



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ending August 31, 2008

Lone Star College System  
The Woodlands, Texas





LONE STAR  
COLLEGE  
SYSTEM

**COMPREHENSIVE  
ANNUAL FINANCIAL REPORT**

FOR THE FISCAL YEARS ENDED  
AUGUST 31, 2008 and 2007

Prepared By  
Administration and Finance  
Lone Star College System

Central Services & Training Center  
5000 Research Forest Drive  
The Woodlands, TX 77381

**LONE STAR COLLEGE SYSTEM**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Years Ended August 31, 2008 and 2007**

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Introductory Section

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December 4, 2008

*To the Members of the Board of Trustees, Taxpayers of Harris and Montgomery Counties and to the citizens of the Lone Star College System service area:*

Texas statutes require the Comptroller of Public Accounts and the Texas Higher Education Coordinating Board to jointly prescribe a system for financial accounting and reporting for institutions of higher education. Pursuant to that requirement, we have prepared the comprehensive annual financial report of the Lone Star College System (the System) for the fiscal years ended August 31, 2008 and 2007.

The report consists of management's representations concerning the finances of the System. Consequently, management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, management of the System has established a comprehensive internal control framework that is designed both to protect the System's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the System's financial statements in conformity with generally accepted accounting principles (GAAP).

The System's internal control framework is supported by written policies and procedures and is continually reviewed, evaluated, and modified to meet current needs. This internal control structure is subject to periodic review and evaluation by management, internal audit, and the independent auditors of the System. Because the cost of internal controls should not outweigh their benefits, the System's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The System's financial statements have been audited by McConnell and Jones LLP, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the System for the years ended August 31, 2008 and 2007 are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and, evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the System's financial statements for the years ended August 31, 2008 and 2007 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the report of the independent auditors.

## **System Profile**

The idea of a college campus in the North Houston region was once only a vision in the minds of community leaders. It began the journey to reality in 1972 when 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 System has grown at a remarkable rate over the past 35 years. 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.

On November 1, 2007 the Board of Trustees voted to change the name of the college from North Harris Montgomery Community College District to Lone Star College System (LSCS). The new name became effective on November 5, 2007.

Located in the North Houston metro area of Texas, the System serves 1,400 square miles in Harris and Montgomery Counties. For the academic year just ended the System served over 66,800 credit students and 30,000 continuing education students. Enrollment was 51,500 for the fall 2008 semester. Based on certified contact hours reported by the Texas Higher Education Coordinating Board, the System was the third largest community college district in the state. The System continues to be one of the largest and fastest growing community college districts in Texas, with five distinct colleges:

- Lone Star College-North Harris
- Lone Star College-Kingwood
- Lone Star College-Tomball
- Lone Star College-Montgomery
- Lone Star College-CyFair

Lone Star College System is a publicly-supported, two-year, comprehensive community college system that 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, LSCS develops learning communities for:

- Technical 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, occupational, 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.

The System is governed by a nine member Board of Trustees who are elected to serve 6 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.

### **Economic and Financial Condition**

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

**Local Economy** Harris and Montgomery Counties, the geographical area in which the System operates, enjoy a very robust economy. Harris County is a southeast Texas county and a major component of the Houston Primary Metropolitan Statistical area. The economy in the county is based on petrochemicals, space exploration, manufacturing and education. The county is ranked as the 6<sup>th</sup> largest manufacturing county in the country. The Texas Almanac lists cattle, rice and forest products as the principal sources of agricultural income in the county. The county's population for 2000 was 3,400,578, an increase of 20.6% since 1990. The total 2000 Effective Buying Income was \$66.6 billion with 77.8% of the households having incomes in excess of \$20,000. The County's median income per household was \$41,887 compared to the state median of \$35,942. Retail sales for 2000 totaled \$42.4 billion. Mineral production in the county includes oil, gas, cement, salt, lime, gravel, clay and stone.

**Cash Management Practices** Cash was invested in obligations of U.S agencies, treasury bills, commercial paper and local government money market pools. The maturities of the investments range from 1 day to 14 months. The average yield of the portfolio at August 31, 2008 was 3.54%. Investment income includes the increase or decrease in the fair value of investments. The fair value of securities will increase or decrease due to changes in market interest rates during the year. As individual securities come closer to their maturity date, the fair value of the security moves toward its par value. As the price moves toward par value, the unrealized gain or loss is reduced proportionally and is eliminated by the time the security matures. The System generally holds securities to maturity.

**Debt Management** The System has \$53,487,807 of revenue bonds and \$155,502,961 of general obligation bonds outstanding at August 31, 2008. Revenue bonds are special obligations of the System payable as to principal and interest solely from and secured by a first lien on and a pledge of certain revenues including tuition and fees. For the 2008 fiscal year, the pledged revenues provided approximately 5.48 times coverage of the debt service requirements. The System's Revenue bond is currently rated AA by Standard and Poor's and Aa3 by Moody's.

The System is authorized to sell bonds and to levy an ad valorem tax in payment of the debt by the Constitution and the laws of the State of Texas. At August 31, 2008 the System had \$155,502,961 in general obligation debt outstanding. Ad valorem property taxes to support outstanding debt are limited to a maximum rate of \$0.50 tax per hundred dollars of taxable appraised value. Proceeds from general obligation debt may be used to purchase land for sites, construct, improve, renovate and equip System facilities; to refund certain bonds of the System; and to pay the issuance costs of bonds. The System's general obligation debt is currently rated AA+ by Standard and Poor's and Aa2 by Moody's.

**Facilities Master Plan** During the 2005-2006 fiscal year, the System conducted a comprehensive facilities review and evaluation focused on providing facilities and infrastructure for the System's five colleges. Led by the Chancellor and Executive Council, the planning process included a college leadership group, community advisory committees, architects, demographers, and the Systems' financial advisors. In May 2008, the voters of the service area approved \$420 million of general obligation bonds to further the mission and the growth of the System based on the facilities master plan. The first installment of these bonds was sold on September 10, 2008 in the amount of \$149,780,000.

**Awards and Acknowledgements** The System was awarded, for the fourth consecutive year, the GFOA Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal years ending August 31, 2007, 2006, 2005 and 2004. The current year's comprehensive annual financial report will also be submitted to the program. Management believes that the current year report also meets the criteria of the Certificate of Achievement Program.

The system received an upgrade of its general obligation debt rating by Standard & Poor's to AA+ from AA based on the system's ongoing trends of strong financial performance, low direct debt, and a growing tax base.

The System also received an upgrade of its revenue bond rating by Standard & Poor's to AA from AA-. The raised rating is also due to the system's growing tax base and strong operating performance.

The preparation of this report could not have been accomplished without the services of the entire staff of Administration and Finance. I would like to express my appreciation to all staff that assisted and contributed to the preparation of this report. Credit must also be given to the Chancellor and Board of Trustees for their unfailing support in maintaining the highest standards of professionalism of the System's finances.

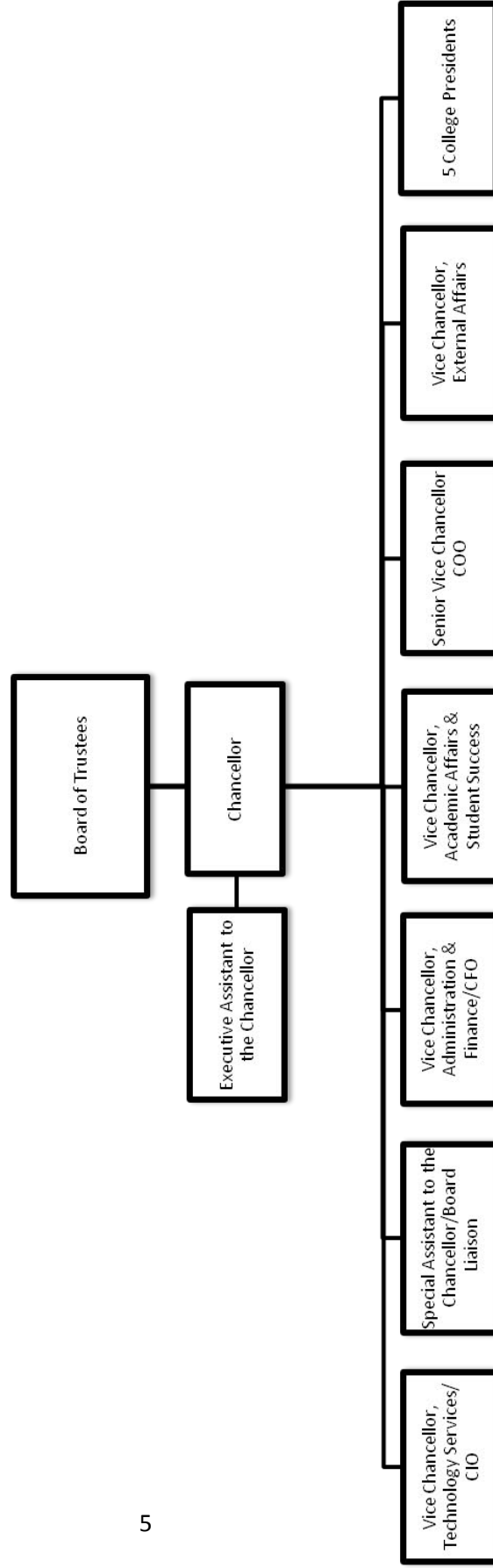
Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Cynthia F. Gilliam', written in a cursive style.

Cynthia F. Gilliam  
Vice Chancellor, Finance and Administration & CFO

# LONE STAR COLLEGE SYSTEM

## ORGANIZATIONAL CHART



# LONE STAR COLLEGE SYSTEM

## ORGANIZATIONAL DATA

For The Fiscal Year 2008

### Board of Trustees

<b>Members</b>	<b>Term Expires</b>
	<b>May</b>
Randy Bates, JD, Chair	2012
Dr. David Holsey, Vice Chair	2012
Priscilla Kelly, Secretary	2014
Chris Daniel, Assistant Secretary	2012
Dr. Richard Campbell	2010
Stephanie Marquard	2014
Robert J. Adam	2014
David Vogt	2010
Bob Wolfe	2010

### Executive Council

Dr. Richard Carpenter, Chancellor  
Helen Clougherty, Special Assistant to the Chancellor  
Dr. Rand Key, Senior Vice Chancellor/COO  
Dr. Stephen Head, President, Lone Star College - North Harris  
Dr. Katherine Persson, President, Lone Star College - Kingwood  
Dr. Ray Hawkins, President, Lone Star College - Tomball  
Penny Westerfeld, Interim President, Lone Star College - Montgomery  
Dr. Diane Troyer, President, Lone Star College - CyFair  
Cynthia Gilliam, Vice Chancellor, Administration & Finance/CFO  
Ray Laughter, Vice Chancellor, External Affairs  
Shah Ardan, Vice Chancellor, Technology Services/CIO  
Dr. Donetta Goodall, Vice Chancellor, Academic Affairs & Student Success  
Brian Nelson, General Counsel

**LSC - North Harris**  
2700 W.W. Thorne Drive  
Houston, TX 77073  
281.618.5400

**LSC - Kingwood**  
20000 Kingwood Drive  
Kingwood, TX 77339  
281.312.1600

**LSC - Tomball**  
3055 Tomball Parkway  
Tomball, TX 77375  
281.351.3300

**LSC - Montgomery**  
3200 College Park Drive  
Conroe, TX 77384  
936.321.5161

**LSC - CyFair**  
9191 Barker Cypress Road  
Cypress, TX 77433-1214  
281.290.3200

**LSC - University Center**  
3232 College Park Drive  
The Woodlands, TX 77384  
281.618.7140

**Central Services & Training Center**  
5000 Research Forest Drive  
The Woodlands, TX 77381  
832.813.6500

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

North Harris Montgomery  
Community College District  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
August 31, 2007

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.



A handwritten signature in black ink, appearing to read "M. L. R. R.", positioned above the title "President".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer", positioned above the title "Executive Director".

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Lone Star College System (formerly North Harris Montgomery Community College District), for its Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended August 31, 2007.

In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR conforms to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA for their review.

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Financial Section

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## INDEPENDENT AUDITORS' REPORT



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Lone Star College System

We have audited the accompanying financial statements of the Lone Star College System (the "System") as of and for the years ended August 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of August 31, 2008 and 2007, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2008, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our 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.

The management's discussion and analysis on pages 12 through 19, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the System's financial statements taken as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules on pages 40 through 51



are presented for purposes of additional analysis as required by the Texas Higher Education Coordinating Board, U.S. Office of Budget and Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State of Texas Single Audit Circular* and are also not a required part of the basic financial statements of the System. The information in the supplemental schedules and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "McConnell &amp; Jones LLP".

Houston, Texas  
December 4, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# 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 Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement 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 “2008”, “2007”, and “2006” refer to fiscal years ending August 31, 2008, August 31, 2007, and August 31, 2006, 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 – 2008

- Net assets increased \$27 million, which represents a 16% increase over 2007.
- Construction in progress balances increased to approximately \$3 million as various projects funded with proceeds from the 2007 Revenue bonds got underway.
- The System received an upgrade of its general obligation debt rating by Standard & Poor’s to AA+ from AA based on the system’s ongoing trends of strong financial performance, low direct debt, and a growing tax base.
- The System also received an upgrade of its revenue bond rating by Standard & Poor’s to AA from AA-. The raised rating is also due to the system’s growing tax base and strong operating performance.
- There were no bonds sold in FY 2008.
- Operating expenses for educational activities increased \$21 million, which represents a 10% increase. The increases were primarily direct expenditures for instruction, academic support and operation and maintenance of plant.
- Fundable contact hours, the basis on which community colleges in Texas are appropriated State funds, increased 6%.

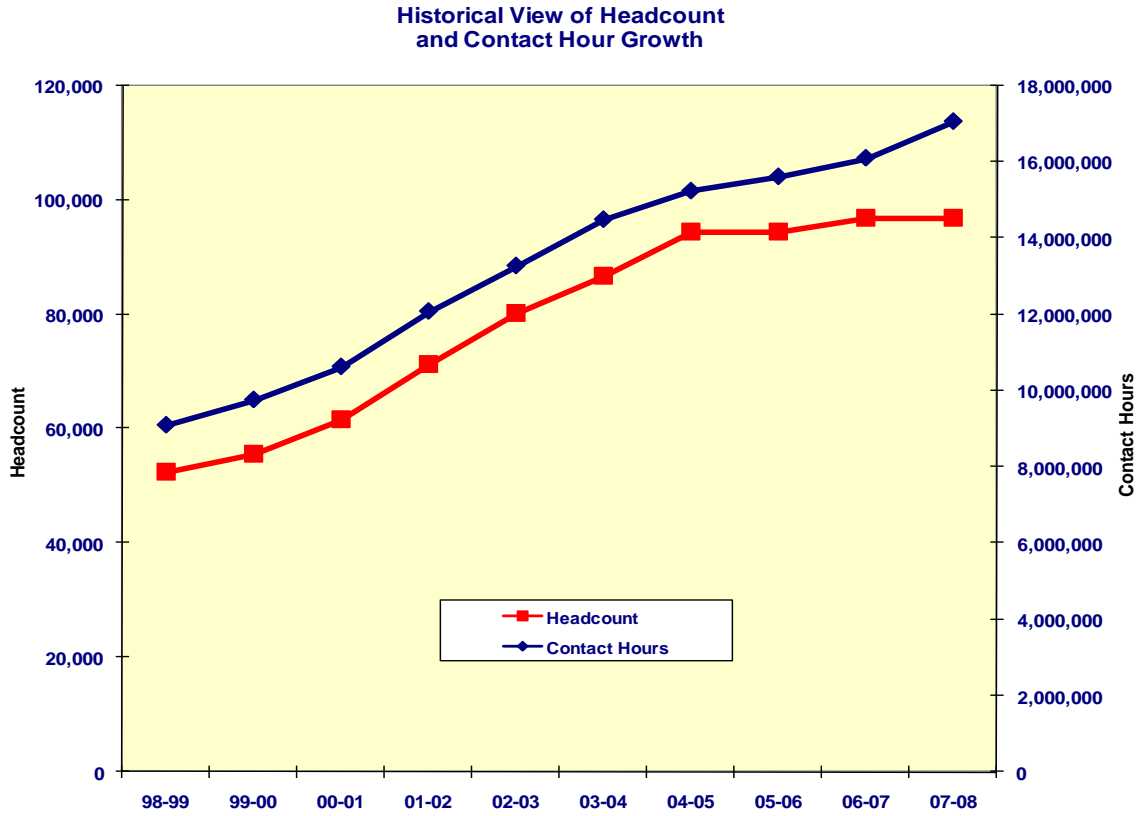
## Financial and Enrollment Highlights - 2007

- Net assets increased \$20 million, which represents a 14% increase over 2006.
- Construction in progress balances decreased to approximately \$6,000 reflecting the substantial completion of all of the construction projects funded with proceeds from the 2003 general obligation bonds.
- Revenue bonds of \$29.9 million were issued in May 2007 to provide funds for critical infrastructure and repair needs. Factoring in scheduled principal repayments, the net effect was to increase total bonds payable by \$9.3 million.
- Refunding bonds were also issued in August 2007 for \$13.4 million.
- Operating expenses for educational activities increased \$15 million, which represents an 8% increase as compared to a 3% increase in headcount, and a 5 % increase in

enrollments. The increases were primarily direct expenditures for instruction, academic support and operation and maintenance of plant.

- Fundable contact hours, the basis on which community colleges in Texas are appropriated State funds, increased 3%.

The following chart depicts the growth in student headcount and contact hours for the past ten years:



## The Statement of Net Assets

The Statement 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 16% for 2008 and 14% for 2007.

	2008	August 31 2007	2006
<b>Current Assets:</b>			
Cash and short-term investments	\$ 98,717,650	\$ 100,868,333	\$ 63,895,345
Receivables	16,943,373	17,052,766	16,451,842
Inventory, prepaid expenses & other	747,263	820,112	385,107
Total current assets	<u>116,408,286</u>	<u>118,741,211</u>	<u>80,732,294</u>
<b>Non-Current Assets:</b>			
Restricted cash & cash equivalents			7,840
Capital assets, net of accumulated depreciation (Note 8)	334,416,040	328,031,973	333,775,179
Total assets	<u><u>\$ 450,824,326</u></u>	<u><u>\$ 446,773,184</u></u>	<u><u>\$ 414,515,313</u></u>
<b>Current Liabilities:</b>			
Accounts payable & accrued liabilities	\$ 20,387,163	\$ 14,770,820	\$ 13,719,877
Deferred revenues	24,481,218	22,226,015	20,480,821
Bonds payable-current portion	14,866,931	28,194,020	16,937,427
	<u>59,735,312</u>	<u>65,190,855</u>	<u>51,138,125</u>
<b>Non-Current Liabilities:</b>			
Accrued compensable absences	3,703,244	3,420,815	3,296,149
Bonds payable-noncurrent portion	194,123,836	211,520,767	213,507,401
Total liabilities	<u><u>\$ 257,562,392</u></u>	<u><u>\$ 280,132,437</u></u>	<u><u>\$ 267,941,675</u></u>
<b>Net Assets:</b>			
Invested in capital assets	139,813,242	119,597,719	105,148,483
Restricted	5,616,638	6,536,978	3,822,347
Unrestricted	47,832,053	40,506,050	37,602,808
Total net assets	<u><u>\$ 193,261,933</u></u>	<u><u>\$ 166,640,747</u></u>	<u><u>\$ 146,573,638</u></u>

The decrease in total current assets of \$2.3 million in 2008 is a result of lower investment returns in a declining interest rate environment. Net capital assets increased \$6.4 million during 2008 as construction projects funded from the 2007 Revenue bonds got underway.

Total liabilities decreased during 2008 by \$23 million as a result of the System's philosophy of continually reviewing our debt position to take advantage of lower interest rates. During 2008, the System made a scheduled payment of \$12.3 million on the 2007 Refunding bonds and retired \$2.5 million of variable rate bonds ahead of schedule.

The increases in total net assets of \$27 million for 2008 and \$20 million for 2007 represent a 32% 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 2006 is in the reserves invested in capital assets, \$35 million or 33%. 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. These reserves have grown by \$1.8 million (47%) since 2006. Unrestricted net assets (available to fund current operations) have increased by \$10.2 million (27%) since 2006. Unrestricted net assets cover 73 days of operating expenses, or 20%, in 2008.

***Statement of Revenues, Expenses and Changes in Net Assets***

	2008	August 31 2007	2006
<b>Operating Revenues</b>			
Student tuition and fees	\$ 39,170,577	\$ 36,814,548	\$ 33,411,958
Grants & contracts	30,653,421	28,561,225	32,650,602
Auxiliary enterprises	6,052,178	5,671,353	5,390,095
Other	892,178	910,264	891,357
Total operating revenues	<u>76,768,354</u>	<u>71,957,390</u>	<u>72,344,012</u>
<b>Operating Expenses</b>			
Educational Activities	220,712,774	199,827,096	184,837,854
Auxiliary Activities	5,695,697	5,304,332	5,132,064
Depreciation Expense	8,491,502	8,825,363	8,702,177
Total operating expenses	<u>234,899,973</u>	<u>213,956,791</u>	<u>198,672,095</u>
<b>Net Operating Expenses</b>	(158,131,619)	(141,999,401)	(126,328,083)
<b>Non-Operating Revenues</b>			
Ad-valorem taxes	118,177,633	105,123,688	98,567,064
State Appropriations	72,000,555	62,749,843	62,265,831
Investment income	3,961,490	4,477,292	2,540,321
Capital appropriations	(10,418,702)	(11,359,249)	(12,517,976)
Other	1,031,829	1,074,936	1,388,777
Total non-operating revenues-net	184,752,805	162,066,510	152,244,017
<b>Increase in Net Assets</b>	26,621,186	20,067,109	25,915,934
<b>Net Assets, Beginning of Year</b>	<u>166,640,747</u>	<u>146,573,638</u>	<u>120,657,704</u>
<b>Net Assets, End of Year</b>	<u><b>\$ 193,261,933</b></u>	<u><b>\$ 166,640,747</b></u>	<u><b>\$ 146,573,638</b></u>

The Statement of Revenues, Expenses and Changes in Net Assets presents 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 nonoperating revenues according to generally accepted accounting principles.

Student tuition and fees increased by \$2.4 million for 2008, which directly correlates to the 8% increase in credit enrollments for 2008. For 2007, student tuition and fees increased \$3.4 million due to a \$4 per credit hour increase in tuition rates in the spring of 2006, as well as the 5% increase in credit enrollments for 2007. The System's \$36 per credit hour tuition rate remains below the Texas average tuition rate for community colleges.

State and local grants and contracts revenues increased by \$2 million in 2008 (7%). The increase is due to increased expenditures for the Texas Higher Education Coordinating Board, Texas Workforce Commission and National Science Foundation grants.

Auxiliary enterprise revenues increased 7% for 2008. Food service revenues increased 11%, while bookstore commissions increased 4%. Other auxiliary revenues increased slightly.

Expenses for educational activities increased \$21 million (10%) in 2008 and \$15 million (8%) in 2007. Combined increases in the cost of instruction and academic support amounted to \$11.2 million (54%) of the

increase. Of significance during 2008 is the addition of 24 budgeted new full-time faculty positions, as the System continues its efforts to maintain or improve the percentage of class sections taught by full-time faculty. Operation and maintenance of plant increased \$4.5 million (17%) as the System continues to invest in repair and replacement of facilities to support the effects of increasing enrollment.

Tax revenues increased \$13 million in 2008 (\$6.6 million in 2007) as a result of new properties and appraised value increases in existing properties. Investment income decreased slightly in 2008 due to a declining interest rate environment. The system continues its focus on maintaining a short-term investment portfolio.

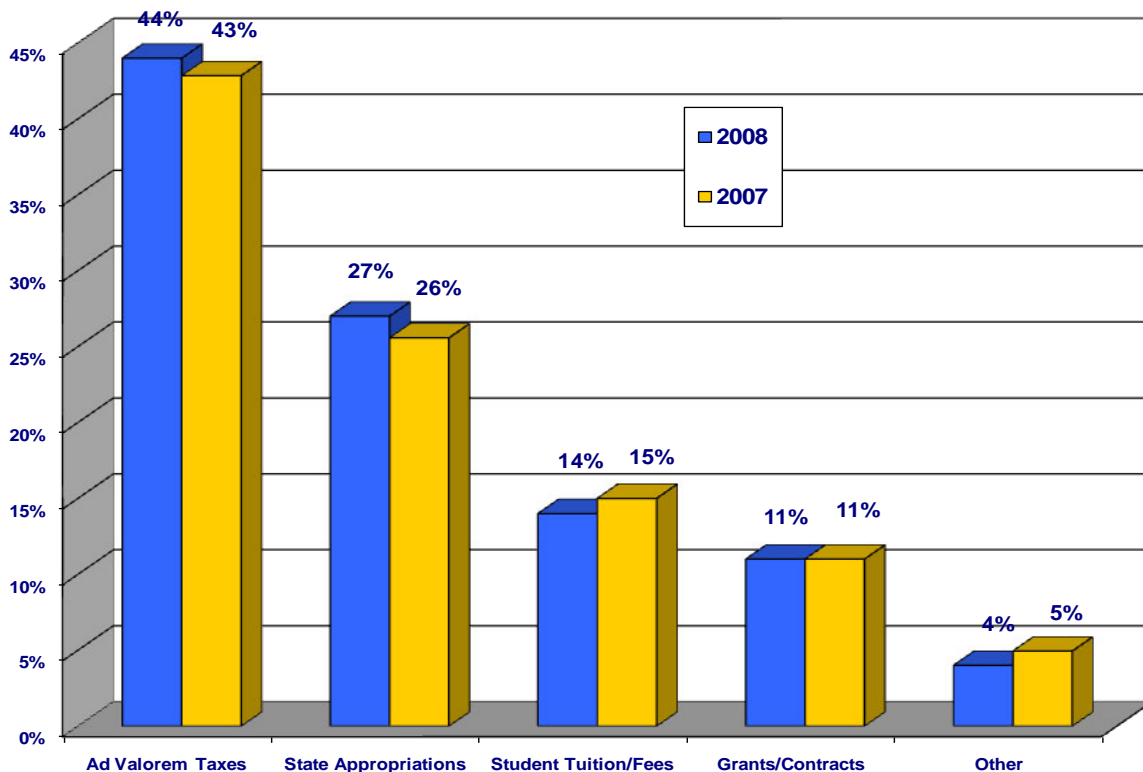
State appropriations increased \$9.3 million in 2008 for both education and general state support (\$6 million) and state on-behalf benefits for appropriation eligible employees (\$3.2 million). The increases for 2008 (the first year of the state biennium funding cycle) result from increases instituted by the 80<sup>th</sup> Texas Legislature. State appropriations for 2007 represent the second year of biennium funding, so no significant change in the amounts received as compared to 2006 occurred.

Capital appropriations consist of interest and fees on capital asset-related debt. No significant changes occurred during 2008.

### **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.



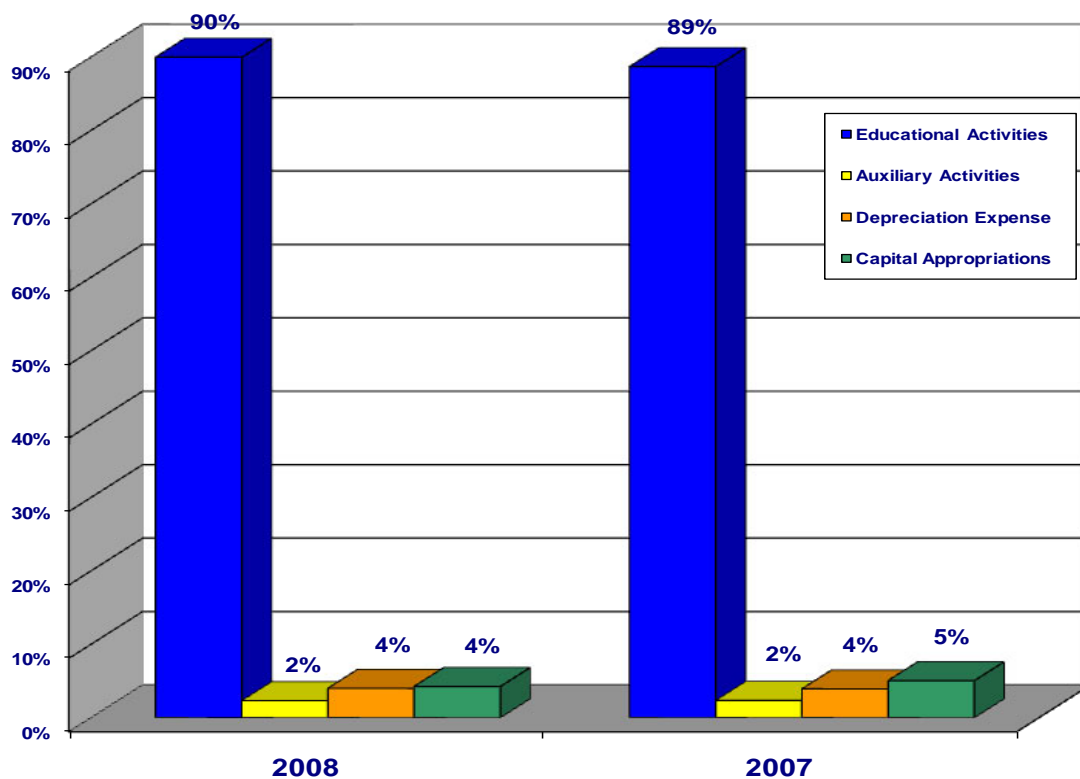
The largest source of revenue for both 2008 and 2007 for the System is ad valorem taxes (44% and 43% for 2008 and 2007, respectively). State appropriations are the second largest revenue source at 27% and 26% in 2008 and 2007, respectively. These two sources, along with student tuition and fees, and grants and

contracts, provide the majority of funding required for operating expenses. Auxiliary and investment income comprise the majority of other revenues.

### ***Total Expenses***

Expenses for the System can be grouped into four main categories: educational activities, auxiliary activities, depreciation expense, and capital appropriations.

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



At 90% and 89% of the total expenditures for 2008 and 2007, respectively, educational activities are, by a wide margin, the System’s largest expense category. Capital appropriations will continue to occupy a position in the chart, as the System continues to invest in physical facilities to support the effects of rapidly increasing enrollments. Paralleling this growth in physical facilities, depreciation expense will also continue to hold a position in the chart. Auxiliary activities support and supplement the System’s educational activities, but are a relatively minor portion of total expenses.

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

As depicted in Footnote 6 to the financial statements, capital assets increased from \$403 million in 2007 to \$411 million in 2008. The following lists some of the major projects and changes that occurred during 2008 and 2007:

- 2008 Projects – The renovation of the LSC-North Harris dining facilities was substantially completed in 2008. Various electrical system and fire alarm upgrades were completed at other campuses.
- 2007 Projects - Most of the projects in 2007 were repair and replacement of existing assets. Furniture for three campuses, additional parking and sidewalk lighting at Cy-Fair College,

and water system and cooling improvements at Cy-Fair College were the major projects completed in 2007.

- Land Purchases and Sales – Three tracts of land for additional facilities were purchased during 2008 in the amount of \$8 million. A 55 acre tract of land at Montgomery College was purchased during 2007 to provide for future expansion of the campus.
- Other Assets – Furniture, equipment, library assets, and vehicles decreased by \$3.5 million during 2008. Complete physical inventories of furniture, equipment and vehicles were performed during 2008 and 2007. The inventories resulted in the write-off of capital assets that were either sold at auction, deemed obsolete, or fell below the current capitalization threshold. Purchases of furniture, equipment, library assets and vehicles decreased \$1.5 million during 2007.
- Capitalized Interest – Interest paid on debt proceeds to finance the construction of new facilities was capitalized in the amount of \$29,000 for 2008 and \$2,000 for 2007.

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

### ***Economic Factors and Subsequent Events***

Several current economic factors and events subsequent to the close of the 2008 fiscal year are worthy of note, as explained next:

- Enrollments for the fall 2008 semester were 4.2% greater than the fall 2007 semester.
- In May 2008 the taxpayers of the System voted to authorize the Board of Trustees to sell up to \$420 million of general obligation bonds to fund new classrooms, technology infrastructure and other improvements necessary to accommodate student growth. On September 10, 2008 the System sold its first installment of these bonds in the amount of \$149,780,000.

## FINANCIAL STATEMENTS

**EXHIBIT 1**

**Lone Star College System**  
**STATEMENTS OF NET ASSETS**  
**AUGUST 31, 2008 AND 2007**

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 95,257,656	\$ 67,041,364
Short term investments	3,459,994	33,826,969
Accounts receivable (See Note 17)	16,943,373	17,052,766
Inventories	44,714	54,967
Prepaid items	702,549	765,145
<b>Total current assets</b>	<u>116,408,286</u>	<u>118,741,211</u>
<b>Noncurrent assets:</b>		
Capital assets, net (See Note 6)	334,416,040	328,031,973
<b>Total non-current assets</b>	<u>334,416,040</u>	<u>328,031,973</u>
<b>TOTAL ASSETS</b>	<u>\$ 450,824,326</u>	<u>\$ 446,773,184</u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities (See Note 17)	\$ 17,550,948	\$ 12,731,495
Accrued compensable absences	300,000	300,000
Funds held for others	2,536,215	1,739,325
Deferred revenues	24,481,218	22,226,015
Bonds payable-current portion	14,866,931	28,194,020
<b>Total current liabilities</b>	<u>59,735,312</u>	<u>65,190,855</u>
<b>Noncurrent liabilities:</b>		
Accrued compensable absences	3,703,244	3,420,815
Bonds payable-noncurrent portion	194,123,836	211,520,767
<b>Total non-current liabilities</b>	<u>197,827,080</u>	<u>214,941,582</u>
<b>TOTAL LIABILITIES</b>	<u>257,562,392</u>	<u>280,132,437</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	139,813,242	119,597,719
Restricted:		
Expendable-		
Loans	485,631	485,631
Debt service	5,131,007	6,051,347
Unrestricted	47,832,053	40,506,050
<b>TOTAL NET ASSETS (Schedule D)</b>	<u>\$ 193,261,933</u>	<u>\$ 166,640,747</u>

The Notes to the Financial Statements are an integral part of this statement

**Lone Star College System**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES</b>		
Tuition and fees (net of discounts of \$11,731,872 in 2008 and \$10,016,966 in 2007)	\$ 39,170,577	\$ 36,814,548
Federal grants and contracts	25,241,156	23,859,077
State and local grants and contracts	5,412,265	4,702,148
Auxiliary enterprises	6,052,178	5,671,353
Other operating revenue	892,178	910,264
<b>Total operating revenues (Schedule A)</b>	<u>76,768,354</u>	<u>71,957,390</u>
<b>EXPENSES</b>		
Operating expenses		
Instruction	88,102,087	81,584,567
Public service	1,510,513	1,474,702
Academic support	36,139,694	31,411,111
Student services	18,469,495	16,704,792
Institutional support	33,961,130	30,898,395
Operation and maintenance of plant	31,868,009	27,361,558
Scholarships and fellowships	10,661,846	10,391,971
Auxiliary enterprises	5,695,697	5,304,332
Depreciation	8,491,502	8,825,363
<b>Total operating expenses (Schedule B)</b>	<u>234,899,973</u>	<u>213,956,791</u>
Operating loss	(158,131,619)	(141,999,401)
<b>NON-OPERATING REVENUE (EXPENSES)</b>		
Ad-Valorem taxes		
Maintenance and operations	83,479,689	73,755,838
General obligation bonds	34,697,944	31,367,850
State Appropriations	72,000,555	62,749,843
Gifts	67,890	17,000
Investment income, net	3,961,490	4,477,292
Interest and fees on capital asset-related debt (net of capitalized interest costs of \$28,775 in 2008 and \$2,819 in 2007)	(10,418,702)	(11,359,249)
Gain (Loss) on disposal of capital assets	(346,861)	(245,000)
Other non-operating revenues	1,310,800	1,302,936
<b>Total non-operating revenue</b>	<u>184,752,805</u>	<u>162,066,510</u>
Increase in net assets	26,621,186	20,067,109
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>166,640,747</u>	<u>146,573,638</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 193,261,933</u>	<u>\$ 166,640,747</u>

The Notes to the Financial Statements are an integral part of this statement

**Lone Star College System**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from students and other customers	\$ 57,016,392	\$ 52,154,798
Receipts from grants and contracts	31,524,754	29,557,243
Payments to suppliers for goods and services	(52,499,017)	(50,008,736)
Payments to or on behalf of employees	(158,479,628)	(144,330,863)
Payments for scholarships and fellowships	(21,219,294)	(19,380,147)
Payments for loans issued to students	(14,439,836)	(10,255,471)
Receipts from collection of loans to students and employees	14,532,408	10,338,896
Other receipts	1,689,068	1,039,488
Net cash used by operating activities	<u>(141,875,153)</u>	<u>(130,884,792)</u>
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Receipts from state appropriations	72,000,555	74,701,654
Receipts from ad-valorem taxes	84,284,952	62,749,843
Net cash provided by non-capital financing activities	<u>156,285,507</u>	<u>137,451,497</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipts from ad-valorem taxes	35,132,199	31,772,153
Proceeds from capital debt	0	43,310,000
Paid for acquisition and construction of capital assets	(15,094,795)	(3,893,462)
Proceeds from sale of capital assets	10,200	273,895
Principal paid on capital debt and leases	(28,291,414)	(34,560,199)
Interest paid on capital debt and leases	(12,650,833)	(10,824,438)
Net cash provided (used) by capital and related financing activities	<u>(20,894,643)</u>	<u>26,077,949</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	49,675,000	41,450,000
Interest on investments	4,140,581	4,212,552
Purchase of investments and related fees	(19,115,000)	(54,715,000)
Net cash provided (used) by investing activities	<u>34,700,581</u>	<u>(9,052,448)</u>
 Net Increase in Cash and Cash Equivalents	28,216,292	23,592,206
Cash and Cash Equivalents, Beginning of Year	67,041,364	43,449,158
Cash and Cash Equivalents, End of Year	<u>\$ 95,257,656</u>	<u>\$ 67,041,364</u>

The Notes to the Financial Statements are in integral part of this statement

**Lone Star College System**  
**STATEMENTS OF CASH FLOWS (continued)**  
**FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>		
Operating loss	\$ (158,131,619)	\$ (141,999,401)
Adjustments to reconcile operating loss to net cash		
Used by operating activities		
Depreciation expense	8,491,502	8,825,363
Bad debt expense	900,000	500,000
Changes in assets and liabilities		
Receivables, net	(1,016,752)	(563,783)
Inventories	10,253	4,528
Prepaid items	62,596	(439,533)
Accounts payable and accrued liabilities	4,474,345	788,973
Deferred revenue	2,255,203	1,745,171
Funds held for others	796,890	129,224
Accrued compensable absences	282,429	124,666
Total adjustments	16,256,466	11,114,609
Net cash used by operating activities	\$ (141,875,153)	\$ (130,884,792)

The Notes to the Financial Statements are in integral part of this statement

**LONE STAR COLLEGE SYSTEM**  
**Notes to Financial Statements**

For the Fiscal Years Ended  
August 31, 2008 and 2007

**1. REPORTING ENTITY**

Lone Star College System (the "System") was established in 1972 as a Union Junior College District, in accordance with the laws of the State of Texas, to serve the educational needs of the north-central part of Harris County and the southern part of Montgomery County, Texas. The System encompasses the Aldine, Conroe, Cypress-Fairbanks, Humble, Klein, Magnolia, New Caney, Splendora, Spring, Tomball and Willis Independent School Districts. The System is a comprehensive, public, two-year institution offering academic, general, occupational, developmental, and continuing adult education programs through a network of colleges. The colleges of LSC-North Harris, LSC-Kingwood, LSC-Tomball, LSC-Montgomery and LSC-CyFair 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 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, 2008 and 2007 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.

**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.

The accompanying financial statements of the System have been prepared in accordance with the Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges. The accompanying financial statements of the System are presented in accordance with generally accepted accounting principles.

The System applies all applicable GASB pronouncements and all applicable Financial Accounting Standard 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 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 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 \$93,339,000 and \$65,122,957 at 2008 and 2007, respectively, to be short-term investments.. Long-term investments have an original maturity of greater than one year at the time of purchase.

### ***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 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***

Tuition and fees of \$23,685,362 and \$20,941,384 and federal, state, and local grants of \$795,856 and \$1,284,631 related to the period after August 31, 2008 and 2007, respectively, have been reported as deferred revenues at August 31, 2008 and 2007, respectively.

### ***Estimates***

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

### ***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.

## **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 local 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 issued by a bank domiciled in Texas, or a savings bank domiciled in Texas and that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, (3) Fully collateralized repurchase agreements with a defined termination date secured by obligations of the United States government, its agencies or instrumentalities, (4) SEC registered Money Market Mutual Funds rated “AAA”, (5) Constant dollar local government investment pools, and, (6) Commercial paper with a maximum maturity of 120 days rated A1/P1 or equivalent.

#### 4. DEPOSITS AND INVESTMENTS

At August 31, 2008 and 2007, the carrying amount of the System's demand deposits were \$-0- and \$-0- respectively, and total bank balances equaled \$52,729 and \$336,736, respectively. Bank balances up to \$100,000 were covered by the Federal Deposit Insurance Corporation and the remainder was covered by collateral pledged in the System's name. The collateral was held in the Federal Reserve account of an independent third-party agent. The System uses sweep agreements as a funding mechanism for its demand deposit accounts. Under this agreement the funds are maintained in a money market account, and then swept into the demand deposit account as needed to fund disbursements.

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

	2008	2007
Demand Deposits	\$ -	\$ -
Petty Cash on Hand	43,386	43,466
Short-Term Securities	1,875,270	1,874,941
External Investment Pools	93,339,000	65,122,957
Total Cash and Cash Equivalents	<u>\$ 95,257,656</u>	<u>\$ 67,041,364</u>

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

	Fair Value at August 31,	
	2008	2007
U. S. Agency Notes and Bonds	\$ 3,459,994	\$ 33,826,969
Total Cash and Deposits	95,257,656	67,041,364
Total Deposits and Investments	<u>\$ 98,717,650</u>	<u>\$ 100,868,333</u>
Cash and Cash Equivalents (Exhibit 1)	\$ 95,257,656	\$ 67,041,364
Short Term Investments (Exhibit 1)	3,459,994	33,826,969
Total Deposits and Investments	<u>\$ 98,717,650</u>	<u>\$ 100,868,333</u>

As of August 31, 2008 the System had the following investments and maturities:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External Investment Pools	\$ 93,339,000	0.11
Money Market	1,875,270	0.11
U. S. Agency Notes and Bonds	3,459,994	0.34
Total Fair Value	<u>\$ 98,674,264</u>	<u>0.12</u>

*Interest Rate Risk* - In accordance with State law and System's 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 law and the System's investment policy, investments in mutual funds and investment pools must be rated at least "AAA", 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, 2008.

The credit quality (ratings) and concentration of the System’s portfolio as of August 31, 2008 is as follows:

Security	Credit Rating	Concentration	
		Actual	Limit
Cash and External Investment Pools	AAA	97%	100%
FHLB (Federal Home Loan Bank)	AAA	1%	90%
FNMA (Federal National Mortgage Assoc)	AAA	2%	90%

The State 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 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 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. Lone Star is governed by trustees comprised of active participants in Lone Star. The board of trustees for Lone Star 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. Lone Star Investment Pool is rated AAA by Standard & Poor’s.

## 5. DERIVATIVES

In September, 2006 the System entered into two constant maturity interest rate swaps in order to assist the System in managing its interest rate risk exposure. Interest rate swaps are agreements between two parties where one stream of future interest payments is exchanged for another. The goal of interest rate swaps is to limit or manage exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than otherwise available. The constant maturity swap is a variation of a regular interest rate swap in which one of the interest revenue streams exchanged is reset periodically according to a fixed maturity market rate of a product with a duration extending beyond the reset period. The contracts are obligations of the System separate and apart from its’ obligation to pay scheduled principal and interest on outstanding debt obligations. The contracts were executed independently of each other and neither is dependent upon the other with regards to terms, execution or results. Both transactions were approved by the Attorney General of Texas pursuant to Chapter 1371, Texas Government Code, as amended.

### General Obligation Bonds

On September 12, 2006 the System entered into a constant maturity interest rate swap with Bear Stearns Financial Products, Inc. (BSFP) for certain of its outstanding general obligation bonds in the notional amount of \$41,155,000 for the initial calculation period and declining annually thereafter as scheduled repayments of principal occur. The contract was executed on a forward start basis with an effective date of November 15, 2007 and a termination date of February 15, 2028. The System has contractually agreed to a monthly payment and receipt of funds, beginning December 15, 2007, in which the System will pay the counterparty

the USD-BMA Municipal Swap Index and receive 67% of the 10 year LIBOR index. No options are embedded in the contract and the System neither received nor paid cash upon execution of the contract. As of August 31, 2008, the system has received net payments of \$221,011.

*Fair value* – As of August 31, 2008, the swap agreement had a positive fair value of \$518,629. The positive fair value signifies the amount the System would receive from BSFP upon the termination of the agreement as of that date. The fair value was calculated using a market quotation from BSFP.

*Credit risk* – The swap agreement’s fair value represented the System’s credit exposure to BSFP as of August 31, 2008. Should BSFP fail to perform according to the terms of the swap agreement, the possible loss would be equivalent to the swap agreement’s fair value, if positive. However, should interest rates change and the fair value becomes negative, the System would not be exposed to credit risk. On March 17, 2008, Bear Sterns was acquired by JP Morgan Chase. As of August 31, 2008, BSFP’s Standard and Poor’s (S&P) rating was AAA and Moody’s Investors Service (Moody’s) rating was Aaa.

*Interest rate risk* – The swap agreement increases the System’s exposure to interest rate risk. Fluctuations in interest rates will affect the monthly payment and receipt of funds. As the USD-BMA Municipal Swap Index increases or the 10 year LIBOR index decreases, the System’s net payment on the swap agreement increases.

*Termination risk* – The swap agreement is subject to mandatory redemption in the event of default or if ratings assigned to either the System’s or BSFP’s long-term unenhanced debt obligations are withdrawn or reduced to BBB by S&P or Baa2 by Moody’s. The swap agreement is subject to an optional termination by the System at any time during the term of the agreement at the then prevailing market value.

### **Revenue Bonds**

On September 13, 2006 the System entered into a constant maturity interest rate swap with Citibank, N.A., New York (Citibank) for certain of its outstanding revenue bonds in the notional amount of \$23,755,000 for the initial calculation period and declining annually thereafter as scheduled repayments of principal occur. The contract was executed on a forward start basis with an effective date of November 15, 2007 and a termination date of February 15, 2028. The System has contractually agreed to a monthly payment and receipt of funds, beginning December 15, 2007, in which the System will pay the counterparty the USD – BMA Municipal Swap Index and receive 65% of the 10 year LIBOR index. No options are embedded in the contract and the System neither received nor paid cash upon execution of the contract. As of August 31, 2008, the System has received net payments of \$105,770.

*Fair value* – As of August 31, 2008, the swap agreement had a positive fair value of \$282,896. The positive fair value signifies the amount the System would receive from Citibank upon the termination of the agreement as of that date. The fair value was calculated using a market quotation from Citibank.

*Credit risk* – The swap agreement’s fair value represented the System’s credit exposure to Citibank as of August 31, 2008. Should CitiBank fail to perform according to the terms of the swap agreement, the possible loss would be equivalent to the swap agreement’s fair value, if positive. However, should interest rates change and the fair value becomes negative, the System would not be exposed to credit risk. As of August 31, 2008, CitiBank’s Standard and Poor’s (S&P) rating was AA and Moody’s Investors Service (Moody’s) rating was Aa3.

*Interest rate risk* – The swap agreement increases the System’s exposure to interest rate risk. Fluctuations in interest rates will affect the monthly payment and receipt of funds. As the USD-BMA Municipal Swap Index increases or the 10 year LIBOR index decreases, the System’s net payment on the swap agreement increases.

*Termination risk* – The swap agreement is subject to mandatory redemption in the event of default or if ratings assigned to either the System’s or Citibank’s long-term unenhanced debt obligations are withdrawn or

reduced to BBB by S&P or Baa2 by Moody's. The swap agreement is subject to an optional termination by the System at any time during the term of the agreement at the then prevailing market value.

## 6. CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2008 was as follows:

	Balance August 31, 2007	Increase	Decrease	Balance August 31, 2008
<b>Not Depreciated:</b>				
Land	\$ 44,528,662	\$ 8,305,839	\$ (5,946)	\$ 52,828,555
Construction in Progress	5,789	3,400,878	(230,728)	3,175,939
Subtotal	<u>44,534,451</u>	<u>11,706,717</u>	<u>(236,674)</u>	<u>56,004,494</u>
<b>Buildings and Other Capital Assets</b>				
Buildings and Building Improvements	321,641,605	259,502	-	321,901,107
Other Real Estate Improvements	<u>5,589,000</u>	<u>-</u>	<u>-</u>	<u>5,589,000</u>
Total Buildings & Other Real Estate Impr.	327,230,605	259,502	-	327,490,107
Library Books	12,182,855	592,465	(630,480)	12,144,840
Furniture, Machinery, Vehicles, & Other	<u>18,938,697</u>	<u>2,904,673</u>	<u>(6,338,775)</u>	<u>15,504,595</u>
Total Buildings and Other Capital Assets	<u>358,352,157</u>	<u>3,756,640</u>	<u>(6,969,255)</u>	<u>355,139,542</u>
<b>Accumulated Depreciation</b>				
Buildings and Building Improvements	49,884,836	5,799,228	-	55,684,064
Other Real Estate Improvements	<u>4,717,474</u>	<u>732,868</u>	<u>-</u>	<u>5,450,342</u>
Total Buildings & Other Real Estate Impr.	54,602,310	6,532,096	-	61,134,406
Library Books	7,654,841	615,167	(630,480)	7,639,528
Furniture, Machinery, & Equipment	<u>12,597,484</u>	<u>1,344,239</u>	<u>(5,987,661)</u>	<u>7,954,062</u>
Total Buildings and Other Capital Assets	<u>74,854,635</u>	<u>8,491,502</u>	<u>(6,618,141)</u>	<u>76,727,996</u>
Net Capital Assets	<u>\$ 328,031,973</u>	<u>\$ 6,971,855</u>	<u>\$ (587,788)</u>	<u>\$ 334,416,040</u>

Capital assets activity for the year ended August 31, 2007 was as follows:

	Balance August 31, 2006	Increase	Decrease	Balance August 31, 2007
<b>Not Depreciated:</b>				
Land	\$ 42,997,872	\$ 1,646,343	\$ (115,553)	\$ 44,528,662
Construction in Progress	<u>1,167,760</u>	<u>271,649</u>	<u>(1,433,620)</u>	<u>5,789</u>
Subtotal	<u>44,165,632</u>	<u>1,917,992</u>	<u>(1,549,173)</u>	<u>44,534,451</u>
<b>Buildings and Other Capital Assets</b>				
Buildings and Building Improvements	320,955,108	686,497	-	321,641,605
Other Real Estate Improvements	<u>5,589,000</u>	<u>-</u>	<u>-</u>	<u>5,589,000</u>
Total Buildings & Other Real Estate Impr.	326,544,108	686,497	-	327,230,605
Library Books	11,977,912	510,607	(305,664)	12,182,855
Furniture, Machinery, Vehicles, & Other	<u>20,707,285</u>	<u>1,919,577</u>	<u>(3,688,165)</u>	<u>18,938,697</u>
Total Buildings and Other Capital Assets	<u>359,229,305</u>	<u>3,116,681</u>	<u>(3,993,829)</u>	<u>358,352,157</u>
<b>Accumulated Depreciation</b>				
Buildings and Building Improvements	44,091,251	5,793,585	-	49,884,836
Other Real Estate Improvements	<u>3,960,985</u>	<u>756,489</u>	<u>-</u>	<u>4,717,474</u>
Total Buildings & Other Real Estate Impr.	48,052,236	6,550,074	-	54,602,310
Library Books	7,350,938	609,567	(305,664)	7,654,841
Furniture, Machinery, & Equipment	<u>14,216,584</u>	<u>1,665,722</u>	<u>(3,284,822)</u>	<u>12,597,484</u>
Total Buildings and Other Capital Assets	<u>69,619,758</u>	<u>8,825,363</u>	<u>(3,590,486)</u>	<u>74,854,635</u>
Net Capital Assets	<u>\$ 333,775,179</u>	<u>\$ (3,790,690)</u>	<u>\$ (1,952,516)</u>	<u>\$ 328,031,973</u>

## 7. LONG-TERM LIABILITIES

Long-term liability activity for the year ended August 31, 2008 was as follows:

	Balance September 1, 2007	Additions	Reductions	Balance August 31, 2008	Current Portion
Bonds					
General obligation bonds	\$ 184,418,830	\$ -	\$ (28,915,870)	\$ 155,502,960	\$ 12,618,781
Revenue bonds	55,295,957	-	(1,808,150)	53,487,807	2,248,150
Subtotal	239,714,787	-	(30,724,020)	208,990,767	14,866,931
Accrued compensable absences	3,720,815	1,316,848	(1,034,419)	4,003,244	300,000
Total long-term liabilities	<u>\$243,435,602</u>	<u>\$ 1,316,848</u>	<u>\$ (31,758,439)</u>	<u>\$ 212,994,011</u>	<u>\$ 15,166,931</u>

Long-term liability activity for the year ended August 31, 2007 was as follows:

	Balance September 1, 2006	Additions	Reductions	Balance August 31, 2007	Current Portion
Bonds					
General obligation bonds	\$ 203,904,611	\$ 14,515,307	\$ (34,001,088)	\$ 184,418,830	\$26,385,870
Revenue bonds	26,540,217	30,104,336	(1,348,596)	55,295,957	1,808,150
Subtotal	230,444,828	44,619,643	(35,349,684)	239,714,787	28,194,020
Accrued compensable absences	3,596,149	902,411	(777,745)	3,720,815	300,000
Total long-term liabilities	<u>\$ 234,040,977</u>	<u>\$ 45,522,054</u>	<u>\$ (36,127,429)</u>	<u>\$ 243,435,602</u>	<u>\$28,494,020</u>

## 8. BONDS PAYABLE

General information related to bonds payable is summarized below:

Series	Purpose	Maturity Date	Interest Rate	Original Issue Amount	Repayment Source	Amount Outstanding	
						8/31/2008	8/31/2007
Revenue Bonds							
2000 Rev	Constr/Refunding	2001 - 2025	5.12% - 6.50%	\$ 11,000,000	Pledged Rev	\$ 8,993,926	\$ 9,308,271
2003 Rev	Construction	2004 - 2028	2.50% - 5.00%	10,000,000	Pledged Rev	7,408,947	7,886,974
2003A Rev	Construction	2004 - 2018	2.00% - 4.25%	10,390,000	Pledged Rev	7,389,667	7,998,634
2007 Rev	Construction	2008 - 2038	4.00% - 5.00%	29,900,000	Pledged Rev	29,695,267	30,102,078
						<u>\$ 53,487,807</u>	<u>\$ 55,295,957</u>
General Obligation Bonds							
1997 Var	Construction	2015 - 2016	variable	\$ 20,000,000	Ad Val Tax	\$ -	\$ 2,530,000
1999	Construction	2000 - 2025	4.45% - 5.25%	34,300,000	Ad Val Tax	-	1,225,000
2001A	Construction	2002 - 2026	3.60% - 5.37%	50,000,000	Ad Val Tax	13,931,481	16,453,346
2002A	Construction	2003 - 2027	3.26% - 5.37%	95,040,000	Ad Val Tax	68,252,705	72,897,584
2002B	Refunding	2004 - 2009	2.22% - 4.50%	3,649,990	Ad Val Tax	178,839	560,343
2003	Constr/Refunding	2004 - 2028	2.50% - 5.00%	36,464,997	Ad Val Tax	20,054,786	21,380,025
2005 Ref	Refunding	2006 - 2013	3.00% - 5.00%	6,915,000	Ad Val Tax	4,738,426	4,768,647
2005A Ref	Refunding	2006 - 2026	3.00% - 5.00%	50,244,217	Ad Val Tax	48,069,281	49,431,999
2007 Ref	Refunding	2008 - 2012	3.44% - 4.00%	13,410,000	Ad Val Tax	277,443	15,171,886
						<u>\$ 155,502,961</u>	<u>\$ 184,418,830</u>

Debt service requirements at August 31, 2008 were as follows:

For the Year Ended August 31	General Obligation Bonds		Revenue Bonds		Total Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
	2009	\$ 12,618,781	\$ 6,833,059	\$ 2,248,150	\$ 2,394,285	\$ 14,866,931
2010	12,859,827	6,301,566	2,243,150	2,308,440	15,102,977	8,610,006
2011	13,180,369	5,738,736	2,288,150	2,218,918	15,468,519	7,957,654
2012	13,777,770	5,136,581	2,353,150	2,120,065	16,130,920	7,256,646
2013	14,167,922	4,461,394	2,418,150	2,020,879	16,586,072	6,482,273
2014-2018	35,992,862	15,262,315	12,200,749	9,092,720	48,193,611	24,355,035
2019-2023	31,684,860	8,627,178	8,940,916	6,155,796	40,625,776	14,782,974
2024-2028	21,220,570	1,882,475	7,636,350	4,019,663	28,856,920	5,902,138
2029-2033	-	-	5,924,056	2,502,125	5,924,056	2,502,125
2034-2038	-	-	7,234,987	984,600	7,234,987	984,600
Total	\$ 155,502,961	\$ 54,243,304	\$ 53,487,808	\$ 33,817,491	\$ 208,990,769	\$ 88,060,795

### **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 College performed calculations of excess investment earnings on various bonds and financings and at August 31, 2008 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 \$25,348,000 and \$24,553,000 for the years ended August 31, 2008 and 2007, respectively. The pledged amount equates to 55.3% and 55.6% of the above revenue streams respectively. Debt service on the revenue bonds was \$4,625,000 and \$2,525,000 for the years ending August 31, 2008 and 2007, and the debt service coverage ratio was 5.48 and 9.72, respectively. Revenue bonds are payable in annual installments varying from \$210,000 to \$1,414,000 with interest rates from 3.0% to 5.875% and the final installment due in 2038. The System was in compliance with all bond covenants for the years ending August 31, 2008 and 2007.

## **9. VARIABLE RATE BONDS**

At August 31, 2007 the System had Series 1997 Variable Rate Bonds (the "Bonds") outstanding in the amount of \$2,530,000. At August 31, 2007, these Bonds had a rate of 3.98%. The Bonds are repriced to the investor periodically and the interest rate is reset at the same time to the System. The System paid off the Bonds on May 1, 2008.

## **10. ADVANCE REFUNDING BONDS**

On August 1, 2007 the System issued \$13,410,000 of Limited Tax Refunding Bonds, Series 2007. The issue consisted solely of Refunding Bonds with a reoffering premium of \$1,107,839. The bonds mature serially through February 15, 2012. Interest on the Bonds ranges from 3.443% to 5.000%. The net refunding proceeds were applied to refund \$13,410,000 of outstanding Limited Tax General Obligation Bonds, Series 2002 with interest rates of 5.375%. The Series 2002 Bonds are callable on February 15, 2012. The aggregate debt service payments of the refunding bonds (\$14,823,899) are \$4,595,788 less than the aggregate debt service payments of the refunded bonds (\$19,419,787). The net present value savings of the refunding transaction is \$449,887. The refunding proceeds were deposited into an irrevocable trust with an escrow

agent to provide all of 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 2007.

#### 11. DEFEASED BONDS OUTSTANDING

For the fiscal years ended August 31, 2008 and 2007 the System had the following defeased bonds outstanding.

Series	2008	2007
1999	\$ -	\$ 23,565,000
2001	24,125,000	24,125,000
2002	13,410,000	13,410,000

#### 12. 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, 2008 and 2007 was \$3,044,050 and \$2,424,454 respectively. Future minimum lease payments are as follows:

For the Year Ended <u>August 31,</u>	<u>Total</u>
2009	\$ 2,456,690
2010	1,767,792
2011	1,442,238
2012	1,262,250
2013	1,088,000
2014-2016	2,860,000
Total minimum lease payments	<u>\$ 10,876,970</u>

#### 13. EMPLOYEES' RETIREMENT PLAN

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 \$132,768,100 and \$122,049,525 for fiscal years 2008 and 2007, respectively.

##### Teacher Retirement System (Defined Benefit Plan)

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

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate

annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2008, 2007 and 2006 and a state contribution rate of 6.58% for fiscal year 2008 and 6.0% for fiscal years 2007 and 2006. In certain instances the reporting district is required to make all or a portion of the state's 6.58% contribution for fiscal year 2008 and 6.00% for fiscal years 2007 and 2006.

The percentages of participant salaries currently contributed by the State and by each participant are 6.58% and 6.4%, respectively, of annual compensation. The total payroll of employees covered by TRS for fiscal years 2008, 2007 and 2006 was \$69,030,635, \$63,637,285 and \$58,945,341, respectively. The retirement expense to the State for System employees was \$4,542,216, \$3,818,237, and \$3,536,720 for the fiscal years ended August 31, 2008, 2007, and 2006 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 Teacher Retirement System. 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 6.58% and 6.4%, respectively. The System contributes 1.92% 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 \$35,459,364 and \$33,201,651 for fiscal years 2008 and 2007, respectively. The retirement expense to the State for the System was \$2,333,226 and \$1,992,099 for the fiscal years ended August 31, 2008 and 2007, 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.

#### **14. DEFERRED COMPENSATION PROGRAM**

Certain System employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants.

As of August 31, 2008, the System has 7 employees participating in the program. There were 6 employees vested at August 31, 2008. At August 31, 2008 there was \$223,501 invested in plan assets. There were net contributions in the amount of \$140,970 invested in the plan during the fiscal year and vested distributions to employees amounted to \$112,816. At August 31, 2008 the total deferred salaries and accumulated earnings of current employees is \$203,700.

As of August 31, 2007, the System had 8 employees participating in the program. There were 4 employees vested at August 31, 2007. At August 31, 2007 there was \$215,029 invested in plan assets. There were net contributions in the amount of \$120,898 invested in the plan during the fiscal year and vested distributions to employees amounted to \$160,967. At August 31, 2007 the total of deferred salaries and accumulated earnings of current employees was \$169,423.

## 15. 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 twice their annual accrual rate. 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 \$4,003,244 and \$3,720,815 for the fiscal years ended August 31, 2008 and 2007, respectively.

Sick leave, which is accumulated to a maximum of 520 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 on termination for accrued sick leave balances.

## 16. COMMITMENTS, CONTINGENCIES, PENDING LAWSUITS AND CLAIMS

*Commitments* – In an election held May 10, 2008, voters approved the LSCS Board of Trustees to sell up to \$420 million in bonds for new instructional facilities, renovations to existing facilities, upgrades to the technology infrastructure, student safety, security measures and new learning sites. \$149.8 million in bonds were sold in September 2008 to enable the planning and design phase to begin.

*Contingencies* – The System has received federal, state, and other financial assistance in the form of contracts and grants that are subject to review and audit by the grantor agencies. Such audits could result in requests for reimbursement by the grantor agency for expenditures disallowed under terms and conditions specified in the contract and grant agreements. In the opinion of the System's management, such disallowances, if any, would not be significant in relation to the financial statements of the System.

*Pending Lawsuits and Claims* – On August 31, 2008, various lawsuits and claims involving the System were pending. The ultimate liability with respect to litigation and other claims 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.

## 17. DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables at August 31, 2008 and 2007 were as follows:

	August 31	
	2008	2007
Student Receivables	\$ 7,185,610	\$ 5,097,880
Taxes Receivable	6,259,381	6,188,104
Federal Receivable	1,974,891	3,333,929
Accounts Receivable	2,322,097	2,905,685
Interest Receivable	20,039	392,146
Other Receivables	163,766	117,445
Subtotal	17,925,784	18,035,189
Allowance for Doubtful Accounts	(982,411)	(982,423)
<b>TOTAL RECEIVABLES</b>	<b>\$ 16,943,373</b>	<b>\$ 17,052,766</b>

Payables at August 31, 2008 and 2007 were as follows:

	August 31	
	2008	2007
Vendors Payable	15,635,628	10,838,967
Salaries & Benefits Payable	721,697	1,046,100
Students Payable	491,291	345,662
Accrued Interest	671,930	471,453
Other Payable	30,402	29,313
<b>TOTAL PAYABLES</b>	<b>\$ 17,550,948</b>	<b>\$ 12,731,495</b>

## 18. CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with generally accepted accounting principles. Revenues are disclosed on Exhibit 2 and Schedule A. Funds expended, but not collected, are reported as accounts receivable on Exhibit 1. Collections in excess of funds expended are reported as deferred revenues 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.

## 19. 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, 2008 and 2007.

## 20. 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 \$360.54 per month for the year ended August 31, 2008 (\$360.54 per month for 2007) and totaled \$10,002,351 for 2008 (\$7,826,145 for the year ended 2007). The cost of providing those benefits for 227 retirees in the year ended 2008 was \$1,118,948 (retiree benefits for 217 retirees cost \$1,035,217 in 2007). For 1,942 active employees, the cost of providing benefits was \$13,738,823 for the year ended 2008 (active employee benefits for 1,896 employees cost \$12,258,735 for the year ended 2007).

## 21. 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 at August 31:

	2008	2007
Assessed Valuation of the System	\$ 110,258,237,314	\$ 96,720,583,927
Less: Exemption	( 6,990,029,435)	( 6,573,726,290)
Less: Abatements	-	-
Net Assessed Valuation of the System	<u>\$ 103,268,207,879</u>	<u>\$ 90,146,857,637</u>

	2008			2007		
	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	\$0.0809	\$0.0335	\$0.1144	\$0.0820	\$0.0347	\$0.1167

Taxes levied for the year ended August 31, 2008 and 2007 amounted to \$118,138,829 and \$105,201,383 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, 2008 and 2007 are as follows:

	2008			2007		
	Current Operation	Debt Service	Total	Current Operation	Debt Service	Total
Current Taxes	\$ 80,894,226	\$ 33,694,256	\$ 114,588,482	\$ 71,592,439	\$ 30,467,272	\$ 102,059,711
Delinquent Taxes	2,477,320	1,013,750	3,491,070	2,160,015	927,486	3,087,501
Penalties & Interest	886,607	424,194	1,310,801	925,547	373,131	1,298,678
Total	<u>\$ 84,258,153</u>	<u>\$ 35,132,200</u>	<u>\$ 119,390,353</u>	<u>\$ 74,678,001</u>	<u>\$ 31,767,889</u>	<u>\$ 106,445,890</u>

Tax collections for the year ended August 31, 2008 and 2007 were 97.00% and 97.01%, 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.

## 22. 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 year ended August 31, 2008 and 2007.

## 23. RELATED PARTIES

The Lone Star College Foundation (the Foundation) is a nonprofit organization with the purpose of supporting the educational and other activities of the Lone Star College System. The System does not fund; nor is the System obligated to pay debt related to the Foundation. However, the System does have the ability to significantly influence the policies of the Foundation. The Foundation solicits donations and acts as coordinator of gifts made by other parties. It remitted restricted gifts of \$569,976 and \$739,920 to the System during the years ended August 31, 2008 and 2007, respectively. The System furnished certain services, such as office space, utilities and some staff assistance, to the Foundation which totaled \$265,195 and \$246,696 for 2008 and 2007, respectively. There were no related receivables as of August 31, 2008 and 2007.

## 24. SUBSEQUENT EVENTS

In May 2008, the taxpayers of the System voted to authorize \$420 million of general obligation bonds secured by property taxes. The System issued \$149,780,000 of current interest bonds dated September 1, 2008, and took delivery on September 10, 2008. These funds will be used to construct new classroom buildings, student service buildings and infrastructure improvements necessary to accommodate growth at all

of the campuses. Additional bonds will be issued at a later date to complete the projects that comprise the \$420 million of authorized bonds.

## **25. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

(In accordance with GASB Statement 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 SHRP. That report may be obtained from ERS via their website at <http://www.ers.state.tx.us/>.

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

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS board of trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB statement 45.

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, 2008, 2007, and 2006 were \$1,118,948, \$1,035,217 and \$956,311 respectively, which equaled the required contributions each year. No employee contributions were required.

**LONE STAR COLLEGE SYSTEM**  
**SCHEDULE OF OPERATING REVENUES**  
**YEAR ENDED AUGUST 31, 2008 (With Memorandum Totals for the Year Ended August 31, 2007)**

	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises	Total	2007 Totals
<b>Tuition</b>						
State funded courses						
In-district resident tuition	\$27,384,950	\$ -	\$27,384,950	\$ -	\$27,384,950	\$26,111,730
Out-of-district resident tuition	5,920,233	-	5,920,233	-	5,920,233	4,740,009
Non-resident tuition	3,284,261	-	3,284,261	-	3,284,261	2,615,623
TPEG -credit (set aside)*	(2,064,322)	-	(2,064,322)	-	(2,064,322)	(1,904,211)
State-funded continuing education	3,906,844	-	3,906,844	-	3,906,844	4,522,764
TPEG -non-credit (set aside)*	(164,246)	-	(164,246)	-	(164,246)	(199,082)
Non-state funded continuing education	2,029,044	-	2,029,044	-	2,029,044	1,799,690
Total tuition	40,296,764	-	40,296,764	-	40,296,764	37,686,523
<b>Fees</b>						
General fee	1,350,755	-	1,350,755	-	1,350,755	1,269,538
Student service fee	1,718,782	-	1,718,782	-	1,718,782	1,617,835
Laboratory fee	898,752	-	898,752	-	898,752	854,667
Other fees	6,637,396	-	6,637,396	-	6,637,396	5,402,951
Total fees	10,605,685	-	10,605,685	-	10,605,685	9,144,991
<b>Scholarship allowances and discounts</b>						
Scholarship Allowances	(3,788,366)	-	(3,788,366)	-	(3,788,366)	(2,616,801)
Remissions and Exemptions	(1,174,424)	-	(1,174,424)	-	(1,174,424)	(1,028,790)
TPEG Allowances	(673,261)	-	(673,261)	-	(673,261)	(572,539)
State Grants to Students	(605,510)	-	(605,510)	-	(605,510)	(601,556)
Federal Grants to Students	(5,490,311)	-	(5,490,311)	-	(5,490,311)	(5,197,280)
Other	-	-	-	-	-	-
Total scholarship allow and disc	(11,731,872)	-	(11,731,872)	-	(11,731,872)	(10,016,966)
Total net tuition and fees	39,170,577	-	39,170,577	-	39,170,577	36,814,548
<b>Additional operating revenues</b>						
Federal grants and contracts	-	25,241,156	25,241,156	-	25,241,156	23,859,077
State grants and contracts	-	1,517,154	1,517,154	-	1,517,154	826,569
Local grants and contracts	1,614,726	2,280,385	3,895,111	-	3,895,111	3,875,579
Other operating revenues	892,178	-	892,178	-	892,178	910,264
Total additional operating revenues	2,506,904	29,038,695	31,545,599	-	31,545,599	29,471,489
<b>Auxiliary enterprises</b>						
Food Service	-	-	-	2,375,070	2,375,070	2,146,409
Bookstore	-	-	-	1,635,551	1,635,551	1,579,040
Child Care Fees	-	-	-	634,686	634,686	721,414
Special Events	-	-	-	769,990	769,990	659,601
Other	-	-	-	636,881	636,881	564,889
Total net auxiliary enterprises	-	-	-	6,052,178	6,052,178	5,671,353
Total Operating Revenues	<u>\$41,677,481</u>	<u>\$29,038,695</u>	<u>\$70,716,176</u>	<u>\$6,052,178</u>	<u>\$76,768,354</u>	<u>\$71,957,390</u>
				(Exhibit 2)	(Exhibit 2)	

\*In accordance with the Education code 56.033, \$2,228,568 and \$2,103,293 was set aside for Texas Public Education Grants in 2008 and 2007 respectively.

LONE STAR COLLEGE SYSTEM  
 SCHEDULE OF OPERATING EXPENSES BY OBJECT  
 YEAR ENDED AUGUST 31, 2008 (with Memorandum Totals for the Year Ended August 31, 2007)

	Operating Expenses				2008 Total	2007 Total
	Salaries and Wages	Benefits		Other Expenses		
		State	Local			
<b>Unrestricted Educational Activities</b>						
Instruction	\$ 67,380,088	\$ -	\$ 3,000,639	\$ 7,120,308	\$ 77,501,035	\$ 72,211,049
Public service	384,376	-	17,204	287,288	688,868	757,172
Academic support	23,851,147	-	1,138,751	6,742,489	31,732,387	27,856,527
Student services	11,274,750	-	538,205	3,138,142	14,951,097	13,300,222
Institutional support	15,185,781	-	2,172,025	11,688,885	29,046,691	27,379,994
Operation and maintenance of plant	7,749,721	-	1,957,691	21,859,917	31,567,329	27,010,008
Scholarships and fellowships	-	-	-	-	-	-
Total unrestricted educational activities	125,825,863	-	8,824,515	50,837,029	185,487,407	168,514,972
<b>Restricted Educational Activities</b>						
Instruction	2,326,783	6,788,007	331,068	1,155,196	10,601,054	9,373,518
Public service	391,557	61,630	103,883	264,575	821,645	717,530
Academic support	226,477	3,773,371	16,161	391,297	4,407,306	3,554,584
Student services	685,660	1,673,279	83,303	1,076,156	3,518,398	3,404,570
Institutional support	78,169	4,581,506	12,716	242,047	4,914,438	3,518,401
Operation and maintenance of plant	177,604	-	63,888	59,188	300,680	351,550
Scholarships and fellowships	-	-	-	10,661,846	10,661,846	10,391,971
Total restricted educational activities	3,886,250	16,877,793	611,019	13,850,305	35,225,367	31,312,124
Total educational activities	129,712,113	16,877,793	9,435,534	64,687,334	220,712,774	199,827,096
Auxiliary enterprises	2,044,823	-	375,779	3,275,095	5,695,697	5,304,332
Depreciation expense - buildings	-	-	-	6,532,096	6,532,096	6,550,074
Depreciation expense - equip & furn	-	-	-	1,959,406	1,959,406	2,275,289
Total Operating Expenses	\$ 131,756,936	\$ 16,877,793	\$ 9,811,313	\$ 76,453,931	\$ 234,899,973	\$ 213,956,791
					(Exhibit 2)	(Exhibit 2)

\*In accordance with the Education code 56.033, \$2,228,568 and \$2,103,293 was set aside for Texas Public Education Grants in 2008 and 2007 respectively.

**LONE STAR COLLEGE SYSTEM**  
**SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES**  
**YEAR ENDED AUGUST 31, 2008 (With Memorandum Totals for the Year Ended August 31, 2007)**

	Unrestricted	Restricted	Auxiliary Enterprises	August 31,	
				2008	2007
<b>NON-OPERATING REVENUES:</b>					
State appropriations:					
Education and general state support	\$ 55,122,762	\$ -	\$ -	\$ 55,122,762	\$ 49,113,362
State group insurance	-	10,002,351	-	10,002,351	7,826,145
State retirement matching	-	6,875,442	-	6,875,442	5,810,336
Developmental education	-	-	-	-	-
Total state appropriations	55,122,762	16,877,793	-	72,000,555	62,749,843
Maintenance ad valorem taxes	83,479,689	-	-	83,479,689	73,755,838
General obligation ad valorem taxes	-	34,697,944	-	34,697,944	31,367,850
Gifts	67,890	-	-	67,890	17,000
Investment income	3,961,490	-	-	3,961,490	4,477,292
Gain on sale of investment	-	-	-	-	-
Gain on disposal of capital asset	-	-	-	-	-
Other non-operating revenue	886,607	424,193	-	1,310,800	1,302,936
<b>Total non-operating revenues</b>	143,518,438	51,999,930	-	195,518,368	173,670,759
<b>NON-OPERATING EXPENSES:</b>					
Interest on capital related debt	-	10,418,702	-	10,418,702	11,359,249
Loss on disposal of capital assets	-	346,861	-	346,861	245,000
Other non-operating expense	-	-	-	-	-
<b>Total non-operating expenses</b>	-	10,765,563	-	10,765,563	11,604,249
<b>Net non-operating revenues</b>	<b>\$ 143,518,438</b>	<b>\$ 41,234,367</b>	<b>\$ -</b>	<b>\$ 184,752,805</b>	<b>\$ 162,066,510</b>
				(Exhibit 2)	(Exhibit 2)

## LONE STAR COLLEGE SYSTEM

## SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY

YEAR ENDED AUGUST 31, 2008 (with Memorandum Totals for the Year Ended August 31, 2007)

	Detail by Source					Available for Current Operations	
	Restricted		Non-Expendable	Capital Assets (Net)	Total	Yes	No
	Unrestricted	Expendable					
Current:							
Unrestricted	\$ 45,769,113	\$ -	\$ -	\$ -	\$ 45,769,113	\$ 45,769,113	\$ -
Board designated	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Auxiliary enterprises	2,062,940	-	-	-	2,062,940	2,062,940	-
Loan	-	485,631	-	-	485,631	-	485,631
Endowment:							
Quasi:							
Unrestricted	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Endowment							
True	-	-	-	-	-	-	-
Term	-	-	-	-	-	-	-
Life income contracts	-	-	-	-	-	-	-
Annuities	-	-	-	-	-	-	-
Plant:							
Unexpended	-	-	-	-	-	-	-
Renewals	-	-	-	-	-	-	-
Debt service	-	5,131,007	-	-	5,131,007	-	5,131,007
Investment in Plant	-	-	-	139,813,242	139,813,242	-	139,813,242
Total Net Assets, August 31, 2008	47,832,053	5,616,638	-	139,813,242	193,261,933	47,832,053	145,429,880
Total Net Assets, August 31, 2007	40,506,050	6,536,978	-	119,597,719	166,640,747	40,506,050	126,134,697
Net Increase in Net Assets	\$ 7,326,003	\$ (920,340)	\$ -	\$ 20,215,523	\$ 26,621,186	\$ 7,326,003	\$ 19,295,183

**LONE STAR COLLEGE SYSTEM**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED AUGUST 31, 2008**

**SCHEDULE E**

Federal Grantor/Pass Through Grantor/ Program Title	Prog. # Fund #	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<u>Direct Programs:</u>				
Federal Supplemental Educational Opportunity Grants-FSEOG(06-07)	8009	84.007	P007A064084	\$ (470)
Federal Supplemental Educational Opportunity Grants-FSEOG(07-08)	8009	84.007	P007A074084	407,512
				<u>407,042</u>
Institutional Development & Undergraduate Education Service Higher Education - Institutional Aid-Title V (07-08)	8207	84.031S	P031S040052-06	386,104
Federal Work-Study Program (07-08)	8001	84.033	P933A064084	375,187
Federal Work-Study Program (08-09)	8001	84.033	P933A074084	50,920
Total Federal Work-Study Program				<u>426,107</u>
TRIO - Student Support Services(07-08)	8206	84.042A	P042A050846	242,418
TRIO - Talent Search (07-08) NHC's Student Support Services Initiative	8204	84.044A	P044A020444-6	220,487
TRIO - Upward Bound (07-08)	8203	84.047A	P047A031128-06	275,771
TRIO - Upward Bound (07-08)	8205	84.047A	P047A030935-06	236,380
Total TRIO - Upward Bound				<u>512,151</u>
Federal Pell Grant Program (05-06)	8005	84.063	P063P053422	825
Federal Pell Grant Program (06-07)	8005	84.063	P063P063422	(17,919)
Federal Pell Grant Program (07-08)	8005	84.063	P063P073422	18,616,546
Total Federal Pell Grant Program				<u>18,599,452</u>
Academic Competitiveness (07-08)	8017	84.375	n/a	295,397
<u>Pass-Through From:</u>				
Texas Education Agency				
Adult Education - State Grant Program (07-08)	8492	84.002A	084100017110208	702,576
Adult Education - State Grant Program (06-07)	8493	84.002A	74100017110153	(1,887)
Adult Education - State Grant Program (08-09)	8493	84.002A	094100017110268	101,459
Adult Education - State Grant Program (07-08)	8494	84.002A	084100087110240	94,576
Adult Education - State Grant Program (06-07)	8495	84.002A	74100087110163	(338)
Adult Education - State Grant Program (08-09)	8495	84.002A	094100087110300	1,760
Adult Education - State Grant Program (06-07)	8497	84.002A	07410003711023	51,600
Adult Education - State Grant Program (07-08)	8496	84.002A	084100037110032	327,564
Total Adult Basic Education - State Grant Program				<u>1,277,310</u>
Career and Technology Education (07-08) ATC Professional Development	8405	84.048	17417348848	176,209
<u>Pass-Through From:</u>				
Texas Higher Education Coordinating Board				
Vocational Education - Basic Grants to States (07-08)	8400	84.048	84233	815,477
Vocational Education - Basic Grants to States (06-07)	8435	84.048	71409	62
Vocational Education - Basic Grants to States (07-08)	8435	84.048	81110	41,769
Vocational Education - Basic Grants to States (06-07)	8401	84.048	71103	3,698
Vocational Education - Basic Grants to States (07-08)	8423	84.048	81112	152,405
Vocational Education - Basic Grants to States (06-07)	8402	84.048	71501	1,222
Vocational Education - Basic Grants to States (07-08)	8433	84.048	81111	65,719
Vocational Education - Basic Grants to States (07-08)	8438	84.048	81109	67,554
Vocational Education - Basic Grants to States (07-08)	8439	84.048	81108	36,222
Vocational Education - Basic Grants to States (07-08)	8440	84.048	81107	27,420
Vocational Education - Basic Grants to States (07-08)	8442	84.048	81114	1,343
Vocational Education - Basic Grants to States (07-08)	8443	84.048	n/a	8,226
Total Vocational Education - Basic Grants				<u>1,221,117</u>

The 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, 2008**

**SCHEDULE E**

Federal Grantor/Pass Through Grantor/ Program Title	Prog. # Fund #	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
Texas Higher Education Coordinating Board Leveraging Educational Assistance Partnership (07-08)	8013	84.069A	n/a	11,377
Texas Higher Education Coordinating Board Special Leveraging Educational Assistance Partnership (07-08)	8014	84.069B	n/a	15,778
Texas Higher Education Coordinating Board Robert C.Byrd Honors Scholarship (07-08)	8015	84.185A	n/a	1,000
Texas Higher Education Coordinating Board Tech Prep Education (07-08)	8416	84.243	71713	934,728
Fund for the Improvement of Postsecondary Education Stephen F. Austin Articulated Internet Teacher Education Program for Multilingual Classrooms (07-08)	8437	84.116	P116B060283	1,836
Landmark College Demonstrations Projects to Ensure Students with Disabilities Receive a Higher Education (07-08)	8412	84.333A	P333A050035-06	17,882
North American Mobility In Higher Education Fund for the Improvement of Postsecondary Education (07-08)	8211	84.116N	P116N070021	14,102
Texas Skills Standards Board Recognition that a technical program is teaching the competencies, skills, and knowledge as identified by industry standards (07-08)	8441	84.048	n/a	5,000
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>				24,765,497
<b>THE DEPARTMENT OF AGRICULTURE</b>				
Direct Program:				
Pass -Through from: Texas Health and Human Services Commission Child and Adult Care Food Program (06-07)	8803	10.558	101-0385	(2,477)
Child and Adult Care Food Program (07-08)	8803	10.558	101-0385	19,951
Total Department of Agriculture				17,474
<b>DEPARTMENT OF JUSTICE</b>				
Direct Program:				
Bullet Proof Vest Program (07-08)	8600	16.607	15-0404-01-754	3,000
<b>NATIONAL SCIENCE FOUNDATION</b>				
Direct Program:				
Education and Human Resources (07-08) Creating pathways and Opportunities for Audio Visual System Specialists	8602	47.076	401988	8,556
	8607	47.076	DUE-0802311	73,550
Pass-Through from: Texas Engineering Experiment Station (TEES) Education and Human Resources	8807	47.076	ESI-0353377	83,191
<b>TOTAL NATIONAL SCIENCE FOUNDATION</b>				165,297

The 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, 2008**

**SCHEDULE E**

Federal Grantor/Pass Through Grantor/ Program Title	Prog. # Fund #	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
<b>SMALL BUSINESS ADMINISTRATION</b>				
Pass-Through from:				
University of Houston				
Small Business Development Center (07-08)	8894	59.037	R040212	190,866
Small Business Development Center (07-08)	8895	59.037	R040213	<u>20,822</u>
<b>TOTAL SMALL BUSINESS ADMINISTRATION</b>				<u>211,688</u>
<b>HEALTH AND HUMAN SERVICES COMMISSION</b>				
Pass-Through from:				
Texas Education Agency				
Temporary Assistance for Needy Families (07-08)	8892	93.558	083625017110193	68,476
Temporary Assistance for Needy Families (06-07)	8893	93.558	73625017110124	<u>2,015</u>
<b>TOTAL HEALTH AND HUMAN SERVICES COMMISSION</b>				<u>70,491</u>
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>				
ASSETS Accent on Student Success Engaged Together in Service	8800	94.005	06LHHAZ001	<u>7,709</u>
Learn & Serve: Highter Ed: HE-Consortia (07-08)				
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>				<u><u>\$ 25,241,156</u></u>

The 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, 2008

**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, 2008. 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 Student Loans Processed and Administrative Costs Recovered**

Federal Grantor CFDA Number / Program Name	New Loans Processed	Administrative Cost Recovered	Total Loans Processed & Admin Cost Recovered
U.S. Department of Education Federal Family Education Loan Program 84.032	\$ 12,995,667	\$ -	\$ 12,995,667

**4 Federal Assistance Reconciliation**

Federal Grants and Contracts Revenue per Exhibit 2	\$ 25,241,156
Reconciling Items	-
Total Federal revenues per Schedule of Expenditures of Federal Awards	\$ 25,241,156

**5 Expenditures Not Subject to Federal Single Audit**

None

LONE STAR COLLEGE SYSTEM

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2008

6 Subrecipients

The following amounts were passed-through to the listed subrecipients by the college. These amounts were from the Tech Prep (07-08 program CFDA 84.243A from U S Department of Education through the Texas Higher Education Coordinating Board.

ISD Name		\$	
Aldine ISD		12,845	
Alief ISD		8,451	
Alvin ISD		4,185	
Bay City ISD		372	
Bellville ISD		3,213	
Channelview ISD		3,834	
Clear Creek ISD		15,914	
Columbus ISD		2,646	
Cypress-Fairbanks ISD		7,155	
Danbury ISD		1,044	
Deer Park ISD		11,931	
Friendswood ISD		22,217	
Galena Park ISD		12,409	
Hitchcock ISD		805	
Houston ISD		12,276	
Huffman ISD		1,055	
Huntsville ISD		1,630	
Katy ISD		29,153	
Klein ISD		4,727	
Lamar CISD		5,665	
Louise ISD		597	
Magnolia ISD		350	
New Caney ISD		2,417	
New Waverly ISD		175	
Pearland ISD		6,746	
Santa Fe ISD		2,870	
Sealy ISD		5,099	
Spring ISD		21,976	
Spring Branch		14,512	
Stafford Municipal SD		425	
Sweeny ISD		389	
Tidehaven ISD		344	
Waller ISD		1,026	
Willis ISD		2,164	
<b>Colleges</b>			
Alvin CC		1,640	
College of the Mainland		81,791	
Galveston College		835	
Houston Community College System		61,784	
Lee College		23,424	
Texas Tech University		60,233	
	TOTAL	<u>\$ 450,324</u>	

**SCHEDULE F**

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
YEAR ENDED AUGUST 31, 2008**

State Grantor/Pass Through Grantor	State/Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>TEXAS HIGHER EDUCATION COORDINATING BOARD:</b>			
<i>Direct Programs:</i>			
7800 College Work - Study Program (07-08)	N/A	N/A	\$ 46,397
7800 College Work - Study Program (08-09)	N/A	N/A	1,648
<i>Total College Work - Study Program</i>			48,045
7801 Texas Grant Program (07-08)	N/A	N/A	276,370
7804 Texas Grant Renewal Program (07-08)	N/A	N/A	83,182
<i>Total Texas Grant Program</i>			359,552
7803 Texas II Grant Program(07-08)	N/A	N/A	149,458
7805 Texas II Grant Renewal Program(07-08)	N/A	N/A	5,618
<i>Total Texas II Grant Program</i>			155,076
7831 Professional Nursing (07-08)	N/A	N/A	25,916
7833 Vocational Nursing (07-08)	N/A	N/A	2,866
7515 Nursing Shortage Reduction (07-08)	N/A	N/A	43,241
7519 College Readiness (07-08)	N/A	N/A	2,516
7520 Statewide Discipline-Based Fertical Teams (07-08)	N/A	N/A	1,182
7521 NSRP (07-08)	N/A	N/A	79,665
7522 NIG-Course Redesign (07-08)	N/A	N/A	49,155
 <b>Total Texas Higher Education Coordinating Board</b>			 767,214

See Accompanying Notes to Schedule of Expenditures of State Awards

**SCHEDULE F**

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
YEAR ENDED AUGUST 31, 2008**

State Grantor/Pass Through Grantor	State/Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Continued			
<b>TEXAS WORKFORCE COMMISSION:</b>			
<i>Direct Programs:</i>			
7514 TWC Skills Development (07-08)	N/A	2807SDF001	362,376
7516 TWF-Dryers (07-08)	N/A	2807SDF006	111,363
7523 TWF Redi Mix (07-08)	N/A	2807SDF000	56,436
7524 TWF Reed Hycalog (07-08)	N/A	2807SDF003	466
<b>Total Texas Workforce Commission</b>			530,641
<b>TEXAS EDUCATION AGENCY:</b>			
<i>Direct Programs:</i>			
7508 Temporary Assist. for Needy Families (07-08)	N/A	80110017110193	39,145
7509 Adult Basic Education (07-08)	N/A	70100017110208	165,483
<i>Pass -Through from: TEA Aldine ISD</i>			
7517 Victory Early College High School (07-08)	N/A	71045297110001	14,471
<b>Total Texas Education Agency</b>			219,099
<b>TEXAS COMPTROLLER OF PUBLIC ACCOUNTS:</b>			
<i>Direct Programs:</i>			
7500 LEOSE/Law Enforcement Officer Standards and Education(07-08)	N/A	N/A	200
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>			\$ 1,517,154

See Accompanying Notes to Schedule of Expenditures of State Awards

**LONE STAR COLLEGE SYSTEM**  
**NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2008**

**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**

Total State Revenues	\$	1,517,154
Reconciling item:		
Interest Income		-
Total expenditures per Schedule of State Awards	\$	<u>1,517,154</u>

## **STATISTICAL SECTION**

## STATISTICAL SECTION

This part of the Lone Star College System's 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.

<b>Contents</b>	<b>Page</b>
Financial Trends <i>These schedules contain trend information to help the reader understand how the System's financial performance and well-being have changed over time.</i>	54
Revenue Capacity <i>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.</i>	57
Debt Capacity <i>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.</i>	62
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the System's financial activities take place.</i>	65
Operating Information <i>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</i>	67

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**  
**Net Assets by Component**  
**Fiscal Years 2002 to 2008**  
(unaudited)

	For the Fiscal Year Ended August 31,						
	(amounts expressed in thousands)						
	2008	2007	2006	2005	2004	2003	2002
Invested in capital assets, net of related debt	\$139,813	\$119,598	\$105,149	\$88,362	\$79,699	\$81,262	\$79,681
Restricted - expendable	5,617	6,537	3,822	2,810	2,246	2,818	4,537
Restricted - nonexpendable	-	-	-	-	-	-	-
Unrestricted	47,832	40,506	37,603	29,486	26,525	21,283	19,133
<b>Total net assets</b>	<u>\$ 193,262</u>	<u>\$ 166,641</u>	<u>\$ 146,574</u>	<u>\$ 120,658</u>	<u>\$ 108,470</u>	<u>\$ 105,363</u>	<u>\$ 103,351</u>
Net increase in net assets	<u>\$ 26,621</u>	<u>\$ 20,067</u>	<u>\$ 25,916</u>	<u>\$ 12,188</u>	<u>\$ 3,107</u>	<u>\$ 2,012</u>	

Lone Star College System  
Revenues by Source  
Fiscal Years 2002 to 2008  
(unaudited)

For the Year Ended August 31,							
(amounts expressed in thousands)							
	2008	2007	2006	2005	2004	2003	2002
Tuition and Fees (Net of Discounts)	\$ 39,171	\$ 36,815	\$ 33,412	\$ 30,134	\$ 28,615	\$ 22,311	\$ 19,423
Governmental Grants and Contracts							
Federal Grants and Contracts	25,241	23,859	24,029	24,285	21,390	18,368	18,547
State Grants and Contracts	1,517	826	524	901	910	1,680	1,416
Local Grants and Contracts	3,895	3,876	8,098	3,172	2,978	4,778	2,624
Non-Governmental Grants and Contracts	-	-	-	-	-	-	-
Sales and services of educational activities	-	-	-	-	-	-	-
Auxiliary enterprises	6,052	5,671	5,390	4,886	5,025	3,681	3,765
Other Operating Revenues	892	910	891	1,089	429	300	131
<b>Total Operating Revenues</b>	<b>\$ 76,768</b>	<b>\$ 71,957</b>	<b>\$ 72,344</b>	<b>\$ 64,467</b>	<b>\$ 59,347</b>	<b>\$ 51,118</b>	<b>\$ 45,906</b>
Ad Valorem Taxes:							
Maintenance and Operations	83,480	73,756	70,130	60,589	55,442	47,337	45,720
General Obligation Bonds	34,698	31,368	28,437	26,362	24,243	20,016	20,517
State Appropriations	72,000	62,750	62,266	54,697	53,998	46,501	48,744
Gifts	68	17	8	32	-	-	-
Investment income	3,961	4,477	2,540	1,111	1,204	2,099	2,538
Other non-operating revenues	1,311	1,303	1,387	623	618	539	2,284
<b>Total Non-Operating Revenues</b>	<b>195,518</b>	<b>173,671</b>	<b>164,768</b>	<b>143,414</b>	<b>135,505</b>	<b>116,492</b>	<b>119,803</b>
<b>Total Revenues</b>	<b>\$ 272,286</b>	<b>\$ 245,628</b>	<b>\$ 237,112</b>	<b>\$ 207,881</b>	<b>\$ 194,852</b>	<b>\$ 167,610</b>	<b>\$ 165,709</b>

For the Year Ended August 31,							
	2008	2007	2006	2005	2004	2003	2002
Tuition and Fees (Net of Discounts)	14.39%	14.99%	14.09%	14.50%	14.69%	13.31%	11.72%
Governmental Grants and Contracts							
Federal Grants and Contracts	9.27%	9.71%	10.13%	11.68%	10.98%	10.96%	11.19%
State Grants and Contracts	0.56%	0.34%	0.22%	0.43%	0.47%	1.00%	0.85%
Local Grants and Contracts	1.43%	1.58%	3.42%	1.53%	1.53%	2.85%	1.58%
Non-Governmental Grants and Contracts	-	-	-	-	-	-	-
Sales and services of educational activities	-	-	-	-	-	-	-
Auxiliary enterprises	2.22%	2.31%	2.27%	2.35%	2.58%	2.20%	2.27%
Other Operating Revenues	0.33%	0.37%	0.38%	0.52%	0.22%	0.18%	0.08%
<b>Total Operating Revenues</b>	<b>28.19%</b>	<b>29.30%</b>	<b>30.51%</b>	<b>31.01%</b>	<b>30.46%</b>	<b>30.50%</b>	<b>27.70%</b>
Ad Valorem Taxes:							
Maintenance and Operations	30.66%	30.03%	29.58%	29.15%	28.45%	28.24%	27.59%
General Obligation Bonds	12.74%	12.77%	11.99%	12.68%	12.44%	11.94%	12.38%
State Appropriations	26.44%	25.55%	26.26%	26.31%	27.71%	27.74%	29.42%
Gifts	0.02%	0.01%	-	0.02%	-	-	-
Investment income	1.45%	1.82%	1.07%	0.53%	0.62%	1.25%	1.53%
Other non-operating revenues	0.48%	0.52%	0.58%	0.30%	0.32%	0.32%	1.38%
<b>Total Non-Operating Revenues</b>	<b>71.81%</b>	<b>70.70%</b>	<b>69.49%</b>	<b>68.99%</b>	<b>69.54%</b>	<b>69.50%</b>	<b>72.30%</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>

Note: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2008 are available.

**LONE STAR COLLEGE SYSTEM**  
**Program Expenses by Function**  
**Fiscal Years 2002 to 2008**  
(unaudited)

	For the Year Ended August 31,						
	(amounts expressed in thousands)						
	2008	2007	2006	2005	2004	2003	2002
Instruction	\$ 88,102	\$ 81,585	\$ 77,225	\$ 69,557	\$ 71,587	\$ 63,503	\$ 54,145
Research	-	-	-	-	-	-	-
Public service	1,510	1,475	1,475	1,324	1,408	2,146	2,455
Academic support	36,140	31,411	29,010	25,892	16,270	19,319	15,096
Student services	18,469	16,705	15,551	13,947	12,770	13,101	11,557
Institutional support	33,961	30,898	28,571	28,728	26,468	18,687	19,831
Operation and maintenance of plant	31,868	27,362	23,665	20,843	23,262	20,705	8,481
Scholarships and fellowships	10,662	10,392	9,341	10,716	11,060	6,795	8,526
Auxiliary enterprises	5,696	5,304	5,132	4,796	4,345	3,326	3,726
Depreciation	8,492	8,825	8,702	8,459	7,389	7,995	4,613
<b>Total Operating Expenses</b>	<b>\$ 234,900</b>	<b>\$ 213,957</b>	<b>\$ 198,672</b>	<b>\$ 184,262</b>	<b>\$ 174,559</b>	<b>\$ 155,577</b>	<b>\$ 128,430</b>
Interest on capital related debt	10,419	11,359	12,518	11,431	11,728	8,330	9,151
Loss on disposal of fixed assets	347	245	6	-	-	1,691	-
<b>Total Non-Operating Expenses</b>	<b>10,766</b>	<b>11,604</b>	<b>12,524</b>	<b>11,431</b>	<b>11,728</b>	<b>10,021</b>	<b>9,151</b>
<b>Total Expenses</b>	<b>\$ 245,666</b>	<b>\$ 225,561</b>	<b>\$ 211,196</b>	<b>\$ 195,693</b>	<b>\$ 186,287</b>	<b>\$ 165,598</b>	<b>\$ 137,581</b>

	For the Year Ended August 31,						
	2008	2007	2006	2005	2004	2003	2002
	Instruction	35.87%	36.16%	36.57%	35.54%	38.43%	38.35%
Research	-	-	-	-	-	-	-
Public service	0.61%	0.65%	0.70%	0.68%	0.76%	1.30%	1.78%
Academic support	14.71%	13.93%	13.74%	13.23%	8.73%	11.67%	10.97%
Student services	7.52%	7.41%	7.36%	7.13%	6.86%	7.91%	8.40%
Institutional support	13.82%	13.70%	13.53%	14.68%	14.21%	11.28%	14.41%
Operation and maintenance of plant	12.97%	12.13%	11.21%	10.65%	12.49%	12.50%	6.16%
Scholarships and fellowships	4.34%	4.61%	4.42%	5.48%	5.94%	4.10%	6.20%
Auxiliary enterprises	2.32%	2.35%	2.43%	2.45%	2.33%	2.01%	2.71%
Depreciation	3.46%	3.91%	4.12%	4.32%	3.97%	4.83%	3.35%
<b>Total Operating Expenses</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>	<b>93.35%</b>
Interest on capital related debt	4.24%	5.04%	5.93%	5.84%	6.30%	5.03%	6.65%
Loss on disposal of fixed assets	0.14%	0.11%	-	-	-	1.02%	-
<b>Total Non-Operating Expenses</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>6.65%</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>

**Note:** Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2008 are available.

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

Academic Year (Fall)	Registration Fee (per student)	Resident Fees per Semester Credit Hour (SCH)						Increase from Prior Year In-District	Increase from Prior Year Out-of-District
		In-District Tuition	Out-of-District Tuition	Technology Fees	Student Activity Fees	Cost for 12 SCH In-District	Cost for 12 SCH Out-of-District		
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	12.50%	5.56%
2002	12	26	66	5	-	384	864	10.34%	4.35%
2001	12	24	64	4	-	348	828	0.00%	0.00%
2000	12	24	64	4	-	348	828	0.00%	0.00%
1999	12	24	64	4	-	348	828	7.41%	11.29%
1998	12	22	57	4	-	324	744	0.00%	0.00%

Academic Year (Fall)	Registration Fee (per student)	Non-Resident Fees per Semester Credit Hour (SCH)						Increase from Prior Year In-District	Increase from Prior Year Out-of-District
		In-District Tuition	Out-of-District Tuition	Technology Fees	Student Activity Fees	Cost for 12 SCH Out of State	Cost for 12 SCH International		
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	4.60%	4.60%
2002	12	81	81	5	-	1,044	1,044	17.57%	17.57%
2001	12	69	69	4	-	888	888	0.00%	0.00%
2000	12	69	69	4	-	888	888	0.00%	0.00%
1999	12	69	69	4	-	888	888	2.78%	2.78%
1998	12	67	67	4	-	864	864	0.00%	0.00%

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**  
**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)
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
2001-02	62,474,553	(3,964,601)	58,509,952	93.65%	0.0760	0.0340	0.1100
2000-01	34,178,258	(2,881,157)	31,297,101	91.57%	0.0750	0.0350	0.1100
1999-00	31,955,285	(2,636,610)	29,318,675	91.75%	0.0777	0.0397	0.1174
1998-99	25,739,511	(2,083,660)	23,655,851	91.90%	0.0807	0.0391	0.1198

Source: Local Appraisal District

Notes: Property is assessed at full market value.  
(a) per \$100 Taxable Assessed Valuation

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

Fiscal Year	Appropriation per FTSE			Appropriation per Contact Hour				
	State Appropriation (expressed in thousands)	FTSE (a)	State Appropriation per FTSE	(hours expressed in thousands)				
				Academic Contact Hours (b)	Voc/Tech Contact Hours (c)	Total Contact Hours	State Appropriation per Contact Hour	
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	
2001-02	48,744	18,706	2,606	4,599	223	4,822	10.11	
2000-01	40,281	16,326	2,467	4,069	198	4,267	9.44	
1999-00	38,613	14,810	2,607	3,879	168	4,047	9.54	
1998-99	33,279	13,823	2,408	3,667	144	3,811	8.73	

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**  
**Principal Taxpayers**  
**Last Ten Tax Years**  
(unaudited)

Taxpayer	Type of Business	Taxable Assessed Value (TAV) by Tax Year (amounts expressed in thousands)									
		2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Hewlett Packard	Manufacturing	1,070,242	717,813	612,508	328,867	259,341	-	-	-	-	-
Centerpoint Energy Inc	Utility	629,973	669,281	627,004	665,897	604,808	-	-	-	-	
Walmart	Retail	512,420	272,154	194,673	231,324	245,454	-	-	-	-	
Nabors Drilling USA LP	Oil and Gas	507,533	-	-	-	-	-	-	-	-	
Southwestern Bell	Utility	348,855	254,770	260,074	243,006	-	365,921	291,608	197,990	-	
Houston Pipeline Co LP	Utility	253,573	525,621	368,197	-	-	-	-	126,550	116,094	
Hines Interests Ltd Psp	Real Estate	248,302	226,654	211,493	190,395	214,578	-	206,790	-	131,687	
Express Jet Airlines Inc	Airline	200,909	-	-	-	-	-	-	-	-	
Exxon Mobil Corp	Oil and Gas	198,660	174,024	127,130	-	-	137,282	166,180	201,501	122,489	
Continental Airlines Inc	Airline	190,396	190,101	218,579	218,060	197,419	-	212,018	136,729	165,299	
Wal-Mart Real Estate Bus Tr	Real Estate	-	220,261	-	-	-	-	-	-	-	
HEB Grocery Co LP	Retail grocer	-	158,170	-	-	-	-	-	-	-	
Texas Cable Partners LP	Utility	-	-	136,543	-	-	-	-	-	-	
Wachovia Development Corp	Real Estate	-	-	136,277	-	-	-	-	-	-	
Woodlands Land Dev LP	Real Estate	-	-	-	248,881	248,881	302,183	250,185	355,425	126,133	
AEP Energy Services, Inc	Utility	-	-	-	185,355	-	126,266	-	-	-	
Gulf States Utilities	Utility	-	-	-	143,586	143,585	141,063	139,439	106,272	103,603	
First Security Bank, Trustee	Other	-	-	-	136,277	-	-	-	-	-	
Compaq	Manufacturing	-	-	-	-	202,282	538,611	859,405	680,923	753,487	
Haliburton Energy	Oil and Gas	-	-	-	-	178,640	156,242	-	-	-	
BAM Lease Company	Property Management	-	-	-	-	160,887	168,148	-	-	-	
Houston Lighting & Power	Utility	-	-	-	-	-	532,028	569,840	232,752	195,534	
Enron Corporation	Conglomerate	-	-	-	-	-	-	222,394	182,134	-	
Weingarten Realty	Real Estate	-	-	-	-	-	131,219	109,772	-	-	
Greenspoint Plaza Ltd	Property Management	-	-	-	-	-	186,453	-	121,144	113,300	
Huntsman Inc.	Petrochemical	-	-	-	-	-	-	86,708	96,209	122,501	
Hydri Co.	Oil and Gas	-	-	-	-	-	-	-	86,345	-	
Sarsaparillali	-	-	-	-	-	-	101,913	-	-	-	
Colombia Regional Medical	Hospital	-	-	-	-	-	-	-	-	108,650	
<b>Totals</b>		<b>\$ 4,160,863</b>	<b>\$ 3,408,849</b>	<b>\$ 2,892,478</b>	<b>\$ 2,591,648</b>	<b>\$ 2,455,875</b>	<b>\$ 2,384,126</b>	<b>\$ 3,073,046</b>	<b>\$ 2,359,875</b>	<b>\$ 2,062,348</b>	<b>\$ 2,029,638</b>
<b>Total Taxable Assessed Value</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>	<b>\$ 58,509,952</b>	<b>\$ 31,297,101</b>	<b>\$ 29,318,675</b>	<b>\$ 23,655,851</b>

Taxpayer	Type of Business	% of Taxable Assessed Value (TAV) by Tax Year									
		2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Hewlett Packard	Manufacturing	1.04%	0.80%	0.75%	0.44%	0.37%	-	-	-	-	-
Centerpoint Energy Inc	Utility	0.61%	0.74%	0.77%	0.88%	0.87%	-	-	-	-	-
Walmart	Retail	0.50%	0.30%	0.24%	0.31%	0.35%	-	-	-	-	
Nabors Drilling USA LP	Oil and Gas	0.49%	-	-	-	-	-	-	-	-	
Southwestern Bell	Utility	0.34%	0.28%	0.32%	0.32%	-	0.63%	0.93%	0.68%	-	
Houston Pipeline Co LP	Utility	0.25%	0.58%	0.45%	-	-	-	-	0.43%	0.49%	
Hines Interests Ltd Psp	Real Estate	0.24%	0.25%	0.26%	0.25%	0.31%	-	0.35%	-	0.56%	
Express Jet Airlines Inc	Airline	0.19%	-	-	-	-	-	-	-	-	
Exxon Mobil Corp	Oil and Gas	0.19%	0.19%	0.16%	-	-	0.23%	0.53%	0.69%	0.52%	
Continental Airlines Inc	Airline	0.18%	0.21%	0.27%	0.29%	0.28%	0.36%	0.44%	0.56%	0.55%	
Wal-Mart Real Estate Bus Tr	Real Estate	-	0.24%	-	-	-	-	-	-	-	
HEB Grocery Co LP	Retail grocer	-	0.18%	-	-	-	-	-	-	-	
Texas Cable Partners LP	Utility	-	-	0.17%	-	-	-	-	-	-	
Wachovia Development Corp	Real Estate	-	-	0.17%	-	-	-	-	-	-	
Woodlands Land Dev LP	Real Estate	-	-	-	0.33%	0.36%	0.47%	0.43%	1.14%	0.43%	
AEP Energy Services, Inc	Utility	-	-	-	0.25%	-	0.20%	-	-	-	
Gulf States Utilities	Utility	-	-	-	0.19%	0.21%	0.22%	0.24%	0.34%	0.44%	
First Security Bank, Trustee	Other	-	-	-	0.18%	-	-	-	-	-	
Compaq	Manufacturing	-	-	-	-	0.29%	0.84%	1.47%	2.18%	2.57%	
Haliburton Energy	Oil and Gas	-	-	-	-	0.26%	0.24%	-	-	-	
BAM Lease Company	Property Management	-	-	-	-	0.23%	0.26%	-	-	-	
Houston Lighting & Power	Utility	-	-	-	-	-	0.83%	0.97%	0.74%	0.67%	
Enron Corporation	Conglomerate	-	-	-	-	-	-	0.38%	0.58%	-	
Weingarten Realty	Real Estate	-	-	-	-	-	0.21%	0.19%	-	-	
Greenspoint Plaza Ltd	Property Management	-	-	-	-	-	0.29%	0.00%	0.39%	0.39%	
Huntsman Inc.	Petrochemical	-	-	-	-	-	-	0.00%	0.28%	0.33%	
Hydri Co.	Oil and Gas	-	-	-	-	-	-	0.00%	-	0.29%	
Sarsaparillali	-	-	-	-	-	-	-	-	-	-	
Colombia Regional Medical	Hospital	-	-	-	-	-	-	-	-	0.46%	
<b>Totals</b>		<b>4.03%</b>	<b>3.78%</b>	<b>3.53%</b>	<b>3.44%</b>	<b>3.53%</b>	<b>3.73%</b>	<b>5.25%</b>	<b>7.54%</b>	<b>7.03%</b>	<b>8.58%</b>

Source: Harris County and Montgomery County Appraisal Districts

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

Fiscal Year Ended August 31	Levy (a)	Cumulative Levy Adjustments	Adjusted Tax Levy (b)	Collections - Year of Levy (c)	Percentage	Prior Collections of Prior Levies (d)	Current Collections of Prior Levies (e)	Total Collections	Cumulative Collections of Adjusted Levy
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%
2002	60,906	3,905	64,811	62,478	96.40%	1,935	100	64,513	99.54%
2001	34,427	3,652	38,079	37,025	97.23%	848	28	37,901	99.53%
2000	34,420	1,895	36,315	35,456	97.63%	677	19	36,152	99.55%
1999	28,339	489	28,828	27,832	96.55%	869	9	28,710	99.59%

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**  
**Ratios of Outstanding Debt**  
**Last Ten Fiscal Years**  
(unaudited)

	For the Year Ended August 31 (amounts expressed in thousands)									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>General Bonded Debt</b>										
General obligation bonds	\$ 155,503	\$ 184,419	\$ 203,905	\$ 220,639	\$ 236,164	\$ 212,193	\$ 222,729	\$ 132,323	\$ 89,163	\$ 95,657
Notes	-	-	-	-	-	-	-	-	-	-
Less: Funds restricted for debt service	-	-	-	-	-	-	-	-	-	-
Net general bonded debt	\$ 155,503	\$ 184,419	\$ 203,905	\$ 220,639	\$ 236,164	\$ 212,193	\$ 222,729	\$ 132,323	\$ 89,163	\$ 95,657
<b>Other Debt</b>										
Revenue bonds	\$ 53,488	\$ 55,296	\$ 26,540	\$ 27,992	\$ 29,408	\$ 21,600	\$ 12,835	\$ 14,075	\$ 14,189	\$ 8,230
Notes	-	-	-	-	-	-	-	-	-	-
Capital lease obligations	-	-	-	-	-	-	-	-	-	-
Total Outstanding Debt	\$ 208,991	\$ 239,715	\$ 230,445	\$ 248,631	\$ 265,572	\$ 233,793	\$ 235,564	\$ 146,398	\$ 103,352	\$ 103,887
<b>General Bonded Debt Ratios</b>										
Per Capita	\$ 103.67	\$ 122.95	\$ 135.94	\$ 147.09	\$ 157.44	\$ 141.46	\$ 148.49	\$ 88.22	\$ 59.44	\$ 63.77
Per FTSE	5,724	7,179	8,069	9,450	10,679	10,325	11,907	8,105	6,020	6,920
As a percentage of Taxable Assessed Value	0.15%	0.20%	0.25%	0.29%	0.34%	0.33%	0.38%	0.42%	0.30%	0.40%
<b>Total Outstanding Debt Ratios</b>										
Per Capita	\$ 141.21	\$ 161.97	\$ 155.71	\$ 167.99	\$ 179.44	\$ 157.97	\$ 159.16	\$ 98.92	\$ 69.83	\$ 70.19
Per FTSE	7,693	9,332	9,120	10,649	12,009	11,376	12,593	8,967	6,979	7,516
As a percentage of Taxable Assessed Value	0.20%	0.27%	0.28%	0.33%	0.38%	0.37%	0.40%	0.47%	0.35%	0.44%

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

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

	For the Year Ended August 31 (amounts expressed in thousands)									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Taxable Assessed Value	\$ 103,268,207	\$ 90,146,858	\$ 81,936,173	\$ 75,289,890	\$ 69,598,293	\$ 63,838,636	\$ 58,509,952	\$ 31,297,101	\$ 29,318,675	\$ 23,655,851
<b>General Obligation Bonds</b>										
Statutory Tax Levy Limit for Debt Service	516,341	450,734	409,681	376,449	347,991	319,193	292,550	156,486	146,593	118,279
Less: Funds Restricted for Repayment of General Obligation Bonds	(5,131)	(6,051)	(3,337)	(2,324)	(1,760)	(2,453)	(2,817)	(938)	(154)	(80)
Total Net General Obligation Debt	511,210	444,683	406,344	374,125	346,231	316,740	289,733	155,548	146,439	118,199
Current Year Debt Service Requirements	31,836	30,107	28,809	26,854	22,780	21,136	21,010	12,614	14,147	14,134
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 479,374	\$ 414,576	\$ 377,535	\$ 347,271	\$ 323,451	\$ 295,604	\$ 268,723	\$ 142,934	\$ 132,292	\$ 104,065
Net Current Requirements as a % of Statutory Limit	5.17%	5.34%	6.22%	6.52%	6.04%	5.85%	6.22%	7.46%	9.55%	11.88%

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**  
**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 Fee	Registration Fees	Laboratory Fees	Community			Vending Commission	Bookstore Commission	Total	Principal	Interest	Total	Coverage Ratio
					Education Fees	Interest Income								
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	
2002	1,021	2,841	877	578	4,466	564	319	842	11,508	1,240	730	1,970	5.84	
2001	929	1,984	762	529	3,898	507	350	714	9,673	115	856	971	9.96	
2000	742	1,790	683	468	3,156	580	330	642	8,391	880	199	1,079	7.78	
1999	743	1,684	650	476	2,929	591	275	550	7,898	510	1,054	1,564	5.05	

**Lone Star College System**  
**Demographic and Economic Statistics**  
**Fiscal Years 1999 to 2008**  
(unaudited)

Fiscal Year	District Population (a)	District Personal Income (thousands of dollars)	District Personal Income Per Capita (b)	District Unemployment Rate (d)
2008	1,500,000	\$ 76,148,583	\$ 50,766 (c)	5.0%
2007	1,480,000	71,489,413	48,304 (c)	4.3%
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%
2002	1,298,518	46,716,782	35,977	5.9%
2001	867,582	32,275,786	37,202	4.7%
2000	844,839	30,083,872	35,609	4.3%
1999	673,774	21,987,267	32,633	4.8%

**Sources:**

- (a) District estimate. Starting in 2002 includes annexation of Cypress Fairbanks and Magnolia ISD's.
- (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 1999-2006
- (d) U.S. Bureau of Labor Statistics, Metropolitan Area Employment and Unemployment

**Lone Star College System**  
**Principal Employers (a)**  
**Fiscal Year 2008 (b)**  
(unaudited)

Principal Employment Sectors (a)	2006 (b)		2001 (b)	
	Number of Employees	Percentage of Total Employment	Number of Employees	Percentage of Total Employment
Local Government	408,418	11.08%	376,255	11.17%
Retail Trade	371,885	10.08%	356,622	10.59%
Construction	292,245	7.92%	271,022	8.05%
Health Care and Social Assistance	288,201	7.82%	237,563	7.05%
Professional and Technical Services	279,697	7.58%	244,541	7.26%
Manufacturing	277,540	7.53%	289,970	8.61%
Administrative and Waste Services	246,899	6.70%	215,071	6.39%
Accommodation and Food Services	237,782	6.45%	203,885	6.05%
Other Services, except public administration	217,575	5.90%	193,435	5.74%
Wholesale Trade	161,875	4.39%	143,967	4.27%
<b>Total</b>	<b>2,782,117</b>	<b>75.44%</b>	<b>2,532,331</b>	<b>75.19%</b>
 Total Employment	 3,687,648		 3,367,964	

Source:

U.S. Department of Commerce Bureau of Economic Analysis, Regional Economic System Information, Houston Economic Area (Houston-Baytown-Huntsville)

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 2006 year and the earliest year available that is comparable is the 2001 year.

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

	Fiscal Year										
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>Faculty</b>											
Full-Time	719	704	661	646	605	532	471	441	416	392	373
Part-Time	2,738	1,910	1,799	1,636	1,557	1,272	1,130	998	936	866	869
Total	3,457	2,614	2,460	2,282	2,162	1,804	1,601	1,439	1,352	1,258	1,242
<b>Percent</b>											
Full-Time	20.8%	26.9%	26.9%	28.3%	28.0%	29.5%	29.4%	30.6%	30.8%	31.2%	30.0%
Part-Time	79.2%	73.1%	73.1%	71.7%	72.0%	70.5%	70.6%	69.4%	69.2%	68.8%	70.0%
<b>Staff and Administrators</b>											
Full-Time	1,224	1,214	1,187	1,142	1,091	940	852	807	744	673	629
Part-Time	1,868	1,260	1,078	1,064	894	895	778	745	689	647	617
Total	3,092	2,474	2,265	2,206	1,985	1,835	1,630	1,552	1,433	1,320	1,246
<b>Percent</b>											
Full-Time	39.6%	49.1%	52.4%	51.8%	55.0%	51.2%	52.3%	52.0%	51.9%	51.0%	50.5%
Part-Time	60.4%	50.9%	47.6%	48.2%	45.0%	48.8%	47.7%	48.0%	48.1%	49.0%	49.5%
FTSE per Full-time Faculty	35.73	36.49	38.23	36.14	36.55	38.63	39.72	37.02	35.60	35.26	33.43
FTSE per Full-Time Staff Member	20.99	21.16	21.29	20.44	20.27	21.86	21.96	20.23	19.91	20.54	19.83
Average Annual Faculty Salary	\$ 62,757	\$ 61,426	\$ 58,424	\$ 58,090	\$ 56,738	\$ 57,252	\$ 56,877	\$ 55,827	\$ 55,832	\$ 54,809	\$ 53,925

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

Student Classification	Fall 2007		Fall 2006		Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001		Fall 2000		Fall 1999		Fall 1998	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
00-30 hours	28,830	65.80%	23,372	56.73%	24,343	60.93%	22,752	61.76%	22,907	65.95%	21,379	66.90%	18,610	66.46%	16,355	66.03%				
31-60 hours	8,383	19.13%	10,107	24.53%	10,002	24.83%	9,080	24.65%	7,690	22.14%	6,993	21.88%	6,172	22.04%	5,484	22.14%				
> 60 hours	6,603	15.07%	7,721	18.74%	5736	14.24%	5,010	13.60%	4,137	11.91%	3,586	11.22%	3,221	11.50%	2,950	11.83%			Not available	Not available
Total	43,816	100.00%	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%				
Semester Hour Load																				
Less than 3	218	0.50%	223	0.54%	227	0.56%	156	0.42%	381	1.10%	329	1.03%	293	1.05%	339	1.37%				
3-5 semester hours	10,301	23.51%	9,669	23.47%	9,142	22.70%	8,075	21.92%	7,664	22.06%	7,730	24.19%	6,448	23.03%	5,705	23.03%				
6-8 Semester hours	11,110	25.36%	10,254	24.89%	10,308	25.89%	9,394	25.50%	8,230	23.69%	7,483	23.42%	6,680	23.85%	5,757	23.24%				
9-11 semester hours	8,309	18.96%	7,716	18.73%	7,589	18.84%	6,889	18.70%	6,075	17.49%	5,305	16.60%	4,486	16.02%	3,926	15.85%				
12-14 semester hours	11,541	26.34%	11,206	27.20%	10,938	27.15%	10,471	28.42%	10,348	29.79%	9,189	28.75%	8,302	29.65%	7,495	30.26%			Not available	Not available
15-17 semester hours	2,161	4.93%	1,955	4.75%	1,921	4.77%	1,687	4.58%	1,862	5.36%	1,716	5.37%	1,578	5.64%	1,389	5.61%				
18 & over	176	0.40%	177	0.43%	156	0.39%	170	0.46%	174	0.50%	206	0.64%	216	0.77%	158	0.64%				
Total	43,816	100.00%	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%				
Average course load		8.8		8.8		8.6		8.8		9.2		8.7		8.8		8.9		8.6		8.0
Tuition Status																				
Texas Resident (in-District)	38,948	88.89%	36,873	89.50%	36,285	90.08%	33,726	91.54%	32,002	92.13%	29,589	92.59%	25,846	92.30%	22,730	91.77%	18,578	81.84%	17,193	81.73%
Texas Resident (out-of-District)	3,481	7.94%	3,093	7.51%	3,002	7.45%	2,279	6.19%	1,986	5.72%	1,673	5.23%	1,490	5.32%	1,430	5.77%	3,071	16.17%	3,516	16.71%
Non-Resident Tuition	1,387	3.17%	1,234	3.00%	994	2.47%	837	2.27%	746	2.15%	696	2.18%	667	2.38%	609	2.46%	451	1.99%	328	1.56%
Total	43,816	100.00%	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%	22,700	100.00%	21,037	100.00%

Source: LSC ORIE Credit Student Demographics by System by Term

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

Gender	Fall 2007		Fall 2006		Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001		Fall 2000		Fall 1999		Fall 1998	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Female	26,351	60.14%	24,791	60.17%	24,218	60.12%	22,489	61.04%	21,102	60.75%	19,323	60.46%	16,760	59.85%	14,704	59.36%	13,524	59.58%	12,669	60.22%
Male	17,465	39.86%	16,409	39.83%	16,063	39.88%	14,353	38.96%	13,632	39.25%	12,635	39.54%	11,243	40.15%	10,065	40.64%	9,176	40.42%	8,568	39.78%
Total	43,816	100.00%	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%	22,700	100.00%	21,037	100.00%

Ethnic Origin	Fall 2007		Fall 2006		Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001		Fall 2000		Fall 1999		Fall 1998	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	21,824	49.81%	21,496	52.17%	22,268	55.28%	21,128	57.35%	20,816	59.93%	19,642	61.46%	17,908	63.95%	16,290	65.77%	15,451	68.07%	14,825	70.47%
Hispanic	10,455	23.86%	9,103	22.09%	8,109	20.13%	7,033	19.09%	6,188	17.82%	5,329	16.68%	4,439	15.85%	3,626	14.64%	3,085	13.59%	2,726	12.96%
African American	4,956	11.31%	4,626	11.23%	4,572	11.35%	4,185	11.36%	3,843	11.06%	3,373	10.55%	2,945	10.52%	2,565	10.36%	2,323	10.23%	1,919	9.12%
Asian	2,804	6.40%	2,558	6.21%	2,422	6.01%	2,058	5.59%	1,900	5.47%	1,906	5.96%	1,528	5.46%	1,223	4.94%	1,149	5.06%	1,069	5.08%
Foreign	753	1.72%	847	2.06%	820	2.04%	733	1.99%	671	1.93%	645	2.02%	383	1.37%	298	1.20%	287	1.26%	169	0.80%
Native American	173	0.39%	136	0.33%	148	0.37%	158	0.43%	145	0.42%	131	0.41%	126	0.45%	94	0.38%	111	0.49%	92	0.44%
Other	2,851	6.51%	2,434	5.91%	1,942	4.82%	1,547	4.20%	1,171	3.37%	932	2.92%	674	2.41%	673	2.72%	294	1.30%	237	1.13%
Total	43,816	100.00%	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%	22,700	100.00%	21,037	100.00%

Age	Fall 2007		Fall 2006		Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001		Fall 2000		Fall 1999		Fall 1998	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 20	16,644	37.99%	15,499	37.62%	14,598	36.24%	13,017	35.33%	12,226	35.20%	12,000	37.55%	10,310	36.82%	9,080	36.66%	5,453	24.02%	2,092	9.94%
20-24	13,881	31.68%	13,231	32.11%	13,075	32.46%	11,979	32.51%	10,979	31.61%	9,731	30.45%	8,579	30.64%	7,466	30.14%	8,717	38.40%	9,699	46.10%
25-29	5,054	11.53%	4,596	11.16%	4,643	11.53%	4,238	11.50%	3,916	11.27%	3,459	10.82%	2,967	10.60%	2,640	10.66%	2,876	12.67%	3,207	15.24%
30-39	4,888	11.16%	4,665	11.32%	4,604	11.43%	4,415	11.98%	4,213	12.13%	3,693	11.56%	3,357	11.99%	3,026	12.22%	3,052	13.44%	3,188	15.15%
40-49	2,464	5.62%	2,353	5.71%	2,469	6.13%	2,384	6.47%	2,477	7.13%	2,233	6.99%	2,084	7.44%	1,891	7.63%	1,961	8.64%	2,087	9.92%
50 & over	885	2.02%	856	2.08%	892	2.21%	809	2.20%	923	2.66%	842	2.63%	706	2.52%	666	2.69%	641	2.82%	764	3.63%
Total	43,816	100.00%	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%	22,700	100.00%	21,037	100.00%

Average Age 23.6 24.1 24.5 24.6 24.9 24.7 25.0 24.5 25.7

Source: LSCS ORIE Credit Student Demographics by System by Term

**Lone Star College System**  
**Transfers to Senior Institutions**  
**2006 Fall Students as of Fall 2007**  
**(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		
1 University of Houston	2,358	111	107	2,576	18.85%
2 Sam Houston State University	2,347	107	94	2,548	18.65%
3 Texas A&M University	2,014	49	38	2,101	15.38%
4 The University of Texas at Austin	1,330	29	19	1,378	10.08%
5 University of Houston - Downtown	1,175	103	62	1,340	9.81%
6 Texas State University	690	39	24	753	5.51%
7 Texas Tech University	418	16	26	460	3.37%
8 Stephen F. Austin State University	371	10	17	398	2.91%
9 The University of Texas at San Antonio	299	18	10	327	2.39%
10 Prairie View A&M University	226	17	24	267	1.95%
11 Texas Southern University	188	6	10	204	1.49%
12 University of North Texas	177	2	8	187	1.37%
13 Lamar University	123	4	12	139	1.02%
14 Texas Woman's University	95	7	15	117	0.86%
15 The University of Texas Health Science Center at Houston	83	15	26	124	0.91%
16 The University of Texas at Dallas	64	1	0	65	0.48%
17 Texas A&M University - Corpus Christi	61	4	7	72	0.53%
18 The University of Texas at Arlington	58	2	3	63	0.46%
19 Texas A&M University at Galveston	55	2	7	64	0.47%
20 University of Houston at Victoria	55	5	5	65	0.48%
21 University of Houston at Clear Lake	50	4	2	56	0.41%
22 The University of Texas at Tyler	46	3	3	52	0.38%
23 The University of Texas Medical Branch at Galveston	38	2	12	52	0.38%
24 Midwestern State University	30	7	1	38	0.28%
25 Texas A&M University - Commerce	26	10	1	37	0.27%
26 The University of Texas M.D. Anderson Cancer Center	21	1	0	22	0.16%
27 Texas A&M University - Kingsville	19	0	0	19	0.14%
28 West Texas A&M University	19	5	3	27	0.20%
29 Tarleton State University	17	1	2	20	0.15%
30 Texas Tech University Health Sciences Center	15	4	8	27	0.20%
31 Angelo State University	14	1	1	16	0.12%
32 Texas A&M International University	6	0	0	6	0.04%
33 The University of Texas at El Paso	6	3	2	11	0.08%
34 Sul Ross State University	5	0	0	5	0.04%
35 The University of Texas of the Permian Basin	5	2	0	7	0.05%
36 The University of Texas Health Science Center at San Antonio	5	0	1	6	0.04%
37 The Texas A&M University System Health Science Center	4	0	1	5	0.04%
38 The University of Texas Southwestern Medical Center at Dallas	4	0	0	4	0.03%
39 The University of Texas - Pan American	3	0	1	4	0.03%
40 The University of Texas at Brownsville	3	0	0	3	0.02%
41 Baylor College of Medicine	0	0	0	0	0.00%
Totals	12,523	590	552	13,665	100.00%

Source:  
Texas Higher Education Data, ASALFS Students Pursuing Additional Education

**Lone Star College System**  
**Capital Asset Information**  
**Fiscal Years 2003 to 2008**  
(unaudited)

	Fiscal Year					
	2008	2007	2006	2005	2004	2003
Academic buildings	30	30	30	30	29	25
Square footage (in thousands)	1,575	1,575	1,575	1,575	1,524	1,334
Libraries	7	7	7	7	7	6
Square footage (in thousands)	299	299	299	299	299	232
Number of Volumes (in thousands)	662,298	662,298	862,764	686,172	928,639	812,876
Administrative and support buildings	22	22	22	21	20	19
Square footage (in thousands)	507	507	505	503	500	456
Dormitories	-	-	-	-	-	-
Square footage (in thousands)	-	-	-	-	-	-
Number of Beds	-	-	-	-	-	-
Apartments	-	-	-	-	-	-
Square footage (in thousands)	-	-	-	-	-	-
Number of beds	-	-	-	-	-	-
Dining Facilities	-	-	-	-	-	-
Square footage (in thousands)	55,116	55,116	55,116	55,116	55,116	55,116
Average daily customers	3,907	3,907	n/a	n/a	n/a	n/a
Athletic Facilities	38	38	38	38	38	36
Square footage (in thousands)	112	112	112	112	112	87
Stadiums	-	-	-	-	-	-
Gymnasiums	-	-	-	-	-	-
Fitness Centers	6	6	6	6	6	4
Tennis Court	32	32	32	32	32	32
Plant facilities	6	6	6	6	6	6
Square footage (in thousands)	33	33	33	33	33	30
Transportation	-	-	-	-	-	-
Cars	15	16	16	16	16	15
Light Trucks/Vans	20	17	17	15	14	12
Buses	-	-	-	-	-	-

n/a - not available

**SINGLE AUDIT SECTION**



McCONNELL & JONES LLP  
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees  
Lone Star College System

We have audited the financial statements of the Lone Star College System (the “System”) as of and for the year ended August 31, 2008 and have issued our report thereon dated December 4, 2008. 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 College’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System’s financial statements that is more than inconsequential will not be prevented or detected by the System’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether System’s 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, audit committee, 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.

A handwritten signature in black ink that reads "McConnell &amp; Jones LLP".

Houston, Texas  
December 4, 2008



McCONNELL & JONES LLP  
CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133* AND *STATE OF TEXAS SINGLE AUDIT CIRCULAR***

To the 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 U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and *State of Texas Single Audit Circular* that are applicable to each of its major federal and state programs for the year ended August 31, 2008. The System’s major federal and state programs are identified in the summary of auditors’ 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*. Those standards, OMB Circular A-133, and 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 System’s compliance with those requirements.

In our opinion, the System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended August 31, 2008.

**Internal Control Over Compliance**

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal or state program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal or state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

This report is intended solely for the information and use of the Board of Trustees, audit committee, 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.

A handwritten signature in black ink that reads 'McConnell &amp; Jones LLP'.

Houston, Texas  
December 4, 2008

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2008**

**SECTION I:**

**SUMMARY OF AUDITORS' RESULTS**

*Financial Statements:*

- |   |               |
|---|---------------|
| 1. Type of auditors' report issued:   | Unqualified   |
| 2. Internal control over financial reporting:   |               |
| a) Material weakness identified?  | No            |
| b) Significant deficiencies identified that are not considered to be material weaknesses? | None Reported |
| c) Noncompliance material to financial statements noted?                                  | No            |

*Federal and State Awards:*

- |   |             |
|---|-------------|
| 1. Internal control over major programs:  |             |
| a) Material weakness identified?  | No          |
| b) Significant deficiencies identified that are not considered to be material weakness?                               | No          |
| 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 Circular A-133? | No          |
| 4. Identification of major programs:  |             |

Federal - CFDA Number Name of Federal Program or Cluster

84.007 Federal Supplemental Educational Opportunity Grants  
84.032 Federal Family Education Loan Program  
84.033 Federal Work Study Program  
84.063 Federal Pell Grant Program  
84.375 Academic Competitiveness

State – Contract Number Program Title

N/A Texas Grant  
N/A TWC Skill Development

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2008**

**Dollar threshold used to distinguish between type A and type B programs:**

Federal:	\$757,322
State:	\$300,000

**Auditee qualified as low-risk auditee under 0M13 Circular A-133, Section 530 and the *State of Texas Single Audit Circular*?**

Federal	Yes
State	Yes

**SECTION 2:**

**FINDINGS-FINANCIAL STATEMENT AUDIT**

None reported.

**SECTION 3:**

**FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AND STATE OF TEXAS AWARD PROGRAMS**

None reported.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2008**

Prior Year Findings:

There were no audit findings included in the August 31, 2007 Schedule of Findings and Questioned Costs relative to Federal and State of Texas Awards.