Assistance Reconciliation

Federal Grants and Contracts Revenue - per Schedule A	4,522,425
Add: Indirect/Administrative Cost Recoveries - per Schedule A	201,559
Add: Non Operating Federal Revenue from Schedule C	55,351,962
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Position	$ 60,075,946

Note 2: Significant accounting policies used in preparing the schedule.

The expenditures included in the schedule are reported for the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds that have been expended by the District 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 District has followed all applicable guidelines issued by various entities in the preparation of the schedule.

South Texas College
Schedule of Expenditures of State Awards
For the Year Ended August 31, 2014

Schedule F

Grantor Agency/Program Title	Grant Contract Number	Total Expenditures
Texas Higher Education Coordinating Board		
Nursing Shortage Reduction > 70%		$ 145,427
Texas College Workstudy Program		143,857
TEXAS Grant I - Initial Year		1,443,685
TEXAS Grant I - Renewal Year		878,550
Texas Educational Opportunity Grant - Initial Year		390,960
Texas Educational Opportunity Grant - Renewal Year		179,520
Top 10% Scholarship Initial		10,500
Top 10% Scholarship Renewal		8,000
Work-Study Mentorship Program	11843	26,503
P-16 Adult Basic Education Innovation	7048	170,394
T-STEM Scholarship		237,500
Total Texas Higher Education Coordinating Board		**3,634,896**
City of Hidalgo		
Border Security Training Center		22,482
Department of Assistive and Rehabilitative Services		
Texas Rehabilitation Commission - Academic		15,690
Texas Rehabilitation Commission - Continuing Education		183,004
Total Department of Assistive and Rehabilitative Services		**198,694**
Hidalgo County		
Substance Abuse Treatment Facility		64
McAllen Independent School District		
College & Career Transitions Initiative	2013-006	144,915
Pharr San Juan Alamo Independent School District		
Texas Prefreshman Engineering Program		22,570
College Success		9,268
Total Pharr San Juan Alamo Independent School District		**31,838**
Roma Independent School District		
Texas Prefreshman Engineering Program		33,987
Texas Workforce Commission		
Skills for Small Business Program	2312SSD000	76
Skills Development Fund #18	2312SDF000	133,848
Skills Development Fund #19	2312SDF001	330,709
Fast Start Programs in Precision Manufacturing	2314GRF001	18,017
Total Texas Workforce Commission		**482,650**
University of Texas - Austin		
Texas Education Consortium for Male Students of Color	UTA14-000148	875
University of Texas - San Antonio		
Texprep UTSA		10,752
Texas Department of Agriculture		
Child And Adult Care Food Program		45,407

See Accompanying Notes to Schedule of Expenditures of State Awards

(Continued)

South Texas College
Schedule of Expenditures of State Awards
For the Year Ended August 31, 2014

Schedule F

Grantor Agency/Program Title	Grant Contract Number	Total Expenditures
Texas Association for the Education of Young Children		
T.E.A.C.H. Scholarship		$ 3,096
Total State Financial Assistance		$ **4,609,656**

Note 1: State Assistance Reconciliation

State Revenues - per Schedule A	4,427,328
Add: Indirect/Administrative Cost Recoveries - per Schedule A	14,419
Total State Revenues per Statement of Revenues, Expenses and Changes in Net Position	4,441,747
Reconciling Item:	
Add: Revenue classified as Non Operating	
Professional Nursing Shortage Reduction	145,427
Border Security Training Center	22,482
Total State Revenues per Schedule of Expenditures of State Awards	$ **4,609,656**

Note 2: Significant accounting policies used in preparing the schedule.

The expenditures included in the schedule are reported for the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds that have been expended by the District 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 District has followed all applicable guidelines issued by various entities in the preparation of the schedule.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

THE J. RAMIREZ LAW FIRM
Attorney at Law
Ebony Park, Suite B
700 N. Veterans Blvd.
San Juan, Texas 78589
Phone: (956) 502-5424
Fax: (956) 502-5007

[Closing Date]

SOUTH TEXAS COLLEGE
LIMITED TAX BONDS, SERIES 2015
IN THE AGGREGATE ORIGINAL PRINCIPAL
AMOUNT OF $88,725,000*

WE HAVE ACTED as Bond Counsel for the South Texas College District (the "District") in connection with the issuance of the captioned bonds (the "Bonds").

THE BONDS are being issued pursuant to an order (the "Order") to provide funds to be used for the construction and equipping of college buildings to accommodate increased student enrollment and to pay for costs of issuance of the Bonds.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes. In such capacity we have examined the Constitution and laws of the State of Texas, federal income tax law that we deem applicable, and a transcript of certain certified proceedings pertaining to the issuance of the Bonds as described in the Order. The transcript contains certified copies of certain proceedings of the District and certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. T-l and a specimen of Bonds to be authenticated and delivered in exchange for the Bonds.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, our opinion is as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; and the Bonds have been authorized and delivered in accordance with law and constitute valid

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* Preliminary, subject to change.

and legally binding obligations of the District in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases;

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, within legal limits as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and the interest on the Bonds.

It is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law. Interest on the Bonds, however, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a financial asset securitization investment trust, a Real Estate Investment Trust (REIT), or a Real Estate Mortgage Investment Conduit (REMIC). The opinion set forth in the first sentence of this paragraph is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Order to comply with each such requirement. Failure to comply with such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income credit, individuals who own an interest in a financial asset securitization investment trust, and taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. For the foregoing reasons, prospective purchasers should consult their own tax advisors as to the consequences of investing in the Bonds.

Very truly yours,