

# LONE STAR COLLEGE SYSTEM

Nationally recognized, globally connected, locally focused.



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended August 31, 2012

The Woodlands, Texas





COMPREHENSIVE ANNUAL FINANCIAL REPORT

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**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012**

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

**LONE STAR COLLEGE SYSTEM  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2012**

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To the Board of Trustees:

I am pleased to submit to the Lone Star College System (LSCS) Board of Trustees and the citizens of the LSCS service area our Comprehensive Annual Financial Report for the most recent fiscal year, September 1, 2011 through August 31, 2012.



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

We had 75,680 students enrolled in the fall of 2011 and have seen a 3% percent increase to 77,877 students in the fall of 2012. As our student body has continued to grow at a record pace, we remain firmly committed to student success. Most community colleges in Texas have seen a decline in their enrollment this year and we anticipate that LSCS will see a flattening in enrollment.

In keeping with our practice of prudent fiscal management, we have continuously incorporated accountability measures in our budget model. In Phase 3, implemented in 2011-12, we implemented a base budget for all colleges; added over 20 new

faculty positions to maintain our full-time to part-time faculty ratio; itemized funding for costs associated with new facilities; added additional funding for growth; made a mid-year adjustment based on estimated growth vs. actual growth; provided funds for enrollment growth; and added incentives for workforce programs. In Phase 4, to be implemented in 2012-13, we will base growth funding on full year in instead of fall semester only; pilot a program at LSC-North Harris to measure space utilization; provide funding for a mandated student success course; and include the System office in the mid-year adjustment for college growth estimates.

The next several years will prove challenging with anticipated continued reductions in state funding and flat enrollments. Our fiscal practices support our commitment to providing high quality education to our students at an affordable price without placing an undue burden on our taxpayers. Under the leadership of the LSCS Board of Trustees, we look forward to continuing to operate in a fiscally sound manner with focus on student success.

Sincerely,

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

Dr. Richard G. Carpenter  
Chancellor





December 6, 2012

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

Respectfully submitted for your review is the comprehensive annual financial report of the Lone Star College System (the "System") for the fiscal year ended August 31, 2012. The purpose of this report is to provide detailed information about the financial condition and performance of the System. Responsibility for the preparation and integrity of the financial report and fairness of the presentation rests with the management of the System.

### ***COMPREHENSIVE ANNUAL FINANCIAL REPORT***

The Lone Star College System's comprehensive annual financial report (CAFR) for the fiscal year ended August 31, 2012 was prepared by the Administration and Finance Department. The financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as established by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) and comply with the Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges as set forth by the Texas Higher Education Coordinating Board (THECB). The notes to the financial statements are considered an integral part of the financial statements and should be read in conjunction with them. Additionally, attention should be given to Management's Discussion and Analysis, which provides readers with a narrative introduction, overview and analysis of the financial statements.

### ***REPORTING ENTITY***

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

### ***SYSTEM PROFILE***

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

The original three school districts have been joined by eight others: New Caney in 1981, Tomball in 1982, Conroe in 1991, Willis and Splendora in 1996, Klein in 1998, and Cypress-Fairbanks and Magnolia in 2000. The number of students we serve has grown from the original 613 to more than 55,000 per semester. In 2007, the Board of Trustees voted to change the name of the college to Lone Star College System.

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

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

Effective January 1, 2012, Lone Star College-University Park, officially became a part of the System.

The System is governed by a nine member Board of Trustees who are elected to serve six year terms. The Chief Executive Officer of the System is the Chancellor. The Chancellor, through the Executive Council consisting of the Senior Vice Chancellor, vice chancellors, and college presidents, is responsible for management of the daily operations of the System.

**MISSION**

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



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

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

**ECONOMIC CONDITION AND OUTLOOK**

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

The System’s geographic area is comprised of portions of Harris and Montgomery Counties. Harris County is a major component of the Houston-Sugar Land-Baytown Metropolitan Statistical Area (MSA). Houston is the fourth largest city in the U.S. With an estimated 5.8 million residents in 2008, the Houston metro area is expected to increase 11.4% over the next five years to 6.5 million. On a more long-term basis, demographers project strong population growth for the area over the next thirty years.

### U.S. Comparative Population Growth Trends

	<u>1990-2000</u>	<u>2000-2013</u>
Houston	25.2%	37.0%
Texas	22.8%	27.1%
U.S.	13.2%	13.7%

Sources: U.S. Census Bureau, March 2008; SRC, LLC, February 2009; Greater Houston Partnership. Houston has 26 Fortune 500 companies headquartered locally, with many other companies maintaining U.S. administrative headquarters in the metro area. In 2008, Houston ranked second among U.S. cities with the most Fortune 500 headquarters, following New York.

### **LONG TERM FINANCIAL PLANNING**

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

- System Strategic Plan
- Facilities Master Plan
- Annual Budget

The System recently adopted its 2012-2015 strategic plan complete with outcome measures to move the System forward toward its goals of student success and achievement. The plan outlines ten major goals.

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

A new facilities master plan is currently under development to address the System's needs through 2018. It is anticipated the plan will be finalized in the spring of 2013.

The budget is funded primarily through student, state and tax revenues. A methodology was developed to reward colleges for positive impact activities over which they have influence, but not to penalize for activities over which they have no control.

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

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

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

## **ACCOUNTABILITY MEASURES**

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

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

## **INDEPENDENT AUDIT**

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

## **AWARDS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended August 31, 2011. This was the eighth consecutive year the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

## **ACKNOWLEDGEMENTS**

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

Respectfully submitted,



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

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Lone Star College System  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
August 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Christopher P. Morinell*

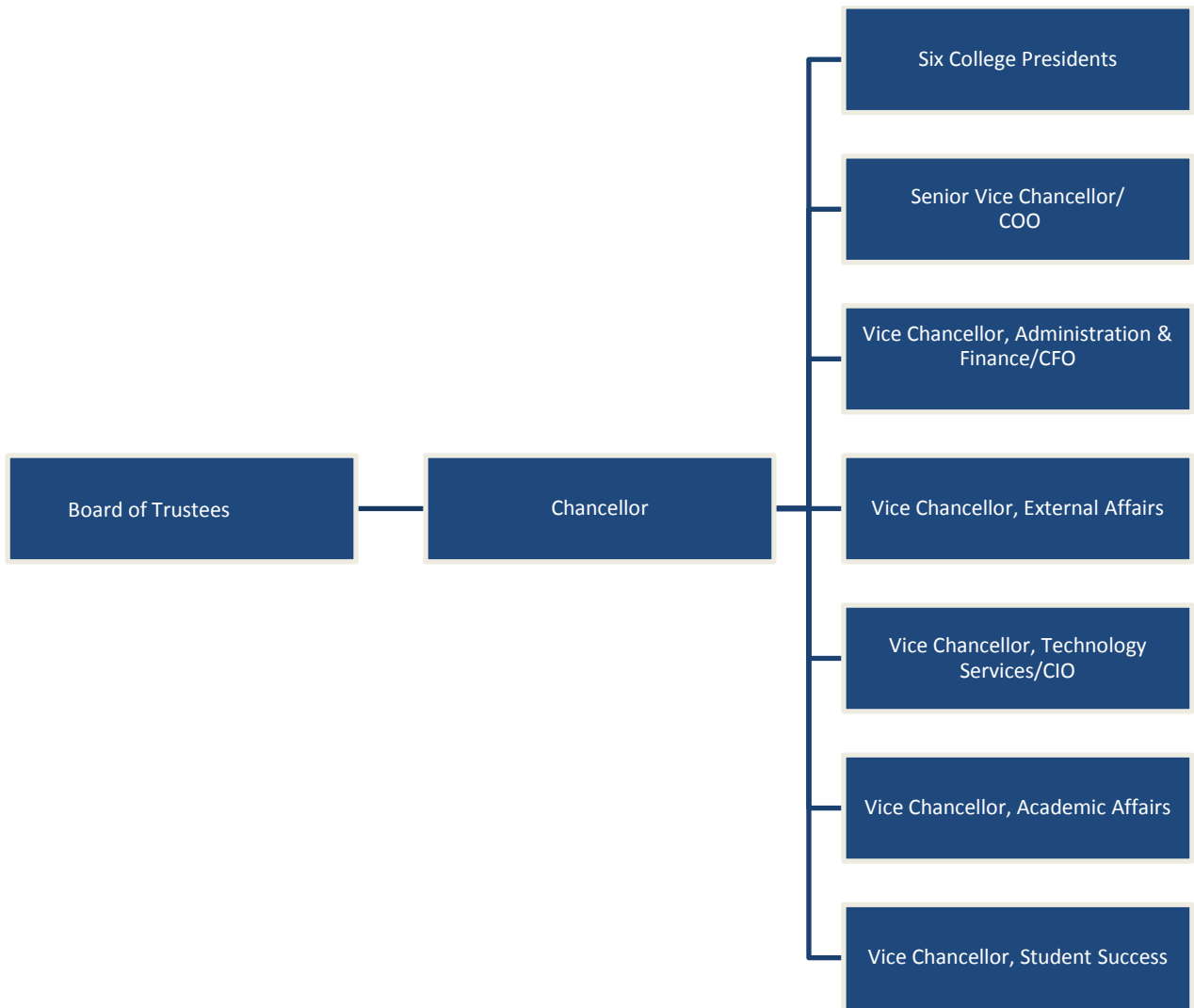
President

*Jeffrey R. Emer*

Executive Director



**LONE STAR COLLEGE SYSTEM  
ORGANIZATIONAL CHART**





**ORGANIZATIONAL DATA  
For the Fiscal Year 2012**

**Board of Trustees**

Term Expires May

Randy Bates, J.D.	Chair	2013
David Holsey, D.D.S.	Vice Chair	2013
Priscilla Kelly	Secretary	2015
David A. Vogt	Assistant Secretary	2017
Robert Adam, J.D.		2015
Tom Forestier, J.D.		2013
Linda S. Good, J.D.		2017
Stephanie Marquard		2015
Bob Wolfe, J.D., CPA		2017

**Principal Administrative Officers**

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









## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Lone Star College System:

We have audited the accompanying basic financial statements of Lone Star College System (the "System") as of and for the year ended August 31, 2012, as listed in the table of contents. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of the System as of and for the year ended August 31, 2011, were audited by other auditors whose report dated December 16, 2011, expressed an unqualified opinion on those statements.

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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 basic financial statements referred to above present fairly, in all material respects, the financial position of the System as of August 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2012 on our consideration of the System's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is supplementary information 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. This information is the responsibility of the System's management. 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 principally of inquiries of management regarding the methods of preparing the financial 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 supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was conducted for the purpose of forming an opinion on the 2012 basic financial statements of the System, taken as a whole. The required supplemental schedules A through D are presented for purposes of additional analysis and are not a required part of the 2012 basic financial statements. The accompanying schedule of expenditures of Federal awards (schedule E) and State awards (schedule F) as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-profit Organizations* and the *State of Texas Single Audit Circular*, respectively, are presented for purposes of additional analysis and are also not a required part of the 2012 basic financial statements. The required supplemental schedules A through D and schedules of expenditures of Federal and State awards are the responsibility of the System's management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2012 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2012 basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 basic financial statements or to the 2012 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 information is fairly stated in all material respects in relation to the 2012 basic financial statements as a whole.

The statistical section as listed in the table of contents is the responsibility of the System's management and is presented for purposes of additional analysis and is not a required part of the 2012 basic financial statements. The statistical section has not been subjected to the auditing procedures applied in the audit of the 2012 basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

December 6, 2012

A handwritten signature in black ink that reads "MFR, P.C." in a cursive, stylized font.



# Lone Star College System

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The purpose of the annual report is to provide readers with financial information about the activities and financial condition of Lone Star College System (the "System"). The report consists of three basic financial statements that provide information on the System as a whole: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. These reports should be read in conjunction with the notes to the financial statements. The following summary and management discussion of the results is intended to provide the readers with an overview of the System's financial activities. For purposes of the summary and discussion, the terms "2012", "2011", and "2010" refer to fiscal years ending August 31, 2012, August 31, 2011, and August 31, 2010, respectively.

## ***Accounting Standards***

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

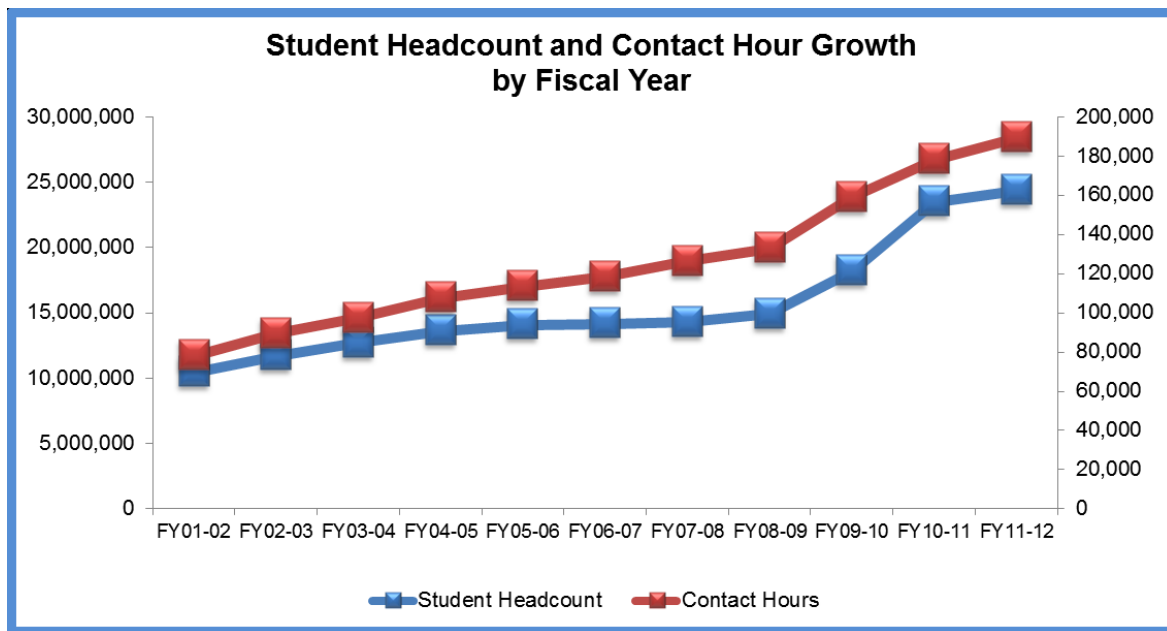
## ***Financial and Enrollment Highlights - 2012***

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

## ***Financial and Enrollment Highlights – 2011***

- Net assets increased \$22 million, which represents a 10% increase over 2010.
- Construction in progress balances increased to approximately \$179 million as various projects funded with proceeds from the 2009 and 2010 general obligation bonds were in process and nearing completion.
- The System maintained its AAA rating from Standard & Poor's on its general obligation debt.
- Operating expenses for educational activities increased \$25 million, which represents a 9% increase. The increases were directly related to the System's dramatic enrollment growth.
- Fundable contact hours, the basis on which community colleges in Texas are appropriated state funds, increased 6.8%.

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



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

Source: LSCS Office of Research & Institutional Effectiveness

## The Statements of Net Assets

The Statements of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the System. Net assets increased 9% for 2012 and 10% for 2011.

	2012	August 31 2011	2010
<b>Current Assets:</b>			
Cash and short-term investments	\$ 136,852,407	\$ 168,586,705	\$ 345,963,588
Accounts receivable, net	49,666,171	48,286,782	38,986,620
Inventory, prepaid expenses & other	119,009	91,487	272,830
Total current assets	<u>186,637,587</u>	<u>216,964,974</u>	<u>385,223,038</u>
<b>Non-Current Assets:</b>			
Capital assets, net of accumulated depreciation (Note 5)	754,114,824	735,084,688	551,278,210
Total assets	<u>\$ 940,752,411</u>	<u>\$ 952,049,662</u>	<u>\$ 936,501,248</u>
<b>Current Liabilities:</b>			
Accounts payable & accrued liabilities	\$ 40,181,113	\$ 57,425,752	\$ 53,686,143
Deferred revenues	42,541,316	40,395,713	34,312,750
Bonds payable-current portion	19,989,601	20,003,089	17,478,438
Total current liabilities	<u>102,712,030</u>	<u>117,824,554</u>	<u>105,477,331</u>
<b>Non-Current Liabilities:</b>			
Accrued compensable absences	6,105,069	6,035,594	5,231,554
Bonds payable-noncurrent portion	562,770,436	582,102,714	602,105,803
Total liabilities	<u>\$ 671,587,535</u>	<u>\$ 705,962,862</u>	<u>\$ 712,814,688</u>
<b>Net Assets:</b>			
Invested in capital assets	195,090,503	190,949,160	178,172,571
Restricted	13,885,559	7,574,071	491,699
Unrestricted	60,188,814	47,563,569	45,022,290
Total net assets	<u>\$ 269,164,876</u>	<u>\$ 246,086,800</u>	<u>\$ 223,686,560</u>

The decrease in total current assets of \$30.3 million in 2012 is a result of the completion of numerous bond projects. As funds are spent on projects, there are fewer funds available to invest. Net capital assets increased \$19 million during 2012 as construction projects funded from the bonds were completed.

Total liabilities decreased \$34 million during 2012. The decrease is primarily related to bond principal payments.

The increases in total net assets of \$23 million for 2012 and \$22 million for 2011 represent a 20% increase in the past two years. Of significance is the mix of reserves and the purposes for which they may be used. The largest increase since 2010 is in the reserves invested in capital assets, \$17 million or 9.5%. As student enrollment trends continue upward, the System's physical assets have also grown to support student growth. Restricted net assets are assets that cannot be used for current operations because they are subject to restrictions imposed by creditors, grantors or statute. Unrestricted net assets cover 62 days of operating expenses, or 17%, in 2012.



## Statements of Revenues, Expenses and Changes in Net Assets

	August 31		
	2012	2011	2010
<b>Operating Revenues</b>			
Student tuition and fees	\$ 58,863,971	\$ 54,089,193	\$ 46,329,700
Grants & contracts	13,716,779	14,078,349	14,203,442
Auxiliary enterprises	8,569,915	7,312,944	6,737,211
Other	1,757,129	1,546,851	1,326,042
Total operating revenues	<u>82,907,794</u>	<u>77,027,337</u>	<u>68,596,395</u>
<b>Operating Expenses</b>			
Educational activities	322,791,517	300,952,537	276,117,870
Auxiliary activities	6,772,432	5,748,363	5,297,398
Depreciation expense	19,367,658	12,665,955	10,681,794
Total operating expenses	<u>348,931,607</u>	<u>319,366,855</u>	<u>292,097,062</u>
<b>Net Operating Loss</b>	<u>(266,023,813)</u>	<u>(242,339,518)</u>	<u>(223,500,667)</u>
<b>Non-Operating Revenues</b>			
Ad-valorem taxes	140,481,231	134,718,767	128,831,580
State appropriations	75,417,972	73,405,288	74,594,104
Federal revenue, non-operating	89,174,691	74,413,134	50,747,245
Investment income	499,774	732,471	967,393
Capital appropriations	(19,614,225)	(20,958,652)	(19,730,589)
Other	3,142,446	2,428,750	4,595,205
Total non-operating revenues-net	<u>289,101,889</u>	<u>264,739,758</u>	<u>240,004,938</u>
<b>Increase in Net Assets</b>	23,078,076	22,400,240	16,504,271
<b>Net Assets, Beginning of Year</b>	<u>246,086,800</u>	<u>223,686,560</u>	<u>207,182,289</u>
<b>Net Assets, End of Year</b>	<u><b>\$ 269,164,876</b></u>	<u><b>\$ 246,086,800</b></u>	<u><b>\$ 223,686,560</b></u>

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

Student tuition and fees increased by \$4.8 million for 2012, due to the addition of new infrastructure and differential tuition fees. For 2011, student tuition and fees increased \$7.8 million due to the 9% increase in student enrollments. The System's \$40 per credit hour tuition rate remains below the Texas average tuition rate for community colleges.

Auxiliary enterprise revenues increased 18% for 2012. Most of the increase is related to an increase in tenant/rental income. Bookstore revenues increased slightly.

Expenses for educational activities increased \$22 million (7%) in 2012 and \$25 million (9%) in 2011. The most significant increase is in the scholarships category which increased by \$9 million. The increases were due to an increase in federal financial aid expenses.

Tax revenues increased \$5.8 million in 2012 (\$5.8 million also in 2011) as a result of the addition of new properties. Investment income decreased in 2012 due to a declining interest rate environment and a decrease in available bond proceeds. The System continues its focus on maintaining a short-term investment portfolio.

State appropriations increased \$2 million in 2012. In 2010, the State experienced a revenue shortfall resulting in the System’s appropriation being reduced by \$3.1 million. The State’s shortfall extended into the 2011 fiscal year, resulting in an additional reduction for 2011 of \$4.6 million (7.5%). For fiscal year 2012, a mid-biennium adjustment based on the 82<sup>nd</sup> Legislature, Rider 8 increased the State appropriations by \$1.2 million.

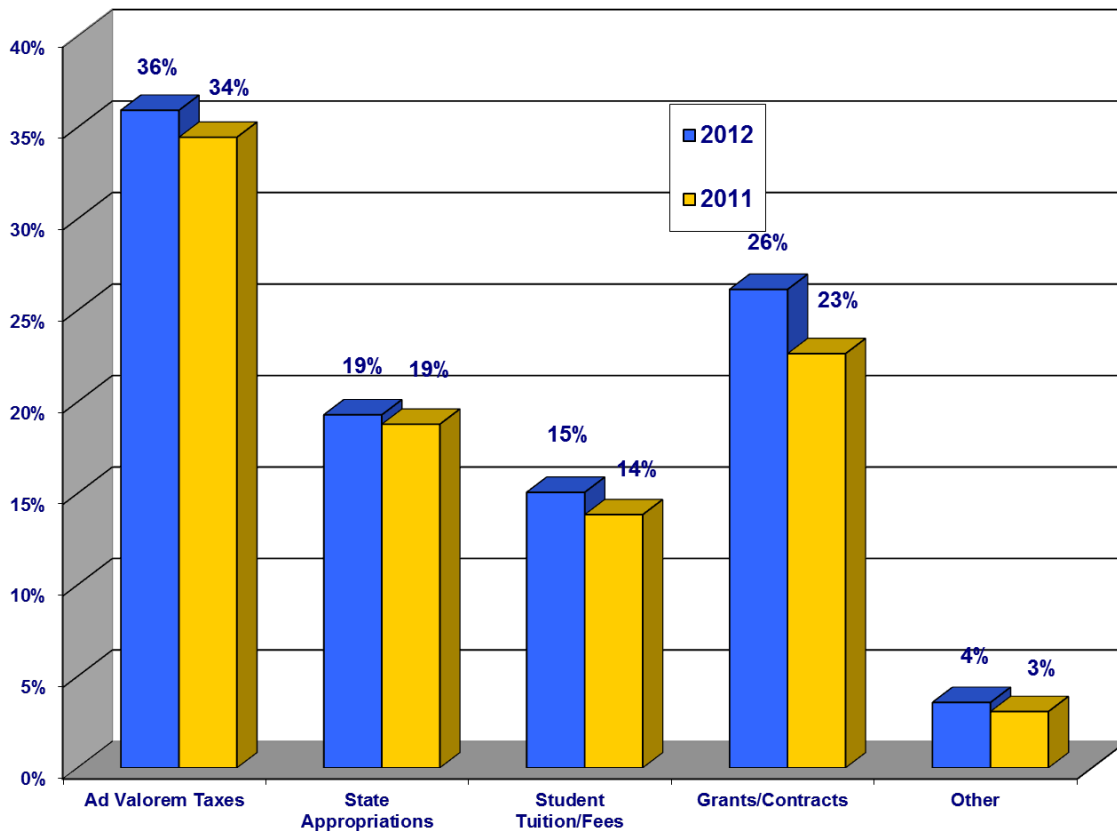
Federal revenue, non-operating, increased by \$14.7 million due to a large increase in federal financial aid (Pell) grant funding.

Capital appropriations consist of interest and fees on capital asset-related debt. Expenses in this category decreased \$1.3 million (6%) due to the completion and subsequent capitalization of construction related assets.

**Total Revenues**

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

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

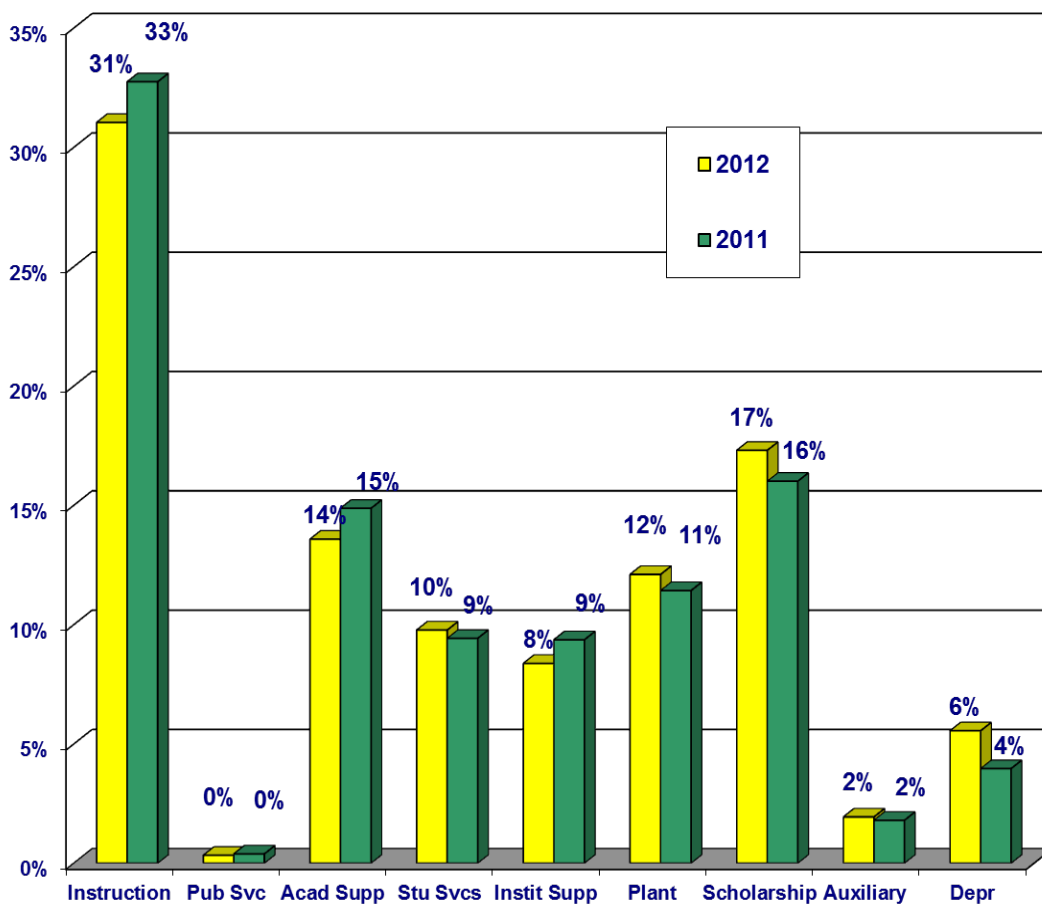


The largest source of revenue for both 2012 and 2011 for the System is ad valorem taxes at 36% and 34% for 2012 and 2011, respectively. Grants and contracts are second place in 2012 at 26%, primarily due to a decrease in state appropriations and an increase in federal financial aid grant funding. State appropriations were the third largest revenue source at 19% in 2012. Student tuition and fees were at 15% and 14% for 2012 and 2011, respectively. Auxiliary and investment income comprise the majority of other revenues.

**Total Expenses**

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

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



At 31% and 33% of the total expenses for 2012 and 2011, respectively, instruction is by far the System’s largest expense category. The scholarship category is in second place in 2012 due to an increase in financial aid expenses. Academic support is next highest at 14% as the System continues to place emphasis on student completion. Plant expenses increased slightly during 2012. All other categories remained relatively the same.

## ***Capital Assets and Long-Term Debt Activity***

As depicted in Footnote 5 to the financial statements, capital assets increased from \$735 million in 2011 to \$754 million in 2012. The following lists some of the major projects and changes that occurred during 2012 and 2011:

### 2012 Projects

#### Bond Projects

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

#### Real Estate Transactions

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

### 2011 Projects

#### Bond Projects

- Construction was substantially completed by 11 general contractors on 27 projects valued at \$175 million.
- Construction is underway by 3 general contractors on 3 renovation projects valued at \$4 million.

#### Real Estate Transactions

- A 2.388 acre tract located at 102 Longview Drive in Conroe, Texas was donated to the System on August 31, 2011. The donation includes a 30 SF office/warehouse building and is valued at \$1.8 million.
- A 3.5 acre tract of land at the Lone Star College System Office located at 5000 Research Forest Drive in The Woodlands, Texas was sold on October 15, 2010 to the Houston Advanced Research Center for \$800K.
- Purchased buildings 7 & 8, parking garage 9, and the chiller plant from Hewlett Packard on December 17, 2010 for \$12.6M. Purchase includes 25.738 acres and 221,458 SF in building 7, 221,450 SF in building 8, 34,152 SF in the chiller plant, and 408,225 SF in parking garage 9.

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

### ***Subsequent Events***

In fall 2012, the System had a record 77,877 credit students enrolled, a 3% increase over fall 2011.

In October 2012, the System issued \$20,285,000 of revenue bonds to construct the Energy and Manufacturing Institute building at LSC-University Park.

During the 2011 legislative session, the Texas Legislature restricted the State's contribution to TRS/ORP on behalf of community colleges to only 6% of each district's unrestricted general revenue appropriation for each year of the biennium state budget. Additional information is disclosed in Footnote 22 of this report.



**Lone Star College System**  
**STATEMENTS OF NET ASSETS**  
**AUGUST 31, 2012 AND 2011**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 134,851,517	\$ 164,585,703
Short-term investments	2,000,890	4,001,002
Accounts receivable, net	49,666,171	48,286,782
Inventories	41,447	44,195
Prepaid items	77,562	47,292
<b>Total current assets</b>	<b>186,637,587</b>	<b>216,964,974</b>
<b>Noncurrent assets:</b>		
Capital assets, net	754,114,824	735,084,688
<b>Total non-current assets</b>	<b>754,114,824</b>	<b>735,084,688</b>
<b>TOTAL ASSETS</b>	<b>940,752,411</b>	<b>952,049,662</b>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 34,878,283	\$ 52,720,827
Accrued compensable absences	520,000	400,000
Funds held for others	4,782,830	4,304,925
Deferred revenues	42,541,316	40,395,713
Bonds payable-current portion	19,989,601	20,003,089
<b>Total current liabilities</b>	<b>102,712,030</b>	<b>117,824,554</b>
<b>Noncurrent liabilities:</b>		
Accrued compensable absences	6,105,069	6,035,594
Bonds payable-noncurrent portion	562,770,436	582,102,714
<b>Total non-current liabilities</b>	<b>568,875,505</b>	<b>588,138,308</b>
<b>TOTAL LIABILITIES</b>	<b>671,587,535</b>	<b>705,962,862</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	195,090,503	190,949,160
Restricted:		
Expendable-		
Restricted	-	737,601
Loan	485,631	485,631
Debt service	13,399,928	6,350,839
Unrestricted	60,188,814	47,563,569
<b>TOTAL NET ASSETS (Schedule D)</b>	<b>\$ 269,164,876</b>	<b>\$ 246,086,800</b>

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

**Lone Star College System**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Tuition and fees (net of discounts of \$36,605,339 in 2012 and \$28,775,816 in 2011)	\$ 58,863,971	\$ 54,089,193
Federal grants and contracts	6,636,571	5,016,076
State and local grants and contracts	7,080,208	9,062,273
Auxiliary enterprises	8,569,915	7,312,944
Other operating revenue	1,757,129	1,546,851
<b>Total operating revenues (Schedule A)</b>	<u>82,907,794</u>	<u>77,027,337</u>
<b>OPERATING EXPENSES</b>		
Instruction	108,314,417	104,577,728
Public service	1,162,959	1,251,663
Academic support	47,382,543	47,497,093
Student services	34,101,045	30,100,534
Institutional support	29,226,723	29,907,988
Operation and maintenance of plant	42,230,188	36,497,134
Scholarships and fellowships	60,373,642	51,120,397
Auxiliary enterprises	6,772,432	5,748,363
Depreciation	19,367,658	12,665,955
<b>Total operating expenses (Schedule B)</b>	<u>348,931,607</u>	<u>319,366,855</u>
Operating loss	<u>(266,023,813)</u>	<u>(242,339,518)</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>		
Ad Valorem taxes		
Maintenance and operations	101,461,010	96,232,370
General obligation bonds	39,020,221	38,486,397
State appropriations	75,417,972	73,405,288
Federal revenue, non-operating	89,174,691	74,413,134
Gifts	1,953,695	270,000
Investment income, net	499,774	732,471
Interest and fees on capital asset-related debt (net of capitalized interest costs of \$5,009,183 in 2012 and \$4,135,287 in 2011)	(19,614,225)	(20,958,652)
Loss on disposal of capital assets	(665,646)	(634,199)
Other non-operating revenues	1,854,397	2,792,949
<b>Total non-operating revenue (Schedule C)</b>	<u>289,101,889</u>	<u>264,739,758</u>
Increase in net assets	23,078,076	22,400,240
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>246,086,800</u>	<u>223,686,560</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 269,164,876</u>	<u>\$ 246,086,800</u>

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

**Lone Star College System**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from students and other customers	\$ 96,170,724	\$ 86,697,196
Receipts from grants and contracts	15,222,437	14,350,507
Payments to suppliers for goods and services	(85,628,007)	(75,434,979)
Payments to or on behalf of employees	(185,469,007)	(172,596,935)
Payments for scholarships and fellowships	(91,946,427)	(76,180,442)
Payments for internal loans issued to students	-	(653)
Receipts from internal loans for students	-	655
Other receipts	5,019,762	4,246,741
Net cash used by operating activities	<u>(246,630,518)</u>	<u>(218,917,910)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Receipts from state appropriations	65,285,594	59,528,079
Receipts from ad-valorem taxes	102,611,898	97,117,400
Receipts from non-operating Federal Revenue	90,694,436	71,003,599
Payments for Federal loans issued to students	(93,939,973)	(82,253,763)
Receipts from Federal loans for students	92,283,344	83,296,012
Net cash provided by non-capital financing activities	<u>256,935,299</u>	<u>228,691,327</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts from ad-valorem taxes	40,108,809	38,900,696
Proceeds from capital debt	67,257,225	-
Paid for acquisition and construction of capital assets	(43,871,072)	(188,805,799)
Proceeds from sale of capital assets	375,347	804,446
Principal paid on capital debt and leases	(85,785,000)	(16,895,000)
Interest paid on capital debt and leases	(20,624,050)	(21,887,114)
Net cash used by financing activities	<u>(42,538,741)</u>	<u>(187,882,771)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	12,000,000	36,668,000
Interest on investments	499,774	751,277
Purchase of investments and related fees	(10,000,000)	(7,762,000)
Net cash provided by investing activities	<u>2,499,774</u>	<u>29,657,277</u>
Net Decrease in Cash and Cash Equivalents	(29,734,186)	(148,452,077)
Cash and Cash Equivalents, Beginning of Year	164,585,703	313,037,780
Cash and Cash Equivalents, End of Year	<u>\$ 134,851,517</u>	<u>\$ 164,585,703</u>

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



**Lone Star College System**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>		
Operating loss	\$ (266,023,813)	\$ (242,339,518)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	19,367,658	12,665,955
Bad debt expense	660,000	139,000
Payments made directly by state for benefits	10,132,378	13,877,209
Changes in assets and liabilities		
Receivables, net	(4,083,796)	(5,717,201)
Inventories	2,748	(3,137)
Prepaid items	(30,272)	184,480
Accounts payable and accrued liabilities	(11,118,937)	(7,780,287)
Deferred revenue	2,145,603	6,082,965
Funds held for others	2,128,438	3,068,584
Accrued compensable absences	189,475	904,040
Total adjustments	19,393,295	23,421,608
Net cash used by operating activities	\$ (246,630,518)	\$ (218,917,910)

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



## LONE STAR COLLEGE SYSTEM

### Notes to Financial Statements

For the Fiscal Year Ended  
August 31, 2012

#### 1. REPORTING ENTITY

Lone Star College System (the "System") was established in 1972 as a junior college district, in accordance with the laws of the State of Texas, to serve the educational needs of the northern part of Harris County and the southern part of Montgomery County, Texas. The System encompasses the Aldine, Conroe, Cypress-Fairbanks, Humble, Klein, Magnolia, New Caney, Splendor, Spring, Tomball and Willis Independent School Districts. The System is a comprehensive, public, two-year institution offering academic, general, occupational, developmental, and continuing adult education programs through a network of colleges. The colleges of LSC-North Harris, LSC-Kingwood, LSC-Tomball, LSC-Montgomery, LSC-CyFair, and LSC-University Park (2012) comprise the System.

The System is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. While the System receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, provides additional guidance in determining whether certain organizations for which the System is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. It requires reporting as a component unit if the organization raises and holds economic resources for the direct benefit of the governmental unit and the component unit is significant compared to the primary government. GASB Statement No. 39 has been applied as required in the preparation of these financial statements and no component unit information is required to be included.

The Lone Star College Foundation (the "Foundation") is a legally separate not-for-profit corporation controlled by a separate board of trustees, whose sole purpose is to advance and assist in the development, growth and operation of the System. The System does not fund; nor is the System obligated to pay debt related to the Foundation. The financial position of the Foundation as of August 31, 2012 and 2011 and the cost of services provided by the System to the Foundation during the years then ended are not significant to the System. The Foundation has therefore not been included as a component unit in the financial statements of the System.

The University Center is a partnership of four year universities and the colleges of the System providing bachelor's degrees, master's degrees and continuing professional studies. The universities are responsible for their degrees and support the instructional, facilities and shared support services costs. The operational costs of instruction, facilities and services are shared pro-rata by the four-year universities based on enrollment. A cost sharing arrangement exists between the parties in order to provide a particular service to the community. A cost sharing arrangement does not qualify as a component unit under GASB Statement No. 14 or 39.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Reporting Guidelines***

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

The System applies all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The System has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The System is reported as a special-purpose government engaged in business-type activities.

### ***Basis of Accounting***

The financial statements of the System have been prepared using the economic resources measurement focus and the accrual basis of accounting. All revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

### ***Tuition Discounting***

#### ***Texas Public Education Grants***

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code § 56.033). When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

#### ***Title IV, Higher Education Act Program Funds***

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

#### ***Other Tuition Discounts***

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

### ***Budgetary Data***

Each community college in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The System's Board of Trustees adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget and subsequent amendments must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1.

### ***Cash and Cash Equivalents***

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

### ***Investments***

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity date greater than three months but less than one year at time of purchase. The System has designated public funds investment pools comprised of \$90,796,249 and \$151,455,196 at 2012 and 2011, respectively, to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase. The System had no long-term investments at August 31, 2012 and 2011.

### ***Inventories***

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

### ***Capital Assets***

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

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

### ***Deferred Revenues***

A portion of tuition and fee revenue and federal, state, and local grants at August 31, 2012 and 2011, related to the period after August, and therefore have been reported as deferred revenues at August 31, 2012 and 2011, respectively.

### ***Estimates***

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

### ***Operating and Non-Operating Revenue and Expense Policy***

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

### ***Presentation of State Benefit Payments on Cash Flows Statement***

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

### **3. AUTHORIZED INVESTMENTS**

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

#### 4. DEPOSITS AND INVESTMENTS

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

	<u>2012</u>	<u>2011</u>
Demand Deposits	\$ 2,212,622	\$ 2,939,513
Petty Cash on Hand	40,752	38,737
Short-Term Securities	142,983	124,436
External Investment Pools	90,796,248	151,455,196
Certificate of Deposits	<u>41,658,912</u>	<u>10,027,821</u>
Total Cash and Cash Equivalents	<u>\$ 134,851,517</u>	<u>\$ 164,585,703</u>

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

	<u>Fair Value at August 31,</u>	
	<u>2012</u>	<u>2011</u>
U. S. Agency Notes and Bonds	\$ 2,000,890	\$ 4,001,002
Certificate of Deposits	41,658,912	10,027,821
Cash and Deposits	<u>93,192,605</u>	<u>154,557,882</u>
Total Deposits and Investments	<u>\$ 136,852,407</u>	<u>\$ 168,586,705</u>
Cash and Cash Equivalents (Exhibit 1)	\$ 134,851,517	\$ 164,585,703
Short Term Investments (Exhibit 1)	<u>2,000,890</u>	<u>4,001,002</u>
Total Deposits and Investments	<u>\$ 136,852,407</u>	<u>\$ 168,586,705</u>

As of August 31, 2012, the System had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
External Investment Pools	\$ 90,796,248	0.13
Money Market	142,983	0.14
U. S. Agency Notes and Bonds	2,000,890	2.15
Certificate of Deposits	<u>41,658,912</u>	6.32
Total Investments at Fair Value	<u>\$ 134,599,033</u>	2.08

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

*Credit Risk and Concentration of Credit Risk* - In accordance with State of Texas law and the System's investment policy, investments in mutual funds and investment pools must be rated at least "AAA" and commercial paper must be rated at least "A-1" or "P-1". To reduce market risk the System has established



portfolio diversification requirements by issuer and/or type of investment. The System’s portfolio is within the stated parameters at August 31, 2012.

The credit quality (ratings) and concentration of the System’s portfolio as of August 31, 2012 are as follows:

Security	Credit Rating	Concentration	
		Actual	Limit
Cash and External Investment Pools	AAA	67.5%	100%
Money Market	AAA	0.11%	100%
U.S. Agencies	AAA	1.49%	90%
Certificates of Deposit	AAA	30.95%	90%

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

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

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

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

## 5. CAPITAL ASSETS

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

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

## 5. CAPITAL ASSETS (Cont)

Capital assets activity for the year ended August 31, 2011 was as follows:

	Balance August 31, 2010	Increase	Decrease	Balance August 31, 2011
<u>Not Depreciated</u>				
Land	\$ 65,866,633	\$ 9,555,571	\$ (338,292)	\$ 75,083,912
Construction-in-Progress	171,441,940	193,862,644	(185,736,511)	179,568,073
Subtotal	<u>237,308,573</u>	<u>203,418,215</u>	<u>(186,074,803)</u>	<u>254,651,985</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	354,536,927	131,947,360	-	486,484,287
Other Real Estate Improvements	<u>19,609,179</u>	<u>15,039,582</u>	<u>(3,652,934)</u>	<u>30,995,827</u>
Total Buildings & Other Real Estate Improvements	374,146,106	146,986,942	(3,652,934)	517,480,114
Library Books	13,078,550	528,456	(143,404)	13,463,602
Furniture, Machinery, Vehicles & Other	21,595,002	32,349,548	(1,311,838)	52,632,712
Total Buildings and Other Capital Assets	<u>408,819,658</u>	<u>179,864,946</u>	<u>(5,108,176)</u>	<u>583,576,428</u>
<u>Accumulated Depreciation</u>				
Buildings and Building Improvements	67,214,410	8,203,627	-	75,418,037
Other Real Estate Improvements	<u>7,077,101</u>	<u>644,224</u>	<u>(3,287,640)</u>	<u>4,433,685</u>
Total Buildings & Other Real Estate Improvements	74,291,511	8,847,851	(3,287,640)	79,851,722
Library Books	8,671,688	610,223	(143,404)	9,138,507
Furniture, Machinery, Vehicles & Other	<u>11,886,822</u>	<u>3,207,881</u>	<u>(941,207)</u>	<u>14,153,496</u>
Total Accumulated Depreciation	<u>94,850,021</u>	<u>12,665,955</u>	<u>(4,372,251)</u>	<u>103,143,725</u>
Net Capital Assets	<u>\$ 551,278,210</u>	<u>\$ 370,617,206</u>	<u>\$ (186,810,728)</u>	<u>\$ 735,084,688</u>

## 6. LONG-TERM LIABILITIES

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

	Balance September 1, 2011	Additions	Reductions	Balance August 31, 2012	Current Portion
Bonds					
General obligation bonds	\$ 523,011,239	\$ 52,793,157	\$ (69,032,762)	\$ 506,771,634	\$ 16,072,831
Revenue bonds	46,708,358	16,941,886	(18,777,682)	44,872,562	2,553,955
Maintenance tax note bonds	<u>32,386,206</u>	<u>-</u>	<u>(1,270,365)</u>	<u>31,115,841</u>	<u>1,362,815</u>
Subtotal	602,105,803	69,735,043	(89,080,809)	582,760,037	19,989,601
Accrued compensable absences	6,435,594	189,475	-	6,625,069	520,000
Total long-term liabilities	<u>\$ 608,541,397</u>	<u>\$ 69,924,518</u>	<u>\$ (89,080,809)</u>	<u>\$ 589,385,106</u>	<u>\$ 20,509,601</u>

Long-term liability activity for the year ended August 31, 2011 was as follows:

	Balance September 1, 2010	Additions	Reductions	Balance August 31, 2011	Current Portion
Bonds					
General obligation bonds	\$ 538,107,634	\$ -	\$ (15,096,395)	\$ 523,011,239	\$ 16,379,575
Revenue bonds	48,996,508	-	(2,288,150)	46,708,358	2,353,150
Maintenance tax note bonds	<u>32,480,099</u>	<u>-</u>	<u>(93,893)</u>	<u>32,386,206</u>	<u>1,270,365</u>
Subtotal	619,584,241	-	(17,478,438)	602,105,803	20,003,089
Accrued compensable absences	5,531,554	1,401,670	(497,630)	6,435,594	400,000
Total long-term liabilities	<u>\$ 625,115,795</u>	<u>\$ 1,401,670</u>	<u>\$ (17,976,068)</u>	<u>\$ 608,541,397</u>	<u>\$ 20,403,089</u>

## 7. BONDS PAYABLE

General information related to bonds payable is summarized below:

Series	Purpose	Maturity Date	Interest Rate	Original Issue Amount	Repayment Source	Amount Outstanding	
						8/31/2012	8/31/2011
<b>Revenue Bonds</b>							
2000 Rev	Constr/Refunding	2001 - 2025	5.12% - 6.50%	\$ 11,000,000	Pledged Rev	\$ -	\$ 7,950,890
2003 Rev	Construction	2004 - 2028	2.50% - 5.00%	10,000,000	Pledged Rev	531,841	6,025,901
2003A Rev	Construction	2004 - 2018	2.00% - 4.25%	10,390,000	Pledged Rev	1,458,801	5,456,734
2007 Rev	Construction	2008 - 2038	4.00% - 5.00%	29,900,000	Pledged Rev	26,468,022	27,274,833
2011 Rev	Refunding	2012 - 2023	1.75 % - 4.00%	7,980,000	Pledged Rev	7,682,507	-
2012 Rev	Refunding	2013 - 2028	2.00% - 4.00%	8,155,000	Pledged Rev	8,731,391	-
<b>Total Revenue</b>						<b>\$ 44,872,562</b>	<b>\$ 46,708,358</b>
<b>General Obligation Bonds</b>							
2002A GO	Construction	2003 - 2027	3.26% - 5.37%	95,040,000	Ad Val Tax	\$ -	\$ 47,948,067
2003 GO	Constr/Refunding	2004 - 2028	2.50% - 5.00%	36,464,997	Ad Val Tax	2,858,829	16,219,068
2005 Ref GO	Refunding	2006 - 2013	3.00% - 5.00%	6,915,000	Ad Val Tax	467,615	947,984
2005A Ref GO	Refunding	2006 - 2026	3.00% - 5.00%	50,244,217	Ad Val Tax	39,226,580	43,003,420
2007 Ref GO	Refunding	2008 - 2012	3.44% - 4.00%	13,410,000	Ad Val Tax	-	60,443
2008 GO	Construction	2009 - 2038	3.50% - 5.25%	149,780,000	Ad Val Tax	137,598,008	137,598,008
2009 GO	Construction	2009 - 2034	2.50% - 5.00%	144,520,000	Ad Val Tax	142,444,908	145,430,433
2010A GO	Construction	2010 - 2025	2.00% - 5.00%	110,625,000	Ad Val Tax	123,826,373	123,826,373
2010B Ref GO	Refunding	2010 - 2025	2.00% - 5.00%	8,470,000	Ad Val Tax	7,556,163	7,977,443
2011 GO	Refunding	2018 - 2027	3.00% - 5.00%	25,305,000	Ad Val Tax	29,186,397	-
2012 GO	Refunding	2013 - 2028	1.50% - 5.00%	21,420,000	Ad Val Tax	23,606,760	-
<b>Total General Obligation</b>						<b>\$ 506,771,634</b>	<b>\$523,011,239</b>
<b>Maintenance Tax Note Bond</b>							
Maintenance Tax Note Bond	Construction /Energy Management Contract	2009 - 2027	2.00% - 5.00%	30,740,000	Ad Val Tax	31,115,841	32,386,206
<b>Total Maintenance Tax Note</b>						<b>\$ 31,115,841</b>	<b>\$ 32,386,206</b>

Debt service requirements at August 31, 2012 were as follows:

For the Year Ended August 31,	General Obligation Bonds		Revenue Bonds		Maintenance Tax Notes		Total Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 16,072,831	\$ 23,055,174	\$ 2,553,955	\$ 1,724,042	\$ 1,362,815	\$ 1,204,250	\$ 19,989,601	\$ 25,983,465
2014	\$ 17,514,726	\$ 22,618,979	\$ 2,423,195	\$ 1,704,051	\$ 1,448,890	\$ 1,180,150	\$ 21,386,812	\$ 25,503,180
2015	\$ 21,323,397	\$ 22,070,006	\$ 2,494,847	\$ 1,620,119	\$ 1,544,239	\$ 1,152,631	\$ 25,362,483	\$ 24,842,756
2016	\$ 24,236,526	\$ 21,456,681	\$ 2,579,604	\$ 1,548,994	\$ 1,639,502	\$ 1,116,163	\$ 28,455,631	\$ 24,121,838
2017	\$ 27,643,975	\$ 20,726,069	\$ 2,691,162	\$ 1,478,119	\$ 1,739,647	\$ 1,071,838	\$ 32,074,784	\$ 23,276,025
2018-2022	\$ 152,725,502	\$ 85,094,134	\$ 9,936,468	\$ 6,163,181	\$ 10,322,208	\$ 4,451,294	\$ 172,984,178	\$ 95,708,609
2023-2027	\$ 105,108,749	\$ 54,353,913	\$ 7,766,171	\$ 4,479,666	\$ 13,058,540	\$ 2,201,763	\$ 125,933,461	\$ 61,035,341
2028-2032	\$ 74,564,130	\$ 32,189,213	\$ 5,890,361	\$ 3,065,631	\$ -	\$ 69,500	\$ 80,454,491	\$ 35,324,344
2033-2037	\$ 58,733,342	\$ 13,230,250	\$ 7,117,245	\$ 1,614,925	\$ -	\$ -	\$ 65,850,586	\$ 14,845,175
2038+	\$ 8,848,456	\$ 1,336,750	\$ 1,419,553	\$ 196,875	\$ -	\$ -	\$ 10,268,009	\$ 1,533,625
	<b>\$ 506,771,634</b>	<b>\$ 296,131,168</b>	<b>\$ 44,872,562</b>	<b>\$ 23,595,602</b>	<b>\$ 31,115,841</b>	<b>\$ 12,447,588</b>	<b>\$ 582,760,037</b>	<b>\$ 332,174,358</b>

### ***Arbitrage***

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the System performed calculations of excess investment earnings on various bonds and financings and at August 31, 2012 does not expect to incur a liability.

### ***Pledged Revenue***

The revenue pledged as security for the life of the revenue bond debt service includes a portion of tuition and fees, investment income and auxiliary revenues. The bond covenants require the pledge of tuition, allowable by state law, and other revenue sources to maintain a minimum debt service coverage ratio of 1.25. The pledged revenues amounted to \$52,934,858 and \$41,688,000 for the years ended August 31, 2012 and 2011, respectively. The pledged revenue amount equates to 61.3% and 57.6% of the above total revenue streams, respectively. Debt service on the revenue bonds was \$6,573,000 and \$6,059,000 for the years ended August 31, 2012 and 2011, and the debt service coverage ratio was 8.05 and 6.88, respectively. Revenue bonds are payable in annual installments varying from \$240,000 to \$1,545,000 with interest rates from 1.75% to 6.50% and the final installment due in 2038. The System was in compliance with all bond covenants for the years ended August 31, 2012 and 2011.

## **8. REFUNDING BONDS AND DEFEASED BONDS OUTSTANDING**

### **REFUNDING BONDS**

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

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

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

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

**DEFEASED BONDS OUTSTANDING**

The liability for the bonds below does not appear on the System's financial statements as these bonds are considered legally defeased as of August 31, 2012 and 2011.

Bond Issue	Year Refunded	2012 Par Value Outstanding	2011 Par Value Outstanding
General Obligation Bonds Series 2002	2007	\$-0-	\$13,410,000
General Obligation Bonds Series 2003	2012	\$12,120,000	\$-0-
Revenue Bonds Series 2003A	2012	\$ 3,310,000	\$-0-
Total		\$15,430,000	\$13,410,000



## 9. OPERATING LEASES

The System leases certain of its educational facilities, offices and other equipment. These lease agreements have clauses which allow the System to terminate the agreement if funding becomes unavailable or the Board does not approve funding. Rent expense for the years ended August 31, 2012 and 2011 was \$529,280 and \$2,148,271, respectively. Future minimum lease payments are as follows:

For the Year Ended	
<u>August 31,</u>	<u>Total</u>
2013	\$ 893,015
2014	1,077,636
2015	655,319
2016	595,012
2017	595,012
Thereafter	<u>3,173,328</u>
Total future minimum lease payments	<u>\$ 6,989,322</u>

## 10. EMPLOYEES' RETIREMENT PLANS

The state of Texas has joint contributory retirement plans for almost all its employees. Within the first 90 days of employment, higher education employees make an irrevocable choice to be covered by either the Teacher Retirement System (TRS) or the Optional Retirement Plan (ORP). The total payroll for all System employees was \$162,116,233, \$158,099,752 and \$152,360,757 for fiscal years 2012, 2011 and 2010 respectively.

### Teacher Retirement System (Defined Benefit Plan)

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

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate 6.4% for fiscal years 2012, 2011, and 2010. The state contribution rate for fiscal year 2011 was 6.644%. The rate for the first 4 months of fiscal year 2010 was 6.4%. Effective January 1, 2010 the state contribution rate increased to 6.644% for the remainder of the fiscal year. In certain instances the reporting district is required to make all or a portion of the State's contribution.

The percentages of participant salaries currently contributed by the state and by each participant are 6.0% and 6.4%, respectively, of annual compensation. The total payroll of employees covered by TRS for fiscal years 2012, 2011, and 2010 was \$93,999,285, \$87,941,549, and \$85,035,252, respectively. The retirement expense to the state for System employees was \$4,548,577, \$5,292,675 and \$5,581,188 for the fiscal years ended August 31, 2012, 2011, and 2010, respectively, and for all years are 100% of required contributions. This amount represents the portion of expended appropriations made by the state legislature on behalf of the System. These amounts are recorded by the System as on-behalf revenue and expense.

### Optional Retirement Plan (Defined Contribution Plan)

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

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.4% and 6.65%, respectively. The System contributes 2.10% for employees who were participating in the ORP prior to September 1, 1995. Benefits fully vest after one year plus one day of employment. Since these are individual annuity contracts, the state has no additional or unfunded liability for this program.

The total payroll of employees covered by the ORP was \$34,521,307, \$35,439,517 and \$36,092,113 for fiscal years 2012, 2011, and 2010 respectively. The retirement expense to the state for the System was \$2,367,349, \$2,355,276 and \$2,309,864 for the fiscal years ended August 31, 2012, 2011 and 2010, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the System. These amounts are recorded by the System as on-behalf revenue and expense.

## **11. COMPENSABLE ABSENCES**

Full-time non-faculty employees on a twelve month work schedule are eligible for paid annual leave. Eligible employees accrue vacation leave at different rates depending on their length of service and position. Accrual rates range from 8 hours per month to 13.33 hours per month. The System's policy is to allow employees to carry their accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours accrued equal to 400 hours. Eligible employees are entitled to payment for all accumulated annual leave up to the maximum allowed at the time employment with the System is terminated. The System recognizes an accrued liability for the unpaid compensated absences in the amounts of \$6,625,069 and \$6,435,594 for the fiscal years ended August 31, 2012 and 2011, respectively.

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

## **12. PENDING LAWSUITS AND CLAIMS**

On August 31, 2012, various lawsuits and claims involving the System were pending. The ultimate liability with respect to litigation and other claims asserted against the System cannot be reasonably estimated at this time. In the opinion of the System's management, any liability, to the extent not provided for by insurance or otherwise, will not have a material effect on the System.

**13. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2012 and 2011 were as follows:

	August 31	
	2012	2011
Student Receivables	\$31,319,675	\$27,223,331
Taxes Receivable	6,241,898	6,626,977
Federal Receivable	8,147,313	11,548,829
Accounts Receivable	2,617,090	4,013,126
Other Receivables	2,819,304	(144,803)
Subtotal	51,145,280	49,267,460
Allowance for Doubtful Accounts	(1,479,109)	(980,678)
<b>Total Accounts Receivable, Net</b>	<b>\$49,666,171</b>	<b>\$48,286,782</b>

Payables at August 31, 2012 and 2011 were as follows:

	August 31	
	2012	2011
Vendors Payable	\$24,424,647	\$41,958,854
Salaries and Benefits Payable	2,722,709	4,081,778
Students Payable	1,092,138	1,568,428
Accrued Interest	1,568,333	1,760,167
Other Payables	5,070,456	3,351,600
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$34,878,283</b>	<b>\$52,720,827</b>

#### **14. FEDERAL AND STATE CONTRACT AND GRANT AWARDS**

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Revenues are disclosed on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2012 and 2011 for which monies have not been received nor funds expended totaled \$82,255,944 and \$31,214,701, respectively. Of these amounts, \$78,161,028 and \$28,298,966 were from Federal Contract and Grant Awards; \$4,094,916 and \$2,915,735 were from State Contract and Grant Awards for the fiscal years ended 2012 and 2011, respectively.

## **15. RISK MANAGEMENT**

The System is exposed to various risks of loss related to property damage, personal injury, professional errors and omissions and natural disasters. Significant losses for these risks are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the past three years. The System did not maintain or operate a self-insured insurance plan during the years ended August 31, 2012 and 2011.

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

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

The state's contribution per full-time employee was \$438.30 per month for the fiscal year ended August 31, 2012 (\$413.26 per month for 2011) and totaled \$5,583,801 for 2012 (\$8,584,534 for 2011). The cost of providing those benefits for 329 retirees for the year ended August 31, 2012 was \$1,932,131 (retiree benefits for 306 retirees cost \$1,514,872 in 2011). For 2,312 active employees, the cost of providing benefits was \$17,284,536 for the fiscal year ended August 31, 2012 (active employee benefits for 2,194 employees cost \$16,131,969 in 2011).



**17. AD VALOREM TAX**

The System’s ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the System’s taxing jurisdiction. The System’s taxable values at August 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Assessed Valuation of the System	\$ 127,768,523,283	\$ 124,218,962,126
Less: Exemptions	( 10,264,805,520)	( 8,525,497,952)
Less: Abatements	-	-
Net Assessed Valuation of the System	<u>\$117,503,717,763</u>	<u>\$115,693,464,174</u>

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

	<u>2012</u>			<u>2011</u>		
	Current Operation	Debt Service	Total	Current Operation	Debt Service	Total
Authorized Tax Rate per \$100 valuation	\$0.3000	\$0.5000	\$0.8000	\$0.3000	\$0.5000	\$0.8000
Assessed Tax Rate per \$100 valuation	\$0.0875	\$0.0335	\$0.1210	\$0.0841	\$0.0335	\$0.1176

Taxes levied for the year ended August 31, 2012 and 2011 amounted to \$136,692,409 and \$131,007,264, respectively (which includes any penalty and interest assessed, if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which imposed.

Taxes collected for the years ended August 31, 2012 and 2011 are as follows:

	<u>2012</u>			<u>2011</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Current Taxes	\$ 100,707,439	\$ 38,581,296	\$ 139,288,735	\$ 94,930,716	\$ 37,757,374	\$ 132,688,090
Delinquent Taxes	1,493,940	574,918	2,068,859	1,519,572	635,687	2,155,259
Penalties & Interest	<u>425,863</u>	<u>164,056</u>	<u>589,919</u>	<u>431,517</u>	<u>168,204</u>	<u>599,721</u>
Total	<u>\$ 102,627,242</u>	<u>\$ 39,320,270</u>	<u>\$ 141,947,512</u>	<u>\$ 96,881,805</u>	<u>\$ 38,561,265</u>	<u>\$ 135,443,070</u>

Tax collections for the years ended August 31, 2012 and 2011 were 100.31% and 98%, respectively, of the current tax levy. Taxes assessed are recorded in the System’s financial statements net of the related allowance for uncollectible taxes, based upon the System’s expected collection experience. The use of tax proceeds is restricted for the use of maintenance and general obligation debt service.

**18. INCOME TAXES**

The System is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations*. The System had no unrelated business income tax liability for the years ended August 31, 2012 and 2011.

**19. RELATED PARTIES**

The Lone Star College Foundation (the Foundation) is a nonprofit organization with the purpose of supporting the educational and other activities of the Lone Star College System. The System does not fund; nor is the System obligated to pay debt related to the Foundation. However, the System does have the ability to significantly influence the policies of the Foundation. The Foundation solicits donations and acts as coordinator of gifts made by other parties. The Foundation remitted restricted gifts of \$1,044,373 and \$785,320 to the System during the years ended August 31, 2012 and 2011, respectively. The System furnished certain services, such as office space, utilities and some staff assistance, to the Foundation which totaled \$282,584 and \$279,673 for 2012 and 2011, respectively. There were no related receivables as of August 31, 2012 and 2011.

## 20. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

(In accordance with GASB Statement No. 45)

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

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

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

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

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

The System's contributions to SRHP for the years ended August 31, 2012, 2011 and 2010 were \$1,932,131, \$1,514,872 and \$1,227,092 respectively. This equaled the required contributions each year and no employee contributions were required.

## **21. SUBSEQUENT EVENTS**

The System issued \$20,285,000 of revenue bonds. Bond closing and delivery of proceeds took place October 23, 2012. These funds will be used to construct the Energy & Manufacturing Institute building and labs at LSC – University Park. This new building will accommodate student growth and the rising demand for training in the energy and manufacturing industries.

No changes are necessary to be made to the financial statements as a result of these events. Management has evaluated subsequent events through December 6, 2012, the date which the financial statements were available to be issued.

## **22. CONTINGENCIES**

Texas Constitution article 16, section 67(b)(3) provides that the State of Texas must contribute "not less than six percent nor more than ten percent of the aggregate compensation paid to individuals participating in the system," referring to the State's Teacher Retirement System (TRS) including the related faculty Optional Retirement Program (ORP).

During the 2011 legislative session, the Texas Legislature appropriated retirement funds for various types of educational institutions other than community and junior colleges in satisfaction of this requirement, but the community college appropriations restricted the State's contribution to TRS/ORP on behalf of community colleges to only six percent of each district's unrestricted general revenue appropriation for each year of the biennium state budget.

There is no pending litigation concerning this issue; either to construe the constitutional funding requirements or to hold that the State biennium appropriations satisfy those requirements, or to attempt to collect any shortfall contributions from any community college district.

The System has calculated that as of August 31, 2012 the contribution that has not been paid on behalf of System employees is \$1,864,862.



LONE STAR COLLEGE SYSTEM  
 SCHEDULE OF OPERATING REVENUES  
 YEAR ENDED AUGUST 31, 2012 (With Memorandum Totals for the Year Ended August 31, 2011)

	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises	2012 Total	2011 Total
<b>Tuition</b>						
State funded courses						
In-district resident tuition	\$ 44,155,724	\$ -	\$ 44,155,724	\$ -	\$ 44,155,724	\$ 41,164,758
Out-of-district resident tuition	11,798,613	-	11,798,613	-	11,798,613	9,599,808
Non-resident tuition	5,213,400	-	5,213,400	-	5,213,400	4,785,372
TPEG -credit (set aside)*	(4,017,129)	-	(4,017,129)	-	(4,017,129)	(3,275,427)
State-funded continuing education	2,850,771	-	2,850,771	-	2,850,771	3,764,257
TPEG -non-credit (set aside)*	(164,879)	-	(164,879)	-	(164,879)	(162,820)
Non-state funded continuing education	4,424,173	-	4,424,173	-	4,424,173	3,654,897
Total tuition	64,260,673	-	64,260,673	-	64,260,673	59,530,845
<b>Fees</b>						
Registration fee	1,884,906	-	1,884,906	-	1,884,906	1,853,352
Student activity fee	2,506,523	-	2,506,523	-	2,506,523	2,406,506
Laboratory fee	1,221,081	-	1,221,081	-	1,221,081	1,186,884
Technology fee	8,747,114	-	8,747,114	-	8,747,114	8,444,663
General use fee	8,744,178	-	8,744,178	-	8,744,178	5,871,640
Distance learning fee	3,830,965	-	3,830,965	-	3,830,965	2,125,134
Infrastructure fee	2,522,789	-	2,522,789	-	2,522,789	29,140
Differential tuition fee	957,628	-	957,628	-	957,628	-
Incidental fee	533,181	-	533,181	-	533,181	1,168,310
Other fees	260,272	-	260,272	-	260,272	248,535
Total fees	31,208,637	-	31,208,637	-	31,208,637	23,334,164
<b>Scholarship allowances and discounts</b>						
Scholarship allowances	(728,594)	-	(728,594)	-	(728,594)	(1,500,221)
Remissions and exemptions - state	(4,327,476)	-	(4,327,476)	-	(4,327,476)	(3,715,771)
Remissions and exemptions - local	(705,078)	-	(705,078)	-	(705,078)	-
TPEG allowances	(1,041,274)	-	(1,041,274)	-	(1,041,274)	(820,335)
State grants to students	(18,446)	-	(18,446)	-	(18,446)	(140,105)
Federal grants to students	(29,784,471)	-	(29,784,471)	-	(29,784,471)	(22,599,384)
Other	-	-	-	-	-	-
Total scholarship allowances and discounts	(36,605,339)	-	(36,605,339)	-	(36,605,339)	(28,775,816)
Total net tuition and fees	58,863,971	-	58,863,971	-	58,863,971	54,089,193



## LONE STAR COLLEGE SYSTEM

## SCHEDULE OF OPERATING REVENUES

YEAR ENDED AUGUST 31, 2012 (With Memorandum Totals for the Year Ended August 31, 2011)

			Educational	Auxiliary	2012	2011
	Unrestricted	Restricted	Activities	Enterprises	Total	Total
Additional operating revenues						
Federal grants and contracts	-	6,636,571	6,636,571	-	6,636,571	5,016,076
State grants and contracts	-	2,656,725	2,656,725	-	2,656,725	3,271,584
Local grants and contracts	1,802,920	2,620,563	4,423,483	-	4,423,483	5,790,689
Other operating revenue	1,757,129	-	1,757,129	-	1,757,129	1,546,851
Total additional operating revenues	3,560,049	11,913,859	15,473,908	-	15,473,908	15,625,200
Auxiliary enterprises						
Food service	-	-	-	1,699,752	1,699,752	1,780,538
Bookstore	-	-	-	2,647,730	2,647,730	2,496,438
Child care fees	-	-	-	326,831	326,831	321,499
Special events	-	-	-	780,978	780,978	673,029
Other	-	-	-	3,114,624	3,114,624	2,041,440
Total auxiliary enterprises	-	-	-	8,569,915	8,569,915	7,312,944
Total operating revenues	\$ 62,424,020	\$ 11,913,859	\$ 74,337,879	\$ 8,569,915	\$ 82,907,794	\$ 77,027,337

(Exhibit 2)

(Exhibit 2)

\* In accordance with Education Code 56.033, \$4,182,008 and \$3,438,247 was set aside for Texas Public Education Grants in 2012 and 2011, respectively.

## LONE STAR COLLEGE SYSTEM

## SCHEDULE OF OPERATING EXPENSES BY OBJECT

YEAR ENDED AUGUST 31, 2012 (with Memorandum Totals for the Year Ended August 31, 2011)

	Operating Expenses				2012 Total	2011 Total
	Salaries and Wages	Benefits		Other Expenses		
		State	Local			
Unrestricted educational activities						
Instruction	\$ 81,606,824	\$ -	\$ 5,417,414	\$ 9,846,949	\$ 96,871,187	\$ 91,233,114
Public service	702,949	-	97,772	229,316	1,030,037	894,772
Academic support	28,695,219	-	2,985,498	9,650,169	41,330,886	41,265,956
Student services	20,581,832	-	1,985,473	9,303,874	31,871,179	27,323,999
Institutional support	14,826,209	-	5,189,946	8,347,110	28,363,265	28,551,259
Operation and maintenance of plant	10,978,563	-	2,964,321	28,175,529	42,118,413	36,335,134
Total unrestricted educational activities:	<u>157,391,596</u>	<u>-</u>	<u>18,640,424</u>	<u>65,552,947</u>	<u>241,584,967</u>	<u>225,604,234</u>
Restricted educational activities						
Instruction	1,696,515	6,555,430	374,580	2,816,705	11,443,230	13,344,614
Public service	6,563	78,887	1,709	45,763	132,922	356,891
Academic support	2,093,692	3,108,732	380,407	468,826	6,051,657	6,231,137
Student services	5,099	1,947,918	38,798	238,051	2,229,866	2,776,535
Institutional support	10,998	808,760	43,700	-	863,458	1,356,729
Operation and maintenance of plant	-	-	-	111,775	111,775	162,000
Scholarships and fellowships	-	-	-	60,373,642	60,373,642	51,120,397
Total restricted educational activities	<u>3,812,867</u>	<u>12,499,727</u>	<u>839,194</u>	<u>64,054,762</u>	<u>81,206,550</u>	<u>75,348,303</u>
Total educational activities	161,204,463	12,499,727	19,479,618	129,607,709	322,791,517	300,952,537
Auxiliary enterprises	911,770	-	380,924	5,479,738	6,772,432	5,748,363
Depreciation expense - buildings	-	-	-	9,527,285	9,527,285	8,847,851
Depreciation expense - equip & furn	-	-	-	9,840,373	9,840,373	3,818,104
Total operating expenses	<u>\$ 162,116,233</u>	<u>\$ 12,499,727</u>	<u>\$ 19,860,542</u>	<u>\$ 154,455,105</u>	<u>\$ 348,931,607</u>	<u>\$ 319,366,855</u>
				(Exhibit 2)	(Exhibit 2)	

LONE STAR COLLEGE SYSTEM  
 SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES  
 YEAR ENDED AUGUST 31, 2012 (With Memorandum Totals for the Year Ended August 31, 2011)

	Unrestricted	Restricted	Auxiliary Enterprises	2012 Total	2011 Total
<b>Non-Operating revenues</b>					
State appropriations					
Education and general state support	\$ 62,918,245	\$ -	\$ -	\$ 62,918,245	\$ 57,172,803
State group insurance	-	5,583,801	-	5,583,801	8,584,534
State retirement matching	-	6,915,926	-	6,915,926	7,647,951
<b>Total state appropriations</b>	<b>62,918,245</b>	<b>12,499,727</b>	<b>-</b>	<b>75,417,972</b>	<b>73,405,288</b>
Maintenance ad valorem taxes	101,461,010	-	-	101,461,010	96,232,370
General obligation ad valorem taxes	-	39,020,221	-	39,020,221	38,486,397
Federal revenue, non-operating	-	89,174,691	-	89,174,691	74,413,134
Gifts	1,953,695	-	-	1,953,695	270,000
Investment income, net	499,774	-	-	499,774	732,471
Gain on disposal of capital asset	375,347	-	-	375,347	804,448
Other non-operating revenues	912,406	941,991	-	1,854,397	2,792,949
<b>Total non-operating revenues</b>	<b>168,120,477</b>	<b>141,636,630</b>	<b>-</b>	<b>309,757,107</b>	<b>287,137,057</b>
<b>Non-Operating expenses</b>					
Interest on capital related debt	-	19,614,225	-	19,614,225	20,958,652
Loss on disposal of capital assets	1,040,993	-	-	1,040,993	1,438,647
<b>Total non-operating expenses</b>	<b>1,040,993</b>	<b>19,614,225</b>	<b>-</b>	<b>20,655,218</b>	<b>22,397,299</b>
<b>Net non-operating revenues</b>	<b>\$ 167,079,484</b>	<b>\$ 122,022,405</b>	<b>\$ -</b>	<b>\$ 289,101,889</b>	<b>\$ 264,739,758</b>
				(Exhibit 2)	(Exhibit 2)

LONE STAR COLLEGE SYSTEM  
 SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY  
 YEAR ENDED AUGUST 31, 2012 (with Memorandum Totals for the Year Ended August 31, 2011)

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets (Net)	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 52,937,073	\$ -	\$ -	\$ -	\$ 52,937,073	\$ 52,937,073	\$ -
Board designated	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Auxiliary enterprises	7,251,741	-	-	-	7,251,741	7,251,741	-
Loan	-	485,631	-	-	485,631	-	485,631
Endowment:							
Quasi:							
Unrestricted	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Endowment							
True	-	-	-	-	-	-	-
Term	-	-	-	-	-	-	-
Life income contracts	-	-	-	-	-	-	-
Annuities	-	-	-	-	-	-	-
Plant:							
Unexpended	-	-	-	-	-	-	-
Renewals	-	-	-	-	-	-	-
Debt service	-	13,399,928	-	-	13,399,928	-	13,399,928
Investment in Plant	-	-	-	195,090,503	195,090,503	-	195,090,503
Total Net Assets, August 31, 2012	60,188,814	13,885,559	-	195,090,503	269,164,876	60,188,814	208,976,062
Total Net Assets, August 31, 2011	47,563,569	7,574,071	-	190,949,160	246,086,800	47,563,569	198,523,231
Net Increase in Net Assets	\$ 12,625,245	\$ 6,311,488	\$ -	\$ 4,141,343	\$ 23,078,076	\$ 12,625,245	\$ 10,452,831

**SCHEDULE E**

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2012**

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Direct Programs:</u>			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants-FSEOG(10-11)	84.007	P007A104084	\$ (36,713)
Federal Supplemental Educational Opportunity Grants-FSEOG(11-12)	84.007	P007A114084	685,750
Total Federal Supplemental Educational Opportunity Grants			<u>649,037</u>
Federal Work-Study Program (11-12)	84.033	P933A114084	327,485
Federal Work-Study Program (12-13)	84.033	P933A124084	100,359
Total Federal Work-Study Program			<u>427,844</u>
Federal Pell Grant Program (10-11)	84.063	P063P103422	17,867
Federal Pell Grant Program (11-12)	84.063	P063P113422	88,088,209
Total Federal Pell Grant Program			<u>88,106,076</u>
Federal Direct Loan Program (10-11)	84.268	P268K113422	29,141
Federal Direct Loan Program (11-12)	84.268	P268K123422	78,207,287
Total Direct Loan Program			<u>78,236,428</u>
Academic Competitiveness (10-11)	84.375	P375A103422	(5,766)
<u>Pass-Through from:</u>			
Texas Higher Education Coordinating Board			
Special Leveraging Educational Assistance Partnership (10-11)	84.069B	N/A	(2,500)
<b>TOTAL FINANCIAL AID CLUSTER</b>			<u>167,411,119</u>
Higher Education Institutional Aid			
H SI Math Success STEM	84.031C	P031C110072	666,816
TRIO Cluster			
TRIO - Student Support Services - North Harris	84.042A	P042A050846	204,110
TRIO - Student Support Services - Tomball	84.042A	P042A101133	221,086
Total TRIO - Student Support Services			<u>425,196</u>
TRIO - Talent Search(11-12)			
Talent Search Program	84.044A	P044A070453	229
Talent Search Program	84.044A	P044A110072	144,709
Total TRIO - Talent Search			<u>144,938</u>
TRIO - Upward Bound MAC (10-11)	84.047A	PO47A070990	20,802
TRIO - Upward Bound MAC (11-12)	84.047A	PO47A070990	273,825
TRIO - Upward Bound ACE (10-11)	84.047A	P047A071083	90,099
TRIO - Upward Bound ACE (11-12)	84.047A	P047A071083	225,075
Total TRIO - Upward Bound			<u>609,801</u>
<b>TOTAL TRIO CLUSTER</b>			<u>1,179,935</u>

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

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2012**

**SCHEDULE E (Cont)**

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
<u>Pass-Through from:</u>			
Texas Education Agency			
Adult Education - Basic Grants to States (11-12)	84.002A	124100017110401	1,028,301
Adult Education - Basic Grants to States (12-13)	84.002A	134100017110455	41,966
Adult Education - Basic Grants to States EL Civics (11-12)	84.002A	124100087110437	120,294
Adult Education - Basic Grants to States EL Civics (12-13)	84.002A	134100087110477	5,447
Adult Education - Basic Grants to States Project Great (10-11)	84.002A	114100037110051	34,788
Adult Education - Basic Grants to States Project Great (11-12)	84.002A	124100037110060	345,333
Total Adult Basic Education - State Grant Program			<u>1,576,129</u>
Career and Technical Education (11-12) ATC Professional Development	84.048	124200257110001	167,334
Texas Higher Education Coordinating Board			
Career and Technical Education - Basic Grants to States (12-13)	84.048	1242020671200001	845,413
Career and Technical Education - Leadership (11-12)	84.048	1242020771200001	65,719
Total Career and Technical Education - Basic Grants to States			<u>1,078,466</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>171,912,465</u>
<b>U.S. DEPARTMENT OF COMMERCE</b>			
Economic Adjustment Assistance - Victory Center	11.307	08-79-04558	672,866
<b>U.S. DEPARTMENT OF JUSTICE</b>			
<u>Direct Program:</u>			
Grants to reduce domestic violence, sexual assault & stalking on campus	16.525	2011-WA-AX-0021	33,699
<b>U.S. DEPARTMENT OF LABOR</b>			
<u>Pass-Through from:</u>			
Texas Workforce Commission			
Employment Services/Wagner-Peyser Funded Activities	17.207	2812WPB000	373,251
WIA Dislocated Worker Formula Grants	17.278	2911WSW004	225,181
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>			<u>598,432</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Commercial Motor Vehicle Operator Training	20.235	FM-DTG-0006-11-01-00	164,299
<b>NATIONAL ENDOWMENT FOR THE HUMANITIES</b>			
<u>Pass-Through from:</u>			
American Library Association			
Promotion of the Humanities - Lincoln : Constituion Civil War	45.164		750
<b>SMALL BUSINESS ADMINISTRATION</b>			
<u>Pass-Through from:</u>			
University of Houston			
Small Business Development Center (10-11)	59.037	R040212	26,639
Small Business Development Center (11-12)	59.037	R07-0104	222,704
Small Business Development Center Job Act Program	59.037	R07-0104	9,033
<b>TOTAL SMALL BUSINESS ADMINISTRATION</b>			<u>258,376</u>
<b>U.S. DEPARTMENT OF ENERGY</b>			
<u>Pass-Through from:</u>			
Texas Controllor			
State Energy Program	81.041	DE-EE0000116	364,289
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Pass-Through from:</u>			
Texas Education Agency			
Temporary Assistance for Needy Families (10-11)	93.558	113625017110335	(5,209)
Temporary Assistance for Needy Families (11-12)	93.558	123625017110376	47,723
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>42,514</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 174,047,690</u>

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

**LONE STAR COLLEGE SYSTEM  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2012**

**1 Basis of Presentation**

The schedule of expenditures of federal awards presents the federal grant activity of Lone Star College System (the "System") for the year ended August 31, 2012.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations* and includes awards received directly from federal agencies as well as federal awards passed through other government agencies.

**2 Basis of Accounting**

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting. Revenue is recognized when earned and expenditures are recognized when incurred. Revenues are reported only to the extent of expenditures for the current year. Federal receivables represent amounts expended in excess of that received.

**3 Federal Assistance Reconciliation**

Federal Grants and Contracts Revenue - per Schedule of Operating Revenues (Schedule A)	6,636,571
Federal Revenue, Non-Operating - per Schedule of Non-Operating Revenues and Expenses (Schedule C)	89,174,691
Federal Direct Student Loan Program	<u>78,236,428</u>
 Total Federal Revenues per Schedule of Expenditures of Federal Awards (Schedule E)	 <u><u>174,047,690</u></u>

**4 Expenditures Not Subject to Federal Single Audit: None**

**5 Sub-Recipients: None**

**6 Insurance Coverage**

During the year ended August 31, 2012, the System maintained the following types of insurance:

- Professional Liability: \$5,000,000 aggregate
- Primary Liability: Commercial General: \$1,000,000 per incident / \$3,000,000 aggregate
- Commercial Automobile Truck Driving Academy: \$1,000,000 aggregate
- Commercial Automobile Vehicle Fleet: \$1,000,000 aggregate
- Excess Liability: \$5,000,000 aggregate
- Surety Insurance: \$500,000 aggregate
- Property & Equipment: Fire & Extended coverage \$500,000,000 aggregate
- Equipment Breakdown \$100,000,000 aggregate
- Worker's Compensation: \$1,000,000 aggregate
- Fine Arts Insurance: \$500,000 aggregate
- Medical Professional Liability Dental: \$1,000,000 per incident / \$3,000,000 aggregate
- Student Insurance: Medical Professional Liability Health Occupational: \$1,000,000 per incident / \$3,000,000 aggregate
- Health Insurance International: \$50,000 aggregate
- Travel Health Insurance: \$500,000 aggregate
- Health Insurance Student Interns: \$ 5,000 aggregate

LONE STAR COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
YEAR ENDED AUGUST 31, 2012

State Grantor/Pass Through Grantor Program Title	State/Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>TEXAS HIGHER EDUCATION COORDINATING BOARD:</b>			
<u>Direct Programs:</u>			
College Work - Study Program (11-12)	N/A	N/A	\$ 119,320
Texas Grant Program (10-11)	N/A	N/A	1,780
Texas Grant Program (11-12)	N/A	N/A	253,224
Texas Grant Renewal Program (10-11)			(2,670)
Texas Grant Renewal Program (11-12)	N/A	N/A	24,101
Total Texas Grant Program			<u>276,435</u>
Texas Educational Opportunity Grant Program (10-11)	N/A	N/A	(890)
Texas Educational Opportunity Grant Program (11-12)			74,587
Texas Educational Opportunity Grant Renewal Program (11-12)	N/A	N/A	2,362
Total Texas Educational Opportunity Grant Program			<u>76,059</u>
Fifth-Year Accounting (11-12)	N/A	N/A	4,390
Professional Nursing Shortage Reduction Program (08-11)	N/A	N/A	(149,019)
Professional Nursing Shortage Reduction Plan (11-12)	N/A	N/A	97,531
Professional Nursing Shortage Reduction Plan (12-13)			383
Total Professional Nursing Shortage Reduction Program			<u>(51,105)</u>
Nursing Shortage Reduction Plan - Over 70 (10-11)	N/A	N/A	110,208
Nursing Shortage Reduction Plan - Over 70 (11-12)	N/A	N/A	18,230
Total Nursing Shortage Reduction Plan			<u>128,438</u>
Developmental Education Demonstration Projects	N/A	4015	554,281
Developmental Education Demonstration Projects -ABE	N/A		344,708
Developmental Education Demonstration Projects -ABE IG	N/A		509
Total Developmental Education Demonstration Projects			<u>899,498</u>
Intensive College Readiness Program	N/A	N/A	123,722
Minority M.A.L.E Initiative 12-13	N/A	N/A	8,154
First Year Experience Program	N/A	N/A	27,854
<b>TOTAL DIRECT</b>			<u>1,612,765</u>
<u>Pass-Through from:</u>			
TSU-San Marcos Side M (Subaward)		8000001440.1	9,096
<b>TOTAL TEXAS HIGHER EDUCATION COORDINATING BOARD</b>			<u>1,621,861</u>



LONE STAR COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
YEAR ENDED AUGUST 31, 2012

State Grantor/Pass Through Grantor/ Program Title	State/Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>TEXAS WORKFORCE COMMISSION:</b>			
<u>Direct Programs:</u>			
Lone Star College in Partnership with Godwin-SBO and Lectrus Corporation	N/A	2810SDF002	\$ 129,386
Lone Star College in Partnership with Tenaris Manufacturing Consortium	N/A	2811SDF000	536,369
Lone Star College in Partnership with Hospital Corporation of America, Inc. (HCA)	N/A	2812SDF002	5,432
Lone Star College in Partnership with SYSCO Corporation	N/A	2812SDF004	20,033
Lone Star College in Partnership with FMC Corporation	N/A	2812SDF005	8,720
Skills for Small Business	N/A	2810SSD002	(5,531)
<b>TOTAL DIRECT</b>			<u>694,409</u>
<u>Pass-Through from:</u>			
Texas State Technical College Waco in Partnership with Hospital Corporation of America, Inc. (HCA)	N/A	1310SDF000	8,504
Lamar Institute of Technology in Partnership with a Christus Hospital Consortium	N/A	2811SDF001	56,750
<b>TOTAL PASS-THROUGH</b>			<u>65,254</u>
<b>TOTAL TEXAS WORKFORCE COMMISSION</b>			<u>759,663</u>
<b>TEXAS EDUCATION AGENCY:</b>			
<u>Direct Programs:</u>			
Adult Basic Education (10-11)	N/A	110100017110357	156,986
Adult Basic Education (11-12)	N/A	120100017110401	164,177
<b>TOTAL TEXAS EDUCATION AGENCY</b>			<u>321,163</u>
<b>TEXAS COMPTROLLER OF PUBLIC ACCOUNTS:</b>			
<u>Direct Programs:</u>			
JET: Scholarship Program 2010	N/A	N/A	(45,962)
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>			<u>\$ 2,656,725</u>

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

**LONE STAR COLLEGE SYSTEM  
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2012**

**1 Significant Accounting Policies used in Preparing the Schedule**

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

**2 State Assistance Reconciliation**

State Grants and Contracts (Schedule A)	\$ 2,656,725
Reconciling items:	
None	-
Total expenditures per Schedule of State Awards	<u>\$ 2,656,725</u>

**3 Sub-Recipients: None**

**4 Insurance Coverage**

During the year ended August 31, 2012, the System maintained the following types of insurance:

- Professional Liability: \$5,000,000 aggregate
- Primary Liability: Commercial General: \$1,000,000 per incident / \$3,000,000 aggregate
- Commercial Automobile Truck Driving Academy: \$1,000,000 aggregate
- Commercial Automobile Vehicle Fleet: \$1,000,000 aggregate
- Excess Liability: \$5,000,000 aggregate
- Surety Insurance: \$500,000 aggregate
- Property & Equipment: Fire & Extended coverage \$500,000,000 aggregate
- Equipment Breakdown \$100,000,000 aggregate
- Worker's Compensation: \$1,000,000 aggregate
- Fine Arts Insurance: \$500,000 aggregate
- Medical Professional Liability Dental: \$1,000,000 per incident / \$3,000,000 aggregate
- Student Insurance: Medical Professional Liability Health Occupational: \$1,000,000 per incident / \$3,000,000 aggregate
- Health Insurance International: \$50,000 aggregate
- Travel Health Insurance: \$500,000 aggregate
- Health Insurance Student Interns: \$ 5,000 aggregate



## STATISTICAL SECTION

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

### Contents

#### Financial Trends

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

#### Revenue Capacity

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

#### Debt Capacity

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

#### Demographic and Economic Information

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

#### Operating Information

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

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

Lone Star College System  
Statistical Supplement 1  
Net Assets by Component  
Fiscal Years 2003 to 2012  
(unaudited)

	For the Fiscal Year Ended August 31, (amounts expressed in thousands)									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Invested in capital assets, net of related debt	\$195,090	\$190,949	\$178,172	\$153,534	\$139,813	\$119,598	\$105,149	\$88,362	\$79,699	\$81,262
Restricted - expendable	13,886	7,574	492	7,652	5,617	6,537	3,822	2,810	2,246	2,818
Restricted - nonexpendable	-	-	-	-	-	-	-	-	-	-
Unrestricted	60,189	47,563	45,022	45,996	47,832	40,506	37,603	29,486	26,525	21,283
<b>Total net assets</b>	<u>\$ 269,165</u>	<u>\$ 246,086</u>	<u>\$223,686</u>	<u>\$ 207,182</u>	<u>\$193,262</u>	<u>\$ 166,641</u>	<u>\$ 146,574</u>	<u>\$ 120,658</u>	<u>\$ 108,470</u>	<u>\$105,363</u>
Net increase in net assets	<u>\$ 23,079</u>	<u>\$ 22,400</u>	<u>\$ 16,504</u>	<u>\$ 13,920</u>	<u>\$ 26,621</u>	<u>\$ 20,067</u>	<u>\$ 25,916</u>	<u>\$ 12,188</u>	<u>\$ 3,107</u>	

**Lone Star College System**  
**Statistical Supplement 2**  
**Revenues by Source**  
**Fiscal Years 2003 to 2012**  
(unaudited)

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Tuition and Fees (Net of Discounts)	\$ 58,864	\$ 54,089	\$ 46,330	\$ 42,325	\$ 39,171	\$ 36,815	\$ 33,412	\$ 30,134	\$ 28,615	\$ 22,311
Governmental Grants and Contracts										
Federal Grants and Contracts	6,636	5,016	7,803	7,213	6,642	6,741	6,064	5,995	4,947	6,765
State Grants and Contracts	2,657	3,271	2,744	2,215	1,517	826	524	901	910	1,680
Local Grants and Contracts	4,423	5,791	3,656	3,388	3,895	3,876	8,098	3,172	2,978	4,778
Auxiliary enterprises	8,570	7,313	6,737	5,663	6,052	5,671	5,390	4,886	5,025	3,681
Other Operating Revenues	1,757	1,547	1,326	1,694	892	910	891	1,089	429	300
<b>Total Operating Revenues</b>	<u>\$ 82,907</u>	<u>\$ 77,027</u>	<u>\$ 68,596</u>	<u>\$ 62,498</u>	<u>\$ 58,169</u>	<u>\$ 54,839</u>	<u>\$ 54,379</u>	<u>\$ 46,177</u>	<u>\$ 42,904</u>	<u>\$ 39,515</u>
Ad Valorem Taxes:										
Maintenance and Operations	101,461	96,232	89,416	86,540	83,480	73,756	70,130	60,589	55,442	47,337
General Obligation Bonds	39,020	38,486	39,416	38,050	34,698	31,368	28,437	26,362	24,243	20,016
State Appropriations	75,418	73,405	74,594	71,148	72,000	62,750	62,266	54,697	53,998	46,501
Federal Revenue, Non-Operating	89,175	74,414	50,747	23,243	18,599	17,118	17,965	18,290	16,443	11,603
Investment income	500	732	967	3,434	3,961	4,477	2,540	1,111	1,204	2,099
Other non-operating revenues	4,183	3,868	4,601	1,120	1,379	1,320	1,395	655	618	539
<b>Total Non-Operating Revenues</b>	<u>309,757</u>	<u>287,137</u>	<u>259,741</u>	<u>223,535</u>	<u>214,117</u>	<u>190,789</u>	<u>182,733</u>	<u>161,704</u>	<u>151,948</u>	<u>128,095</u>
<b>Total Revenues</b>	<u>\$ 392,664</u>	<u>\$ 364,164</u>	<u>\$ 328,337</u>	<u>\$ 286,033</u>	<u>\$ 272,286</u>	<u>\$ 245,628</u>	<u>\$ 237,112</u>	<u>\$ 207,881</u>	<u>\$ 194,852</u>	<u>\$ 167,610</u>

Statistical Supplement 2 (Cont)

	For the Year Ended August 31,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Tuition and Fees (Net of Discounts)	14.99%	14.85%	14.11%	14.80%	14.39%	14.99%	14.09%	14.50%	14.69%	13.31%
Governmental Grants and Contracts										
Federal Grants and Contracts	1.69%	1.38%	2.38%	2.52%	2.44%	2.74%	2.56%	2.88%	2.54%	4.04%
State Grants and Contracts	0.68%	0.90%	0.84%	0.77%	0.56%	0.34%	0.22%	0.43%	0.47%	1.00%
Local Grants and Contracts	1.13%	1.59%	1.11%	1.18%	1.43%	1.58%	3.42%	1.53%	1.53%	2.85%
Auxiliary enterprises	2.18%	2.01%	2.05%	1.98%	2.22%	2.31%	2.27%	2.35%	2.58%	2.20%
Other Operating Revenues	0.45%	0.42%	0.40%	0.59%	0.33%	0.37%	0.38%	0.51%	0.22%	0.18%
<b>Total Operating Revenues</b>	<b>21.11%</b>	<b>21.15%</b>	<b>20.89%</b>	<b>21.85%</b>	<b>21.37%</b>	<b>22.33%</b>	<b>22.93%</b>	<b>22.20%</b>	<b>22.02%</b>	<b>23.58%</b>
Ad Valorem Taxes:										
Maintenance and Operations	25.84%	26.43%	27.23%	30.26%	30.66%	30.03%	29.58%	29.15%	28.45%	28.24%
General Obligation Bonds	9.94%	10.57%	12.00%	13.30%	12.74%	12.77%	11.99%	12.68%	12.44%	11.94%
State Appropriations	19.21%	20.16%	22.72%	24.87%	26.44%	25.55%	26.26%	26.31%	27.71%	27.74%
Federal Revenue, Non-Operating	22.71%	20.43%	15.46%	8.13%	6.83%	6.97%	7.58%	8.80%	8.44%	6.92%
Investment income	0.13%	0.20%	0.29%	1.20%	1.45%	1.82%	1.07%	0.53%	0.62%	1.25%
Other non-operating revenues	1.07%	1.06%	1.40%	0.39%	0.51%	0.53%	0.59%	0.33%	0.32%	0.32%
<b>Total Non-Operating Revenues</b>	<b>78.89%</b>	<b>78.85%</b>	<b>79.11%</b>	<b>78.15%</b>	<b>78.63%</b>	<b>77.67%</b>	<b>77.07%</b>	<b>77.80%</b>	<b>77.98%</b>	<b>76.42%</b>
<b>Total Revenues</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Lone Star College System**  
**Statistical Supplement 3**  
**Program Expenses by Function**  
**Fiscal Years 2003 to 2012**  
(unaudited)

	For the Year Ended August 31, (amounts expressed in thousands)									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Instruction	\$ 108,314	\$ 104,578	\$ 99,673	\$ 92,039	\$ 88,102	\$ 81,585	\$ 77,225	\$ 69,557	\$ 71,587	\$ 63,503
Research	-	-	-	-	-	-	-	-	-	-
Public service	1,163	1,252	1,805	1,757	1,510	1,475	1,475	1,324	1,408	2,146
Academic support	47,383	47,497	44,995	44,796	36,140	31,411	29,010	25,892	16,270	19,319
Student services	34,101	30,101	29,942	24,065	18,469	16,705	15,551	13,947	12,770	13,101
Institutional support	29,227	29,908	30,207	27,105	33,961	30,898	28,571	28,728	26,468	18,687
Operation and maintenance of plant	42,230	36,497	35,753	38,258	31,868	27,362	23,665	20,843	23,262	20,705
Scholarships and fellowships	60,374	51,120	33,743	14,092	10,662	10,392	9,341	10,716	11,060	6,795
Auxiliary enterprises	6,772	5,748	5,297	4,952	5,696	5,304	5,132	4,796	4,345	3,326
Depreciation	19,368	12,666	10,682	9,369	8,492	8,825	8,702	8,459	7,389	7,995
<b>Total Operating Expenses</b>	<u>\$ 348,932</u>	<u>\$ 319,367</u>	<u>\$ 292,097</u>	<u>\$ 256,433</u>	<u>\$ 234,900</u>	<u>\$ 213,957</u>	<u>\$ 198,672</u>	<u>\$ 184,262</u>	<u>\$ 174,559</u>	<u>\$ 155,577</u>
Interest on capital related debt	19,614	20,959	19,731	15,582	10,419	11,359	12,518	11,431	11,728	8,330
Loss on disposal of fixed assets	1,041	1,439	5	97	347	245	6	-	-	1,691
<b>Total Non-Operating Expense:</b>	<u>20,655</u>	<u>22,398</u>	<u>19,736</u>	<u>15,679</u>	<u>10,766</u>	<u>11,604</u>	<u>12,524</u>	<u>11,431</u>	<u>11,728</u>	<u>10,021</u>
<b>Total Expenses</b>	<u>\$ 369,587</u>	<u>\$ 341,765</u>	<u>\$ 311,833</u>	<u>\$ 272,112</u>	<u>\$ 245,666</u>	<u>\$ 225,561</u>	<u>\$ 211,196</u>	<u>\$ 195,693</u>	<u>\$ 186,287</u>	<u>\$ 165,598</u>



Statistical Supplement 3 (Cont)

For the Year Ended August 31,										
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Instruction	29.31%	30.60%	31.96%	33.83%	35.87%	36.16%	36.57%	35.54%	38.43%	38.35%
Research	-	-	-	-	-	-	-	-	-	-
Public service	0.31%	0.37%	0.58%	0.65%	0.61%	0.65%	0.70%	0.68%	0.76%	1.30%
Academic support	12.82%	13.90%	14.43%	16.46%	14.71%	13.93%	13.74%	13.23%	8.73%	11.67%
Student services	9.23%	8.81%	9.60%	8.84%	7.52%	7.41%	7.36%	7.13%	6.86%	7.91%
Institutional support	7.91%	8.75%	9.69%	9.96%	13.82%	13.70%	13.53%	14.68%	14.21%	11.28%
Operation and maintenance of plant	11.42%	10.67%	11.46%	14.05%	12.97%	12.13%	11.21%	10.65%	12.49%	12.50%
Scholarships and fellowships	16.34%	14.96%	10.82%	5.18%	4.34%	4.61%	4.42%	5.48%	5.94%	4.10%
Auxiliary enterprises	1.83%	1.68%	1.70%	1.82%	2.32%	2.35%	2.43%	2.45%	2.33%	2.01%
Depreciation	5.24%	3.71%	3.43%	3.44%	3.46%	3.91%	4.12%	4.32%	3.97%	4.83%
<b>Total Operating Expenses</b>	<b>94.41%</b>	<b>93.45%</b>	<b>93.67%</b>	<b>94.23%</b>	<b>95.62%</b>	<b>94.85%</b>	<b>94.07%</b>	<b>94.16%</b>	<b>93.70%</b>	<b>93.95%</b>
Interest on capital related debt	5.31%	6.13%	6.33%	5.73%	4.24%	5.04%	5.93%	5.84%	6.30%	5.03%
Loss on disposal of fixed assets	0.28%	0.42%	0.00%	0.04%	0.14%	0.11%	-	-	-	1.02%
<b>Total Non-Operating Expense:</b>	<b>5.59%</b>	<b>6.55%</b>	<b>6.33%</b>	<b>5.77%</b>	<b>4.38%</b>	<b>5.15%</b>	<b>5.93%</b>	<b>5.84%</b>	<b>6.30%</b>	<b>6.05%</b>
<b>Total Expenses</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

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

<b>Resident Fees per Semester Credit Hour (SCH)</b>											
Academic Year (Fall)	Registration Fee (per)	In-District Tuition	Out-of-District Tuition	Technology Fees	Student Activity Fees	General Use Fee	Infrastructure Fee (per)	Cost for 12 SCH In-District	Cost for 12 SCH Out-of-	Increase Prior Year In-District	Increase Prior Year Out-of-
2012	\$12	\$40	\$110	\$7	\$2	\$7	\$20	\$704	\$1,544	0.00%	0.00%
2011	12	40	110	7	2	7	20	704	1,544	17.33%	7.22%
2010	12	38	108	7	2	2		600	1,440	0.00%	0.00%
2009	12	38	108	7	2	2		600	1,440	6.38%	12.15%
2008	12	36	96	6	2	2		564	1,284	4.44%	25.88%
2007	12	36	76	6	2			540	1,020	0.00%	0.00%
2006	12	36	76	6	2			540	1,020	9.76%	4.94%
2005	12	32	72	6	2			492	972	0.00%	0.00%
2004	12	32	72	6	2			492	972	13.89%	6.58%
2003	12	28	68	5	2			432	912		

<b>Non-Resident Fees per Semester Credit Hour (SCH)</b>											
Academic Year (Fall)	Registration Fee (per)	In-District Tuition	Out-of-District Tuition	Technology Fees	Student Activity Fees	General Use Fee	Infrastructure Fee (per)	Cost for 12 SCH Out of	Cost for 12 SCH International	Increase Prior Year In-District	Increase Prior Year Out-of-
2012	\$12	\$125	\$125	\$7	\$2	\$7	\$20	\$1,724	\$1,724	0.00%	0.00%
2011	12	125	125	7	2	7	20	1,724	1,724	6.42%	6.42%
2010	12	123	123	7	2	2		1,620	1,620	0.00%	0.00%
2009	12	123	123	7	2	2		1,620	1,620	10.66%	10.66%
2008	12	111	111	6	2	2		1,464	1,464	22.00%	22.00%
2007	12	91	91	6	2			1,200	1,200	0.00%	0.00%
2006	12	91	91	6	2			1,200	1,200	4.17%	4.17%
2005	12	87	87	6	2			1,152	1,152	0.00%	0.00%
2004	12	87	87	6	2			1,152	1,152	5.49%	5.49%
2003	12	83	83	5	2			1,092	1,092		

Note: Includes basic enrollment tuition and fees but excludes course based fees such as laboratory fees, testing fees and certification fees.

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

Fiscal Year	(amounts expressed in thousands)			Ratio of Taxable Assessed Value to Assessed Value	Direct Rate		
	Assessed Valuation of Property	Less: Exemptions	Taxable Assessed Value (TAV)		Maintenance & Operations (a)	Debt Service (a)	Total (a)
2011-12	\$ 127,768,523	\$ (10,264,805)	\$ 117,503,718	91.97%	\$ 0.0875	\$ 0.0335	\$ 0.1210
2010-11	124,218,962	(8,525,498)	115,693,464	93.14%	0.0841	0.0335	0.1176
2009-10	126,352,009	(8,422,514)	117,929,495	93.33%	0.0766	0.0335	0.1101
2008-09	122,354,425	(9,679,185)	112,675,240	92.09%	0.0766	0.0335	0.1101
2007-08	110,258,237	(6,990,029)	103,268,208	93.66%	0.0809	0.0335	0.1144
2006-07	96,720,584	(6,573,726)	90,146,858	93.20%	0.0820	0.0347	0.1167
2005-06	87,974,128	(6,037,955)	81,936,173	93.14%	0.0860	0.0347	0.1207
2004-05	82,601,478	(7,311,588)	75,289,890	91.15%	0.0798	0.0347	0.1145
2003-04	75,893,959	(6,295,666)	69,598,293	91.70%	0.0798	0.0347	0.1145
2002-03	67,901,932	(4,063,296)	63,838,636	94.02%	0.0742	0.0313	0.1055

Source: Montgomery and Harris County Appraisal Districts.

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

(a) per \$100 Taxable Assessed Valuation

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

Fiscal Year	Appropriation per FTSE			Appropriation per Contact Hour			
	State	FTSE	State	(hours expressed in thousands)			State
	Appropriation (expressed in thousands)			Appropriation per FTSE	Academic Contact Hours (b)	Voc/Tech Contact Hours (c)	
2011-12	\$ 75,418	45,298	\$ 1,665	7,398	164	7,562	\$ 9.97
2010-11	73,405	42,255	1,737	7,287	195	7,482	9.81
2009-10	74,594	32,124	2,322	7,692	183	7,875	9.47
2008-09	71,148	28,358	2,509	6,821	199	7,020	10.14
2007-08	72,001	27,168	2,650	6,592	153	6,745	10.67
2006-07	62,750	25,688	2,443	6,229	182	6,411	9.79
2005-06	62,266	25,269	2,464	6,160	236	6,396	9.74
2004-05	54,697	23,348	2,343	5,750	154	5,904	9.26
2003-04	53,997	22,114	2,442	5,649	193	5,842	9.24
2002-03	46,501	20,552	2,263	5,097	210	5,307	8.76

Source

- (a) CBM001 Fall Semester
- (b) CBM004 Fall Semester
- (c) CBM00C 1st Quarter

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

**Lone Star College System  
Statistical Supplement 7  
Principal Taxpayers  
Last Ten Tax Years  
(unaudited)**

Taxpayer	Type of Business	Taxable Assessed Value (TAV) by Tax Year (amounts expressed in thousands)									
		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Hewlett Packard	Manufacturing	\$ 966,995	\$ 773,400	\$ 951,681	\$ 851,026	\$ 1,070,242	\$ 717,813	\$ 612,508	\$ 328,867	\$ 259,341	
National Oilwell Inc.	Oil and Gas	853,978	1,029,299	542,361	344,584						
Centerpoint Energy Inc	Utility	612,353	607,492	631,661	634,424	629,973	669,281	627,004	665,897	604,808	
Halliburton	Oil and Gas	417,115	243,305	251,237	264,056					178,640	156,242
Walmart	Retail	340,227	532,664	562,119	540,093	512,420	272,154	194,673	231,324	245,454	
Smith International	Oil and Gas	241,037	227,655	254,117	235,543						
Continental Airlines Inc	Airline	240,493	234,462			190,396	190,101	218,579	218,060	197,419	
Wal-Mart Real Estate Bus Trst	Real Estate	230,856						220,261			
HEB Grocery Co LP	Retail grocer	223,180						158,170			
Baker Hughes	Oil and Gas	217,842		244,222							
LeTourneau Technologies	Oil and Gas		226,670	282,033							
Comcast of Houston LLC	Utility		218,045								
Hines Interests Ltd Psp	Real Estate		215,407	234,733	286,343	248,302	226,654	211,493	190,395	214,578	
Houston Pipeline Co LP	Utility			355,074	324,603	253,573	525,621	368,197			
Schlumberger Technology	Oil and Gas				269,686						
AT&T/Southwestern Bell	Utility				236,936						
Nabors Drilling USA LP	Oil and Gas					348,855	254,770	260,074	243,006		
Express Jet Airlines Inc	Airline					507,533					
Exxon Mobil Corp	Oil and Gas					200,909					
Texas Cable Partners LP	Utility					198,660	174,024	127,130	136,543		
Wachovia Develop Corp	Real Estate							136,277			
Woodlands Land Dev LP	Real Estate								248,881	248,881	302,183
AEP Energy Services, Inc	Utility								185,355		126,266
Gulf States Utilities	Utility								143,586	143,585	141,063
First Security Bank, Trustee	Other								136,277		
Compaq	Manufacturing									202,282	538,611
BAM Lease Company	Property Management									160,887	168,148
Houston Lighting & Power	Utility										532,028
Enron Corporation	Conglomerate										
Weingarten Realty	Real Estate										131,219
Greenspoint Plaza Ltd	Property Management										186,453
<b>Totals</b>		<b>\$ 4,344,076</b>	<b>\$ 3,534,999</b>	<b>\$ 3,357,557</b>	<b>\$ 3,136,268</b>	<b>\$ 3,090,621</b>	<b>\$ 2,691,036</b>	<b>\$ 2,279,970</b>	<b>\$ 2,262,781</b>	<b>\$ 2,196,534</b>	<b>\$ 2,282,213</b>
<b>Total Taxable Assessed Value</b>		<b>\$ 117,503,718</b>	<b>\$ 115,693,464</b>	<b>\$117,929,495</b>	<b>\$ 112,675,240</b>	<b>\$ 103,268,208</b>	<b>\$90,146,858</b>	<b>\$81,936,173</b>	<b>\$75,289,890</b>	<b>\$69,598,293</b>	<b>\$ 63,838,636</b>

Statistical Supplement 7 (Cont)

Taxpayer	Type of Business	% of Taxable Assessed Value (TAV) by Tax Year									
		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Hewlett Packard	Manufacturing	0.82%	0.67%	0.81%	0.76%	1.04%	0.80%	0.75%	0.44%	0.37%	
National Oilwell Inc	Oil and Gas	0.73%	0.89%	0.46%	0.31%						
Centerpoint Energy Inc	Utility	0.52%	0.53%	0.54%	0.56%	0.61%	0.74%	0.77%	0.88%	0.87%	
Halliburton	Oil and Gas	0.35%	0.21%	0.21%	0.23%					0.26%	0.24%
Walmart	Retail	0.29%	0.46%	0.48%	0.48%	0.50%	0.30%	0.24%	0.31%	0.35%	
Smith International	Oil and Gas	0.21%	0.20%	0.22%	0.21%						
Continental Airlines Inc	Airline	0.20%	0.20%			0.18%	0.21%	0.27%	0.29%	0.28%	
Wal-Mart Real Estate Bus Trst	Real Estate	0.20%					0.24%				
HEB Grocery Co LP	Retail grocer	0.19%					0.18%				
Baker Hughes	Oil and Gas	0.19%		0.21%							
LeTourneau Technologies	Oil and Gas		0.20%	0.24%							
Comcast of Houston LLC	Utility		0.19%								
Hines Interests Ltd Psp	Real Estate		0.19%	0.20%	0.25%	0.24%	0.25%	0.26%	0.25%	0.31%	
Houston Pipeline Co LP	Utility			0.30%	0.29%	0.25%	0.58%	0.45%			
Schlumberger Technology	Oil and Gas				0.24%						
AT&T/Southwestern Bell	Utility				0.21%	0.34%	0.28%	0.32%	0.32%		
Nabors Drilling USA LP	Oil and Gas					0.49%					
Express Jet Airlines Inc	Airline					0.19%					
Exxon Mobil Corp	Oil and Gas					0.19%	0.19%	0.16%	-		
Texas Cable Partners LP	Utility							0.17%			
Wachovia Develop Corp	Real Estate							0.17%			
Woodlands Land Dev LP	Real Estate								0.33%	0.36%	0.47%
AEP Energy Services, Inc	Utility								0.25%	-	0.20%
Gulf States Utilities	Utility								0.19%	0.21%	0.22%
First Security Bank, Trustee	Other								0.18%		
Compaq	Manufacturing									0.29%	0.84%
BAM Lease Company	Property Management									0.23%	0.26%
Houston Lighting & Power	Utility										0.83%
Enron Corporation	Conglomerate										
Weingarten Realty	Real Estate										0.21%
Greenspoint Plaza Ltd	Property Management										0.29%
		3.70%	3.06%	2.85%	2.78%	2.99%	2.99%	2.78%	3.01%	3.16%	3.57%

Source: Harris County and Montgomery County Appraisal Districts

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

Fiscal Year Ended August 31	Levy	(a)	Cumulative Levy Adjustments	Adjusted Levy	Tax (b)	Collections - Year of Levy (c)	Percentage	Prior Collections of Prior Levies (d)	Current Collections of Prior Levies (e)	Total Collections	Cumulative Collections of Adjusted Levy
2012	\$ 131,397	\$ 7,468	\$ 138,865	\$ 139,289	100.31%	\$ 2,069	\$ 1,264	\$ 142,622	102.71%		
2011	121,564	14,359	135,923	133,207	98.00%	1,679	1,257	136,143	100.16%		
2010	115,096	14,436	129,532	126,317	97.52%	2,292	1,228	129,837	100.24%		
2009	110,518	13,297	123,815	122,271	98.75%	-	-	122,271	98.75%		
2008	105,100	13,039	118,139	114,588	96.99%	-	-	114,588	96.99%		
2007	91,528	13,673	105,201	102,060	97.01%	-	-	102,060	97.01%		
2006	91,695	5,876	97,571	94,882	97.24%	-	1,769	96,651	99.06%		
2005	78,300	7,830	86,130	83,765	97.25%	1,387	381	85,533	99.31%		
2004	74,477	5,173	79,650	77,593	97.42%	1,407	189	79,189	99.42%		
2003	67,075	1,025	68,100	64,734	95.06%	2,864	121	67,719	99.44%		

Source: Local Tax Assessor/Collector and System records.

(a) per original certified tax levy.

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

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

(d) Represents cumulative collections of prior years not collected in the current year or the year of the tax levy.

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

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

	For the Year Ended August 31 (amounts expressed in thousands)									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>General Bonded Debt</b>										
General obligation bonds	\$ 506,772	\$ 523,011	\$ 538,108	\$ 283,232	\$ 155,503	\$ 184,419	\$ 203,705	\$ 220,639	\$ 236,164	\$ 212,193
Notes	-	-	-	-	-	-	-	-	-	-
Less: Funds restricted for debt service	-	-	-	-	-	-	-	-	-	-
<b>Net general bonded debt</b>	<b>\$ 506,772</b>	<b>\$ 523,011</b>	<b>\$ 538,108</b>	<b>\$ 283,232</b>	<b>\$ 155,503</b>	<b>\$ 184,419</b>	<b>\$ 203,705</b>	<b>\$ 220,639</b>	<b>\$ 236,164</b>	<b>\$ 212,193</b>
<b>Other Debt</b>										
Revenue bonds	\$ 44,873	\$ 46,708	\$ 48,997	\$ 51,240	\$ 53,488	\$ 55,296	\$ 26,540	\$ 27,992	\$ 29,408	\$ 21,600
Maintenance Tax Notes	31,116	32,386	32,480	-	-	-	-	-	-	-
Capital lease obligations	-	-	-	-	-	-	-	-	-	-
<b>Total Outstanding Debt</b>	<b>\$ 582,761</b>	<b>\$ 602,105</b>	<b>\$ 619,585</b>	<b>\$ 334,472</b>	<b>\$ 208,991</b>	<b>\$ 239,715</b>	<b>\$ 230,245</b>	<b>\$ 248,631</b>	<b>\$ 265,572</b>	<b>\$ 233,793</b>
<b>General Bonded Debt Ratios</b>										
Per Capita	\$ 231.00	\$ 238.40	\$ 245.29	\$ 129.11	\$ 70.88	\$ 84.06	\$ 92.85	\$ 100.57	\$ 107.65	\$ 96.72
Per FTSE	11,188	12,290	15,041	9,988	5,724	7,179	8,061	9,450	10,679	10,325
As a percentage of Taxable Assessed <sup>1</sup>	0.49%	0.51%	0.52%	0.27%	0.17%	0.23%	0.27%	0.32%	0.37%	0.36%
<b>Total Outstanding Debt Ratios</b>										
Per Capita	\$ 393.76	\$ 406.83	\$ 418.64	\$ 225.99	\$ 141.21	\$ 161.97	\$ 155.57	\$ 167.99	\$ 179.44	\$ 157.97
Per FTSE	12,865	14,149	17,318	11,795	7,693	9,332	9,112	10,649	12,009	11,376
As a percentage of Taxable Assessed <sup>1</sup>	0.56%	0.58%	0.60%	0.32%	0.23%	0.29%	0.31%	0.36%	0.42%	0.40%

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



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

	For the Year Ended August 31 (amounts expressed in thousands)									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Taxable Assessed Value	\$ 117,503,718	\$ 115,693,464	\$ 117,929,495	\$ 112,675,240	\$ 103,268,207	\$ 90,146,858	\$ 81,936,173	\$ 75,289,890	\$ 69,598,293	\$ 63,838,636
<b>General Obligation Bonds</b>										
Statutory Tax Levy Limit for Debt Service	\$ 587,519	\$ 578,467	\$ 589,647	\$ 563,376	\$ 516,341	\$ 450,734	\$ 409,681	\$ 376,449	\$ 347,991	\$ 319,193
Less: Funds Restricted for Repayment of General Obligation Bonds	(13,400)	(6,351)	(6)	(7,166)	(5,131)	(6,051)	(3,337)	(2,324)	(1,760)	(2,453)
Total Net General Obligation Debt	574,119	572,116	589,641	556,210	511,210	444,683	406,344	374,125	346,231	316,740
Current Year Debt Service Requirements	45,493	47,201	46,679	36,300	31,836	30,107	28,809	26,854	22,780	21,136
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 528,626	\$ 524,915	\$ 542,962	\$ 519,910	\$ 479,374	\$ 414,576	\$ 377,535	\$ 347,271	\$ 323,451	\$ 295,604
Net Current Requirements as a % of Statutory Limit	5.46%	7.06%	7.92%	5.17%	5.17%	5.34%	6.22%	6.52%	6.04%	5.85%

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

**Lone Star College System  
Statistical Supplement 11  
Pledged Revenue Coverage  
Last Ten Fiscal Years  
(unaudited)**

**Revenue Bonds**

Fiscal Year Ended August 31	Pledged Revenues (amounts expressed in thousands)														Debt Service Requirements (amounts expressed in thousands)			
	Tuition	Technology and Other Fees	General Fees	Laboratory Fees	Community Education Fees	General Use Fee	Differential Tuition Fee	Infrastructure Fee	Rental Income	Interest Income	Vending Commission	Bookstore Commission	Total	Principal	Interest	Total	Coverage Ratio	
2012	\$ 11,164	\$ 13,372	\$ 1,885	\$ 1,221	\$ 7,110	\$ 8,744	\$ 958	\$ 2,523	\$ 2,619	\$ 297	\$ 395	\$ 2,648	\$ 52,935	\$ 3,645	\$ 2,928	\$ 6,573	8.05	
2011	10,291	13,869	5,872	1,187	7,256	-	-	-	-	339	377	2,496	41,688	2,280	3,779	6,059	6.88	
2010	9,517	11,836	1,687	1,416	6,158	-	-	-	-	320	166	2,318	33,418	2,235	2,308	4,543	7.36	
2009	7,381	8,942	1,416	937	5,601	-	-	-	-	836	333	2,029	27,474	2,240	2,394	4,634	5.93	
2008	6,846	6,637	1,351	899	5,936	-	-	-	-	1,696	329	1,654	25,348	1,808	2,817	4,625	5.48	
2007	6,528	5,403	1,269	855	6,322	-	-	-	-	2,304	293	1,579	24,553	1,346	1,179	2,525	9.72	
2006	6,160	4,772	1,222	882	5,964	-	-	-	-	1,415	242	1,507	22,164	1,451	1,222	2,673	8.29	
2005	6,697	4,465	1,157	834	5,933	-	-	-	-	689	255	1,345	21,375	1,416	1,266	2,682	7.97	
2004	6,184	4,157	1,061	697	5,012	-	-	-	-	645	241	1,789	19,786	1,938	995	2,933	6.75	
2003	3,796	3,172	986	619	4,903	-	-	-	-	570	192	969	15,207	1,310	666	1,976	7.70	

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

Fiscal Year	District Population (a)	District Personal Income (thousands of dollars)	District Personal Income Per Capita (b)	District Unemployment Rate (d)
2012	2,565,071 \$	146,178,266 \$	56,988 (c)	7.0%
2011	2,402,202	130,999,282	54,533 (c)	8.6%
2010	2,193,792	114,483,036	52,185 (c)	8.8%
2009	1,983,113	99,032,697	49,938 (c)	8.3%
2008	1,500,000	71,682,000	47,788	8.3%
2007	1,480,000	68,060,760	45,987	4.1%
2006	1,440,000	66,183,840	45,961	5.0%
2005	1,406,264	60,785,761	43,225	5.3%
2004	1,369,371	54,298,299	39,652	6.2%
2003	1,333,474	49,063,842	36,794	7.2%

**Sources:**

- (a) District estimate. Projection based on 2010 Census population. 10 year district growth trend of 6.78%
- (b) U.S. Department of Commerce Bureau of Economic Analysis, Local Area BEARFACTS by SMSA/FIPS Code for Harris County, Texas.
- (c) Estimated using average increase in per capita income 1999-2008 of 4.5%
- (d) U.S. Bureau of Labor Statistics, Metropolitan Area Employment and Unemployment, Aug. 2012

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

Principal Employment Sectors (a)	2010 (b)		2001 (b)	
	Number of Employees	Percentage of Total Employment	Number of Employees	Percentage of Total Employment
State and local	340,237	9.87%	288,885	10.06%
Retail trade	322,966	9.36%	299,830	10.44%
Construction	259,988	7.54%	242,143	8.43%
Health care and social assistance	307,139	8.91%	202,594	7.05%
Professional, scientific, and technical services	277,966	8.06%	224,464	7.82%
Manufacturing	234,402	6.80%	243,206	8.47%
Administrative and waste services	255,463	7.41%	206,191	7.18%
Accommodation and food services	228,700	6.63%	175,892	6.12%
Other services, except public administration	200,140	5.80%	165,663	5.77%
Finance and insurance	188,390	5.46%	126,157	4.39%
<b>Total</b>	<b>2,615,391</b>	<b>75.84%</b>	<b>2,175,025</b>	<b>75.74%</b>
<b>Total Employment</b>	<b>3,448,666</b>		<b>2,871,788</b>	

Source:

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

Notes:

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

(b) Data is normally presented with the current year compared to nine years prior. Latest data available for employment sectors is 2010 year and the earliest year available that is comparable is the 2001 year. (adjusted).

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Faculty</b>										
Full-Time	833	742	780	756	761	704	661	646	605	532
Part-Time	1,894	1,900	2,271	2,118	1,923	1,910	1,799	1,636	1,557	1,272
Total	2,727	2,642	3,051	2,874	2,684	2,614	2,460	2,282	2,162	1,804
<b>Percent</b>										
Full-Time	30.5%	28.1%	25.6%	26.3%	28.4%	26.9%	26.9%	28.3%	28.0%	29.5%
Part-Time	69.5%	71.9%	74.4%	73.7%	71.6%	73.1%	73.1%	71.7%	72.0%	70.5%
<b>Staff and Administrators</b>										
Full-Time	1,479	1,431	1,408	1,340	1,263	1,214	1,187	1,142	1,091	940
Part-Time	1,476	1,297	1,334	1,472	1,480	1,260	1,078	1,064	894	895
Total	2,955	2,728	2,742	2,812	2,743	2,474	2,265	2,206	1,985	1,835
<b>Percent</b>										
Full-Time	50.1%	52.5%	51.3%	47.7%	46.0%	49.1%	52.4%	51.8%	55.0%	51.2%
Part-Time	49.9%	47.5%	48.7%	52.3%	54.0%	50.9%	47.6%	48.2%	45.0%	48.8%
FTSE per Full-time Faculty	49.57	52.69	45.87	33.98	33.76	36.49	38.23	36.14	36.55	38.63
FTSE per Full-Time Staff Member	27.92	27.32	25.41	19.17	20.34	21.16	21.29	20.44	20.27	21.86
Average Annual Faculty Salary	\$ 65,835	\$ 65,321	\$ 65,012	\$ 65,301	\$ 62,755	\$ 61,426	\$ 58,424	\$ 58,090	\$ 56,738	\$ 57,252

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

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

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

Average course load                    8.8                    8                    8.7                    8.4                    8.7                    8.7

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

Source: ORIE Official Day Fall 2012

Fall 2006		Fall 2005		Fall 2004		Fall 2003	
Number	Percent	Number	Percent	Number	Percent	Number	Percent
23,372	56.73%	24,543	60.93%	22,752	61.76%	22,907	65.95%
10,107	24.53%	10,002	24.83%	9,080	24.65%	7,690	22.14%
7,721	18.74%	5,736	14.24%	5,010	13.60%	4,137	11.91%
41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%

Fall 2006		Fall 2005		Fall 2004		Fall 2003	
Number	Percent	Number	Percent	Number	Percent	Number	Percent
223	0.54%	227	0.56%	156	0.42%	381	1.10%
9,669	23.47%	9,142	22.70%	8,075	21.92%	7,664	22.06%
10,254	24.89%	10,308	25.59%	9,394	25.50%	8,230	23.69%
7,716	18.73%	7,589	18.84%	6,889	18.70%	6,075	17.49%
11,206	27.20%	10,938	27.15%	10,471	28.42%	10,348	29.79%
1,955	4.75%	1,921	4.77%	1,687	4.58%	1,862	5.36%
177	0.43%	156	0.39%	170	0.46%	174	0.50%
41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%

8.8                      8.6                      8.8                      9.2

Fall 2006		Fall 2005		Fall 2004		Fall 2003	
Number	Percent	Number	Percent	Number	Percent	Number	Percent
36,873	89.50%	36,285	90.08%	33,726	91.54%	32,002	92.13%
3,093	7.51%	3,002	7.45%	2,279	6.19%	1,986	5.72%
1,234	3.00%	994	2.47%	837	2.27%	746	2.15%
41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%

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

Gender	Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004		Fall 2003	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Female	48,086	61.75%	46,503	61.45%	42,187	60.84%	35,925	60.22%	27,545	60.10%	26,351	60.14%	24,791	60.17%	24,218	60.12%	22,489	61.04%	21,102	60.75%
Male	29,791	38.25%	29,177	38.55%	27,152	39.16%	23,734	39.78%	18,285	39.90%	17,465	39.86%	16,409	39.83%	16,063	39.88%	14,353	38.96%	13,632	39.25%
<b>Total</b>	<b>77,877</b>	<b>100.00%</b>	<b>75,680</b>	<b>100.00%</b>	<b>69,339</b>	<b>100.00%</b>	<b>59,659</b>	<b>100.00%</b>	<b>45,830</b>	<b>100.00%</b>	<b>43,816</b>	<b>100.00%</b>	<b>41,200</b>	<b>100.00%</b>	<b>40,281</b>	<b>100.00%</b>	<b>36,842</b>	<b>100.00%</b>	<b>34,734</b>	<b>100.00%</b>

Ethnic Origin	Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004		Fall 2003	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	28,976	37.21%	29,642	39.17%	29,788	42.96%	27,244	45.67%	21,587	47.10%	21,824	49.81%	21,496	52.17%	22,268	55.28%	21,128	57.35%	20,816	59.93%
Hispanic	23,534	30.22%	21,512	28.42%	18,317	26.42%	15,170	25.43%	5,381	11.74%	10,455	23.86%	9,103	22.09%	8,109	20.13%	7,033	19.09%	6,188	17.82%
African American	14,644	18.80%	13,804	18.24%	10,598	15.28%	8,239	13.81%	11,520	25.14%	4,956	11.31%	4,626	11.23%	4,572	11.35%	4,185	11.36%	3,843	11.06%
Asian	4,521	5.81%	4,404	5.82%	4,784	6.90%	4,076	6.83%	3,013	6.57%	2,804	6.40%	2,558	6.21%	2,422	6.01%	2,058	5.59%	1,900	5.47%
Foreign		0.00%		0.00%		0.00%	735	1.23%	178	0.39%	753	1.72%	847	2.06%	820	2.04%	733	1.99%	671	1.93%
Native American	258	0.33%	297	0.39%	321	0.46%	274	0.46%	758	1.65%	173	0.39%	136	0.33%	148	0.37%	158	0.43%	145	0.42%
Other	5,944	7.63%	6,021	7.96%	5,531	7.98%	3,921	6.57%	3,393	7.40%	2,851	6.51%	2,434	5.91%	1,942	4.82%	1,547	4.20%	1,171	3.37%
<b>Total</b>	<b>77,877</b>	<b>100.00%</b>	<b>75,680</b>	<b>100.00%</b>	<b>69,339</b>	<b>100.00%</b>	<b>59,659</b>	<b>100.00%</b>	<b>45,830</b>	<b>100.00%</b>	<b>43,816</b>	<b>100.00%</b>	<b>41,200</b>	<b>100.00%</b>	<b>40,281</b>	<b>100.00%</b>	<b>36,842</b>	<b>100.00%</b>	<b>34,734</b>	<b>100.00%</b>

Age	Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004		Fall 2003	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 20	20,005	25.69%	19,910	26.31%	22,769	32.84%	12,380	20.75%	16,769	36.59%	16,644	37.99%	15,499	37.62%	14,598	36.24%	13,017	35.33%	12,226	35.20%
20-24	28,122	36.11%	27,294	36.07%	22,029	31.77%	24,654	41.32%	14,969	32.66%	13,881	31.68%	13,231	32.11%	13,075	32.46%	11,979	32.51%	10,979	31.61%
25-29	11,167	14.34%	10,718	14.16%	9,292	13.40%	9,086	15.23%	5,435	11.86%	5,054	11.53%	4,596	11.16%	4,643	11.53%	4,238	11.50%	3,916	11.27%
30-39	11,342	14.56%	10,974	14.50%	9,417	13.58%	8,269	13.86%	5,204	11.36%	4,888	11.16%	4,665	11.32%	4,604	11.43%	4,415	11.98%	4,213	12.13%
40-49	5,127	6.58%	4,900	6.47%	4,203	6.06%	3,710	6.22%	2,497	5.45%	2,464	5.62%	2,353	5.71%	2,469	6.13%	2,384	6.47%	2,477	7.13%
50 & over	2,114	2.71%	1,884	2.49%	1,629	2.35%	1,560	2.61%	956	2.09%	885	2.02%	856	2.08%	892	2.21%	809	2.20%	923	2.66%
<b>Total</b>	<b>77,877</b>	<b>100.00%</b>	<b>75,680</b>	<b>100.00%</b>	<b>69,339</b>	<b>100.00%</b>	<b>59,659</b>	<b>100.00%</b>	<b>45,830</b>	<b>100.00%</b>	<b>43,816</b>	<b>100.00%</b>	<b>41,200</b>	<b>100.00%</b>	<b>40,281</b>	<b>100.00%</b>	<b>36,842</b>	<b>100.00%</b>	<b>34,734</b>	<b>100.00%</b>

Average Age	25.5	25.3	24.8	25.6	25.2	23.6	24.1	24.5	24.6	24.9
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Source: ORIE Current Day Fall 2012



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

	Transfer Student Count	Transfer Student Count	Transfer Student Count	Total of all Lone Star Transfer Students	% of all Lone Star Transfer Students
	Academic	Technical	Tech-Prep		
University of Houston	3,181	92	107	3,380	20.52%
Sam Houston State University	2,707	155	79	2,941	17.86%
Texas A&M University	2,061	58	40	2,159	13.11%
University of Houston - Downtown	1,849	66	76	1,991	12.09%
The University of Texas at Austin	1,499	30	24	1,553	9.43%
Texas State University - San Marcos	804	24	21	849	5.16%
Texas Tech University	512	15	6	533	3.24%
Stephen F. Austin State University	458	17	4	479	2.91%
The University of Texas at San Antonio	405	32	19	456	2.77%
Prairie View A&M University	332	16	23	371	2.25%
University of North Texas	235	4	2	241	1.46%
Texas Southern University	209	14	8	231	1.40%
The University of Texas at Arlington	167	21	29	217	1.32%
Texas Woman's University	155	7	13	175	1.06%
University of Houston - Victoria	140	19	8	167	1.01%
Lamar University	119	10	11	140	0.85%
The University of Texas at Dallas	81	6	9	96	0.58%
Texas A&M University - Corpus Christi	81	4	3	88	0.53%
Texas A&M University at Galveston	81	2	3	86	0.52%
University of Houston - Clear Lake	52	4	7	63	0.38%
The University of Texas at Tyler	50		2	52	0.32%
Tarleton State University	28	1	2	31	0.19%
Texas A&M University - Commerce	24	1		25	0.15%
Angelo State University	20	2	2	24	0.15%
Midwestern State University	19	5		24	0.15%
West Texas A&M University	20	3	1	24	0.15%
Texas A&M University - Kingsville	23	1		24	0.15%
The University of Texas at El Paso	5	1	4	10	0.06%
Sul Ross State University	9			9	0.05%
The University of Texas of the Permian Basin	8		1	9	0.05%
The University of Texas - Pan American	8			8	0.05%
Texas A&M International University	6			6	0.04%
Texas A&M University - Central Texas	2			2	0.01%
The University of Texas at Brownsville	2			2	0.01%
Texas A&M University - Texarkana	1			1	0.01%
Sul Ross State University - Rio Grande College	1			1	0.01%
<b>Grand Total</b>	<b>15,354</b>	<b>610</b>	<b>504</b>	<b>16,468</b>	<b>100.00%</b>

Includes only Texas public institutions

Source:

Texas Higher Education Data, ASALFS Students Pursuing Additional Education updated 2011

**Lone Star College System**  
**Statistical Supplement 18**  
**Capital Asset Information**  
**Fiscal Years 2003 to 2012**  
(unaudited)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Academic buildings</b>	65	64	49	47	35	32	31	30	29	25
Square footage (in thousands)	3,014	2,981	2,114	2,112	1,575	1,575	1,575	1,575	1,524	1,334
<b>Libraries</b>	7	7	7	7	7	7	7	7	7	6
Square footage (in thousands)	299	299	299	299	299	299	299	299	299	232
Number of Volumes (in thousands)	-	-	-	-	-	-	-	-	-	-
<b>Administrative and support buildings</b>	29	29	29	29	22	22	22	21	20	19
Square footage (in thousands)	1,215	1,215	1,208	1,208	452	452	450	448	445	401
<b>Dormitories</b>	-	-	-	-	-	-	-	-	-	-
Square footage (in thousands)	-	-	-	-	-	-	-	-	-	-
Number of Beds	-	-	-	-	-	-	-	-	-	-
<b>Apartments</b>	-	-	-	-	-	-	-	-	-	-
Square footage (in thousands)	-	-	-	-	-	-	-	-	-	-
Number of beds	-	-	-	-	-	-	-	-	-	-
<b>Dining Facilities</b>	6	6	6	6	5	5	5	5	5	5
Square footage (in thousands)	91	91	91	55	55	55	55	55	55	55
Average daily customers	4,550	4,300	4,200	3,900	3,900	3,900	N/A	N/A	N/A	N/A
<b>Athletic Facilities</b>	38	38	38	38	38	38	38	38	38	36
Square footage (in thousands)	112	112	112	112	112	112	112	112	112	87
Stadiums	-	-	-	-	-	-	-	-	-	-
Gymnasiums	-	-	-	-	-	-	-	-	-	-
Fitness Centers	6	6	6	6	6	6	6	6	6	4
Tennis Court	32	32	32	32	32	32	32	32	32	32
<b>Plant facilities</b>	9	9	7	7	6	6	6	6	6	6
Square footage (in thousands)	46	46	37	37	34	34	34	33	33	30
<b>Transportation</b>	-	-	-	-	-	-	-	-	-	-
Cars	26	15	15	15	15	16	16	16	16	15
Light Trucks/Vans	33	20	20	20	20	17	17	15	14	12
Buses	-	-	-	-	-	-	-	-	-	-





Accountants  
& Consultants

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

Board of Trustees  
Lone Star College System:

We have audited the basic financial statements of the Lone Star College System (the "System") as of and for the year ended August 31, 2012, and have issued our report thereon dated December 6, 2012. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

## Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, the System's management and Federal and State of Texas awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 6, 2012

A handwritten signature in black ink that reads "MFR, P.C." in a cursive, stylized font.



Accountants  
& Consultants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND  
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR

Board of Trustees  
Lone Star College System:

**Compliance**

We have audited the compliance of Lone Star College System (the "System") with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and *State of Texas Single Audit Circular* that could have a direct and material effect on each of the System's major Federal and State of Texas (State) programs for the year ended August 31, 2012. The System's major Federal and State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal and State programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*. Those standards, OMB Circular A-133 and the *State of Texas Single Audit Circular* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal and State program occurred. An audit includes examining, on a test basis evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the System's compliance with those requirements.

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal and State programs identified in the accompanying schedule of findings and questioned costs for the year ended August 31, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-01.

## Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal and State programs. In planning and performing our audit, we considered the System's internal control over compliance with requirements that could have a direct and material effect on a major Federal or State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal or State program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a Federal or State program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as items 2012-01. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal or State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The System's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the System's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Board of Trustees, the System's management and Federal and State of Texas awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 6, 2012

A handwritten signature in black ink that reads "MFR, P.C." in a cursive, stylized font.

**Schedule of Findings and Questioned Cost**



**LONE STAR COLLEGE SYSTEM**  
**Schedule of Findings and Questioned Costs**

Year Ended August 31, 2012

**Section 1**

**Summary of Auditors' Results**

Financial Statements

- |   |             |
|---|-------------|
| 1. Type of auditors' report issued:   | Unqualified |
| 2. Internal control over financial reporting:   |             |
| a. Material weaknesses identified?  | No          |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | No          |
| c. Noncompliance material to the financial statements noted?                              | No          |

Federal and State of Texas Awards

- |   |             |
|---|-------------|
| 1. Internal control over major programs:  |             |
| a. Material weaknesses identified?  | No          |
| b. Significant deficiencies identified that are not considered to be material weaknesses?   | Yes         |
| 2. Type of auditors' report issued on compliance for major programs:  | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 or the <i>State of Texas Single Audit Circular</i> ? | Yes         |

4. Identification of major programs:

Federal CFDA Number

Name of Federal Program

84.007  
84.033  
84.063  
84.268  
84.375

Student Financial Aid Cluster:  
Federal Supplemental Educational Opportunity Grants  
Federal Work-Study Program  
Federal Pell Grant Program  
Federal Direct Student Loans  
Academic Competitiveness Grant

84.042  
84.044  
84.047

TRIO Cluster:  
TRIO Student Support Services  
TRIO Talent Search  
TRIO Upward Bound

11.307  
17.207

Economic Adjustment Assistance  
Employment Service/Wagner-Peyser Funded Activities

81.041  
84.031  
84.048

State Energy Program  
Higher Education Institutional Aid  
Career and Technical Education - Basic Grants to States

State - Contract Number

N/A  
N/A

Name of State Program

Texas Workforce Commission State Cluster  
Adult Basic Education

- 5. Dollar threshold used to distinguish between Type A and Type B programs:
  - Federal \$ 300,000
  - State of Texas \$ 300,000
- 6. Auditee qualified as a low-risk auditee?
  - Federal Yes
  - State of Texas Yes

**Section 2**

Financial Statement Findings

None reported

**Section 3**

Federal and State of Texas Award Findings and Questioned Costs

**Finding 2012-01**

***Applicable Federal Programs:***

U.S. Department of Commerce, CFDA 11.307, Economic Adjustment Assistance (Victory Program)  
U.S. Department of Education, CFDA 84.031, Higher Education Institutional Aid (Math Lab)

***Criteria:*** The Davis Bacon Act is a United States Federal law which establishes the requirement for paying prevailing wages on public works projects. Construction funded through Federal assistance must include provisions for paying workers on-site no less than the locally prevailing wages and benefits paid on similar projects. As such, the grantee’s contractors must pay its laborers or mechanics at least weekly and the contractors must submit weekly documentation to the grantee that includes certified payrolls and signed statements of compliance with the Davis Bacon Act. In addition, all agreements with contractors must contain specific clauses regarding compliance with the Davis Bacon Act.

***Context and Condition:*** The Victory Program and the Math Lab grants are the only Federal grants which had construction components during the fiscal year ended August 31, 2012. The System typically does not fund capital projects with grant dollars. For the Victory Program, the written contract between the System and contractor did not include the specific clauses regarding the contractor’s requirement to comply with the Davis Bacon Act. For both grants, the contractor did not submit to the System certified weekly payrolls and signed statements of compliance with the Davis Bacon Act until just recently.

***Questioned costs:*** None

***Cause:*** Procedures in place were not sufficient to ensure compliance with the Davis Bacon Act.

***Effect:*** Noncompliance with the requirements of the Davis Bacon Act could result in sanctions from the grantor.

***Recommendation:*** We recommend that the System improve the existing oversight process to ensure that the Davis Bacon Act compliance requirements are met whenever they are applicable.

**LONE STAR COLLEGE SYSTEM**  
**Schedule of Findings and Questioned Costs, Continued**  
Year Ended August 31, 2012

**Views of Responsible Officials:** The Victory Center project was funded with both bond proceeds and grant funds. Ninety three percent of the construction cost was paid from proceeds of general obligation bonds; the remaining 7% was paid from proceeds of the U.S. Department of Commerce grant. The Victory Program construction contract was executed prior to the award of the grant. The System contacted the grantor agency representative in August of 2010; the representative did not indicate an amendment to existing contracts was required. The representative provided the System with the compliance requirements related to the grant, including the Davis Bacon Act. These requirements were promptly communicated to the project team and the contractors. However, the System did not subsequently ensure that weekly payrolls and certifications were submitted by the contractors. The certifications of compliance were recently requested from the contractors and have been received.

**Planned Corrective Actions:** Both construction projects partially or wholly funded with Federal grant proceeds have been completed and there are no current proposals to acquire Federal funding for construction purposes. Should an application for funding be submitted and approved at some point in the future, the following procedures will be implemented to strengthen the process over Federally funded construction:

- The System will revise the current standard contract and/or agreement for construction projects partially or wholly funded through Federal programs to ensure inclusion of the Davis Bacon Act clauses.
- The System will review the Davis Bacon Act compliance requirements, if applicable, with all parties.
- A process will be implemented to ensure that certified weekly payrolls and statements of compliance are submitted by the contractors to the System on a timely basis.

**Section 4**

Schedule of Prior Year Audit Findings

None reported in the August 31, 2011 Schedule of Findings and Questioned Costs.