

# LONE STAR COLLEGE SYSTEM

## Global thinking. Global recognition.

The premier community college for student success, innovation and partnerships.



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended August 31, 2011

The Woodlands, Texas





COMPREHENSIVE ANNUAL FINANCIAL REPORT

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**FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010**

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

**LONE STAR COLLEGE SYSTEM  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010**

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To the Board of Trustees:

I am pleased to submit to the Lone Star College System (LSCS) Board of Trustees and the citizens of the LSCS service area our Comprehensive Annual Financial Report for the most recent fiscal year, September 1, 2010 through August 31, 2011.



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

We had 69,339 students enrolled in the fall of 2010 and have seen a 9.1% percent increase to 75,680 students in the fall of 2011. As our student body continues to grow at a record pace, we remain committed to student success.

In keeping with our practice of prudent fiscal management, in the past three years we have incorporated accountability measures in our budget model. In 2008-09, we looked at administrative costs, student success rates, program sunset reviews and technology standards. In Phase Two, implemented in 2009-10, we added costs per full-

time equivalent student, diversity of employees, program reductions/eliminations and instructional effectiveness. The model includes numerous accountability measures, such as: administrative costs are limited to a 12% maximum; system office budgets cannot grow at a higher rate than college budgets; employee benefits are now budgeted by the hiring manager, so that the full cost of adding an employee will be considered when a new position is requested; and utility budgets have been decentralized to each location, where new energy management tools are now in place to assist facility departments in controlling energy consumption.

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

Sincerely,

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

Dr. Richard G. Carpenter  
Chancellor



December 16, 2011

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

Respectfully submitted for your review is the comprehensive annual financial report of the Lone Star College System for the fiscal year ended August 31, 2011. The purpose of this report is to provide detailed information about the financial condition and performance of the System. Responsibility for the preparation and integrity of the financial report and fairness of the presentation rests with the management of the System.

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

The Lone Star College System's comprehensive annual financial report (CAFR) for the fiscal year ended August 31, 2011 was prepared by the Administration and Finance Department. The financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as established by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) and comply with the Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges as set forth by the Texas Higher Education Coordinating Board (THECB). The notes to the financial statements are considered an integral part of the financial statements and should be read in conjunction with them. Additionally, attention should be given to Management's Discussion and Analysis, which provides readers with a narrative introduction, overview and analysis of the financial statements.

#### ***REPORTING ENTITY***

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

#### ***SYSTEM PROFILE***

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

The original three school districts have been joined by eight others: New Caney in 1981, Tomball in 1982, Conroe in 1991, Willis and Splendora in 1996, Klein in 1998, and Cypress-Fairbanks and Magnolia in 2000. The number of students we serve has grown from the original 613 to more than 75,000 per semester. In 2007, the Board of Trustees voted to change the name of the college to Lone Star College System.

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

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

Effective January 1, 2012 a sixth college, Lone Star College-University Park, will officially be a part of the System.

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

### ***MISSION***

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

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

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



### ***ECONOMIC CONDITION AND OUTLOOK***

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

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

### U.S. Comparative Population Growth Trends

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

Sources: U.S. Census Bureau, March 2008; SRC, LLC, February 2009; Greater Houston Partnership.

Houston has 26 Fortune 500 companies headquartered locally, with many other companies maintaining U.S. administrative headquarters in the metro area. In 2008, Houston ranked second among U.S. cities with the most Fortune 500 headquarters, following New York.

### **LONG TERM FINANCIAL PLANNING**

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

- LSCS Strategic Plan
- Facilities Master Plan
- Annual Budget

LSCS's 2009 – 2011 strategic plan included ten strategic goals to help the system move forward in the future. The ten strategic goals adopted by the Board were:

1. Maintain affordability and accessibility.
2. Recruit and retain talented and innovative faculty, administrators, and staff.
3. Provide academic excellence and strengthen connectivity and accountability through high quality academic and service programs.
4. Focus on outcomes driven student success.
5. Create effective internal and external systems of communication.
6. Provide quality student focused service.
7. Create efficiencies in operation in resource allocation.
8. Develop and maintain mutually constructive community partnerships.
9. Increase quality and quantity of technology services in support of teaching, learning, and administration.
10. Plan and achieve quality growth management.

LSCS recently adopted a new 2012-2015 strategic plan complete with outcome measures to move the System forward toward its goals of student success and achievement.

In March 2006, the Board approved Phase I of a facilities master plan which was effective through 2010. The study, completed in 2005, included a comprehensive assessment of the condition of all current facilities to identify needed component renewal, deferred maintenance and safety requirements. Implementation of the master plan is proposed to occur in three phases, each phase spanning five years. The initial phase of the plan would address the most critical needs identified in the study, with emphasis on providing additional instructional space and ensuring our existing facilities maintain a condition rating of "good". Plans are currently underway to develop a new facilities master plan to address the System's continuing growth.

During the annual budget process, departments are asked to identify the funds needed in their departmental budgets to accomplish the goals laid out in the strategic plan. After this information is collected from the departments it is compiled into a proposed system-wide budget. The budget is then presented to the Board for approval.

### **MAJOR INITIATIVES**

In 2008, LSCS held a successful \$420 million bond election. These funds are being used to construct new classrooms, student services buildings and infrastructure improvements to better serve students, faculty, staff and community.

Other major initiatives include:

- Workforce Programs and Corporate Training
- Technology Services
- International Studies
- Student Success Programs
- Branding and Marketing
- Customer Service

#### **INDEPENDENT AUDIT**

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

#### **AWARDS**

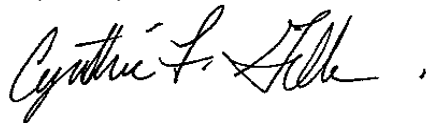
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended August 31, 2010. This was the seventh consecutive year the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

#### **ACKNOWLEDGEMENTS**

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

Respectfully submitted,



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

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Lone Star College System  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
August 31, 2010

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.



*Linda C. Danson*

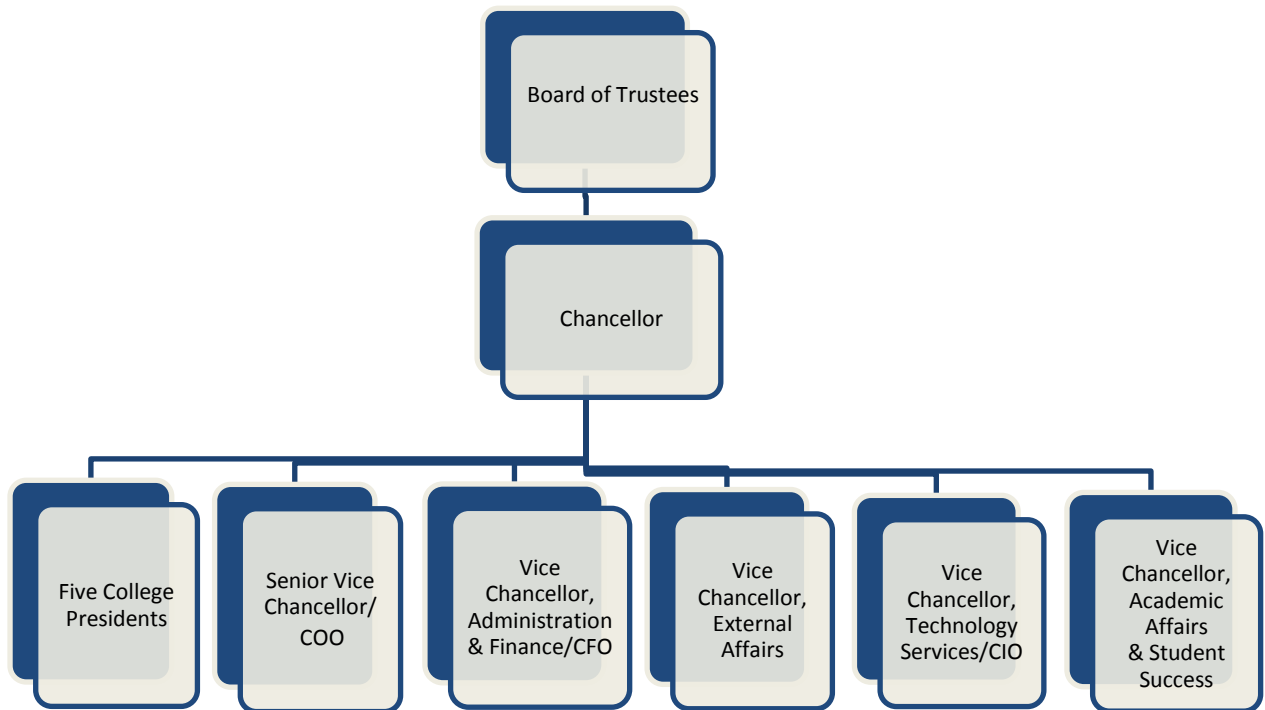
President

*Jeffrey R. Emmer*

Executive Director



**LONE STAR COLLEGE SYSTEM  
ORGANIZATIONAL CHART**





**ORGANIZATIONAL DATA  
For the Fiscal Year 2011**

**Board of Trustees**

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

**Principal Administrative Officers**

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







## 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, 2011 and 2010, which collectively comprise the System's basic financial statements, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System, as of August 31, 2011 and 2010, 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 16, 2011, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's financial statements as a whole. The introductory and statistical sections on pages 6 through 15 and on pages 75 through 99, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying supplemental schedules on pages 62 through 66 and schedules of expenditures of federal and state awards on pages 67 through 71 and on pages 72 through 74, respectively, are presented for purposes of additional analysis as required by the Texas Higher Education Coordinating Board, U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Single Audit Circular, respectively, and are also not a required part of the financial statements. The supplemental schedules and the schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Houston, Texas  
December 16, 2011

McCannell & Jones LLP



# 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 "2011", "2010", and "2009" refer to fiscal years ending August 31, 2011, August 31, 2010, and August 31, 2009, 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.

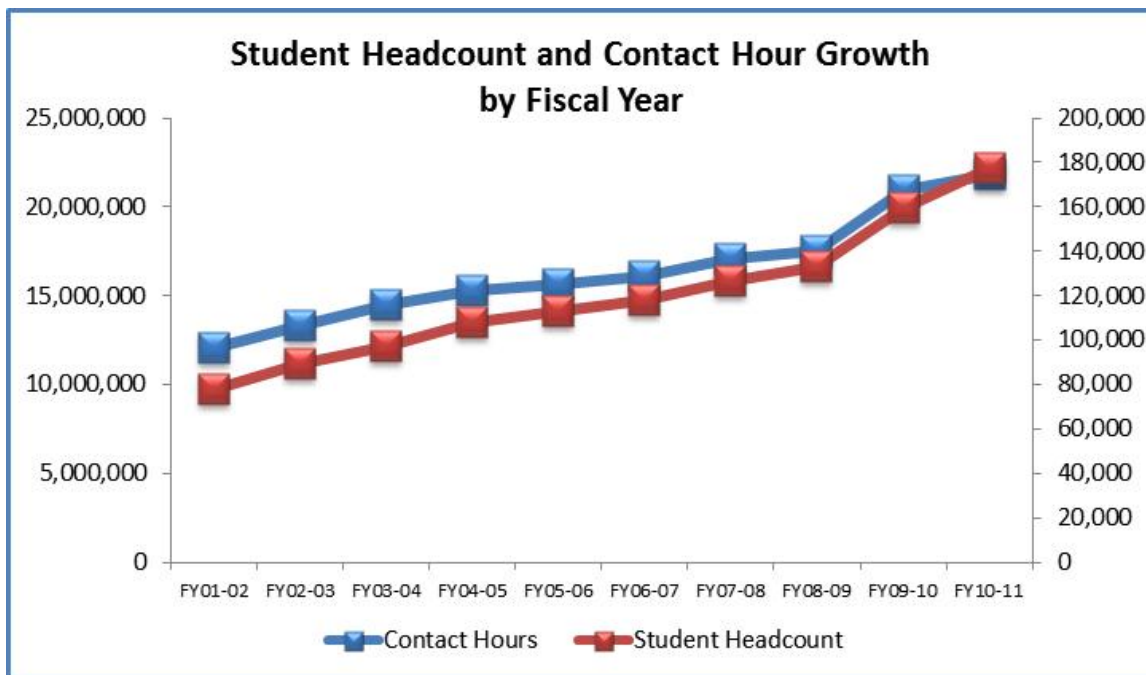
## ***Financial and Enrollment Highlights - 2011***

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

## ***Financial and Enrollment Highlights – 2010***

- Net assets increased \$16.5 million, which represents an 8% increase over 2009.
- Construction in progress balances increased to approximately \$171 million as various projects funded with proceeds from the 2009 and 2010 general obligation bonds were in process.
- The system maintained its AAA rating from Standard & Poor's on its general obligation debt.
- The system issued \$144 million in general obligation bonds, \$119 million in general obligation and refunding bonds, and \$30 million in maintenance tax notes in FY 2010.
- Operating expenses for educational activities increased \$78 million, which represents a 32% increase. The increases were directly related to the system's dramatic enrollment growth and a significant increase in financial aid expenditures. Another contributing factor to this increase is a reporting change requiring the value of student loans to be reported as a federal expenditure.
- Fundable contact hours, the basis on which community colleges in Texas are appropriated state funds, increased 20%.

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



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

Source: LSCS Office of Research & Institutional Effectiveness

## The 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 10% for 2011 and 8% for 2010.

	August 31		
	2011	2010	2009
<b>Current Assets:</b>			
Cash and short-term investments	\$ 168,586,705	\$ 345,963,588	\$ 178,674,959
Receivables	48,286,782	38,986,620	22,160,013
Inventory, prepaid expenses & other	91,487	272,830	611,903
Total current assets	<u>216,964,974</u>	<u>385,223,038</u>	<u>201,446,875</u>
<b>Non-Current Assets:</b>			
Capital assets, net of accumulated depreciation (Note 8)	735,084,688	551,278,210	402,086,545
Total assets	<u><b>\$ 952,049,662</b></u>	<u><b>\$ 936,501,248</b></u>	<u><b>\$ 603,533,420</b></u>
<b>Current Liabilities:</b>			
Accounts payable & accrued liabilities	\$ 57,425,752	\$ 53,686,143	\$ 27,691,831
Deferred revenues	40,395,713	34,312,750	29,969,627
Bonds payable-current portion	20,003,089	17,478,438	17,852,991
	<u>117,824,554</u>	<u>105,477,331</u>	<u>75,514,449</u>
<b>Non-Current Liabilities:</b>			
Accrued compensable absences	6,035,594	5,231,554	4,217,815
Bonds payable-noncurrent portion	582,102,714	602,105,803	316,618,867
Total liabilities	<u><b>\$ 705,962,862</b></u>	<u><b>\$ 712,814,688</b></u>	<u><b>\$ 396,351,131</b></u>
<b>Net Assets:</b>			
Invested in capital assets	190,949,160	178,172,571	153,534,375
Restricted	7,574,071	491,699	7,652,051
Unrestricted	47,563,569	45,022,290	45,995,863
Total net assets	<u><b>\$ 246,086,800</b></u>	<u><b>\$ 223,686,560</b></u>	<u><b>\$ 207,182,289</b></u>

The decrease in total current assets of \$168 million in 2011 is a result of the completion of numerous bond projects. As funds are spent on projects there are less funds available to invest. Net capital assets increased \$184 million during 2011 as construction projects funded from the bonds were in process.

Total liabilities decreased \$6.9 million during 2011. No additional bonds were issued and the decrease is related to bond principal payments.

The increases in total net assets of \$22 million for 2011 and \$17 million for 2010 represent a 19% 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 2009 is in the reserves invested in capital assets, \$37 million or 24%. As student enrollment trends continue upward, the System's physical assets have also grown to support student growth. Restricted net assets are assets that cannot be used for current operations because they are subject to restrictions imposed by creditors, grantors or statute. Unrestricted net assets cover 54 days of operating expenses, or 15%, in 2011.

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

	August 31		
	2011	2010	2009
<b>Operating Revenues</b>			
Student tuition and fees	\$ 54,089,193	\$ 46,329,700	\$ 42,324,625
Grants & contracts	15,344,874	14,203,442	12,817,165
Auxiliary enterprises	7,312,944	6,737,211	5,662,722
Other	1,546,851	1,326,042	1,693,680
Total operating revenues	<u>78,293,862</u>	<u>68,596,395</u>	<u>62,498,192</u>
<b>Operating Expenses</b>			
Educational Activities	300,952,537	276,117,870	242,112,684
Auxiliary Activities	5,748,363	5,297,398	4,951,918
Depreciation Expense	12,665,955	10,681,794	9,369,071
Total operating expenses	<u>319,366,855</u>	<u>292,097,062</u>	<u>256,433,673</u>
<b>Net Operating Expenses</b>	(241,072,993)	(223,500,667)	(193,935,481)
<b>Non-Operating Revenues</b>			
Ad-valorem taxes	134,718,767	128,831,580	124,589,861
State Appropriations	73,405,288	74,594,104	71,148,399
Federal Revenue, Non-Operating	73,146,609	50,747,245	23,243,378
Investment income	732,471	967,393	3,433,678
Capital appropriations	(20,958,652)	(19,730,589)	(15,581,948)
Other	2,428,750	4,595,205	1,022,469
Total non-operating revenues-net	<u>263,473,233</u>	<u>240,004,938</u>	<u>207,855,837</u>
<b>Increase in Net Assets</b>	22,400,240	16,504,271	13,920,356
<b>Net Assets, Beginning of Year</b>	<u>223,686,560</u>	<u>207,182,289</u>	<u>193,261,933</u>
<b>Net Assets, End of Year</b>	<u><b>\$ 246,086,800</b></u>	<u><b>\$ 223,686,560</b></u>	<u><b>\$ 207,182,289</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 non-operating revenues according to generally accepted accounting principles.

Student tuition and fees increased by \$7.8 million for 2011, which directly correlates to the x% increase in credit enrollments for 2011. For 2010, student tuition and fees increased \$4 million due to the 20% increase in credit enrollments. The System's \$40 per credit hour tuition rate remains below the Texas average tuition rate for community colleges.

Grants and contracts revenue increased by \$1.1 million in 2011. The increase is primarily due to an increase in grant funding from several local and private sources including the Gates Foundation, Completion by Design initiative.

Auxiliary enterprise revenues increased 8.5% for 2011. Most of the increase is related to an increase in tenant/rental income. Bookstore revenues increased slightly.

Expenses for educational activities increased \$25 million (9%) in 2011 and \$34 million (14%) in 2010. The most significant increase is in the scholarships category which increased by \$17 million. The increases were due to the system's dramatic enrollment growth and an increase in federal financial aid expenditures.

Tax revenues increased \$5.9 million in 2011 (\$4 million in 2010) as a result of the addition of new properties. Investment income decreased in 2011 due to a declining interest rate environment. The system continues its focus on maintaining a short-term investment portfolio.

State appropriations decreased \$1.2 million in 2011. In 2010, the State experienced a revenue shortfall resulting in LSCS's appropriation being reduced by \$3.1M. The State's shortfall has extended into the 2011 fiscal year, resulting in an additional reduction for 2011 of \$4.6 million (7.5%).

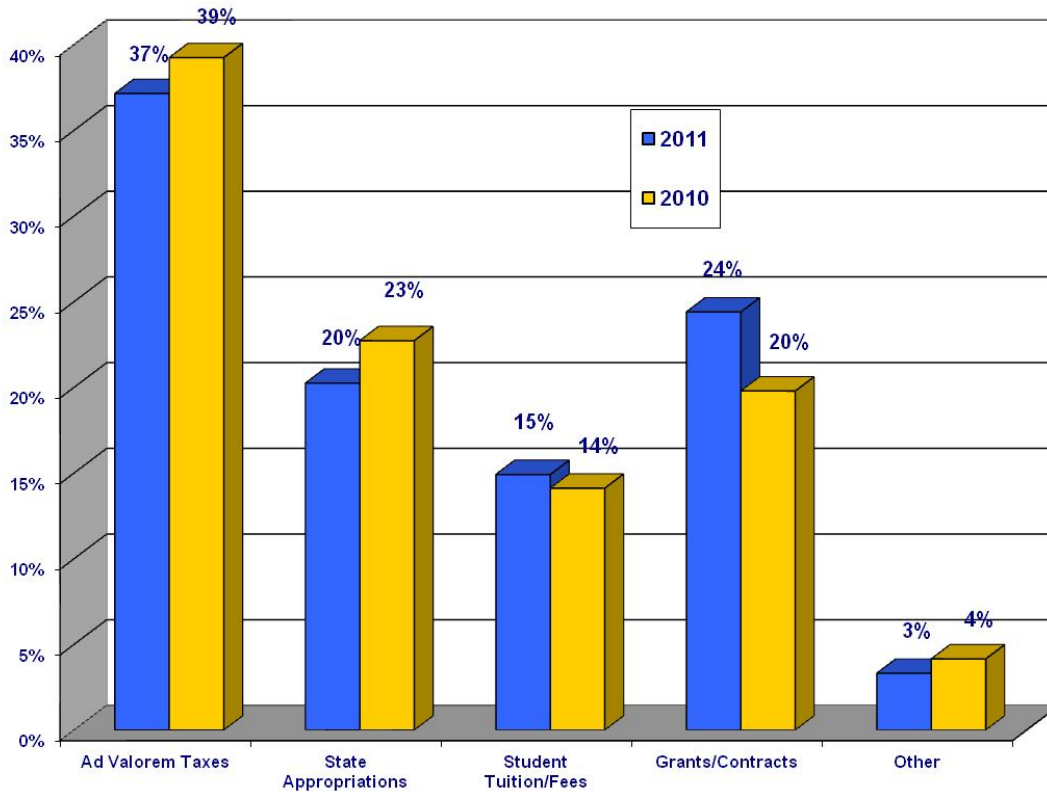
Federal revenue, non-operating, increased by \$22M due to a large increase in federal financial aid (Pell) grant funding.

Capital appropriations consist of interest and fees on capital asset-related debt. Expenses in this category increased \$1.2 million (6%) due to the completion and subsequent capitalization of construction related assets.

**Total Revenues**

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

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

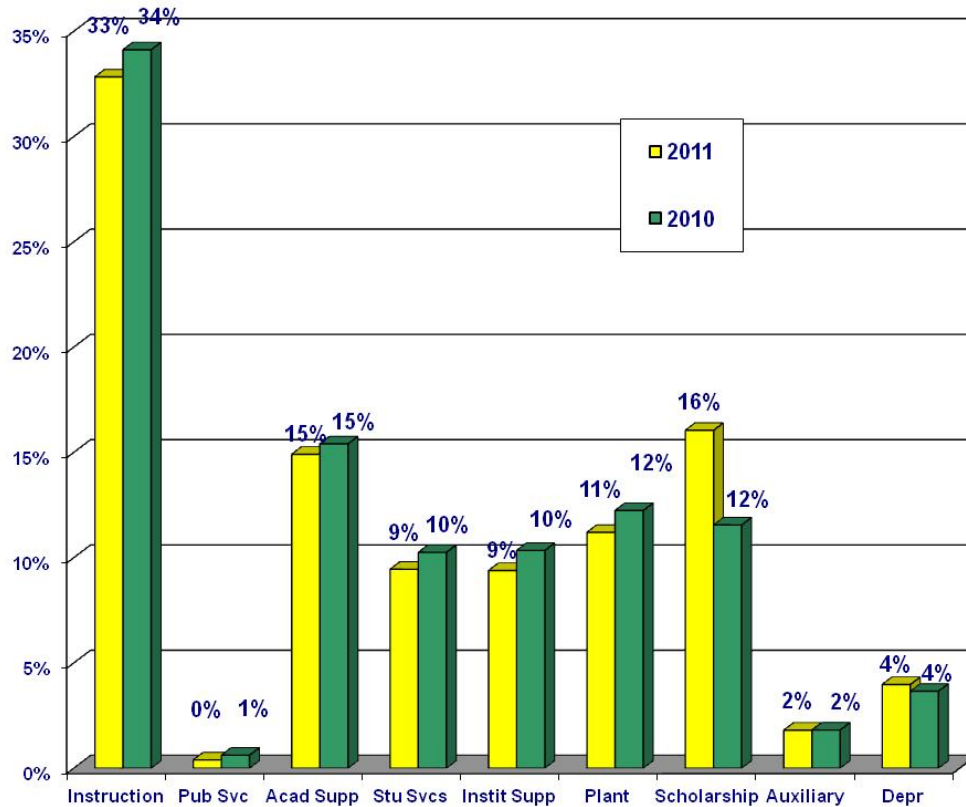


The largest source of revenue for both 2011 and 2010 for the System is ad valorem taxes at 37% and 39% for 2011 and 2010, respectively. Grants and contracts jumps to second place in 2011 at 24%, primarily due to a decrease in state appropriations and an increase in federal financial aid grant funding. State appropriations were the third largest revenue source at 20% in 2011. Student tuition and fees were at 15% and 14% for 2011 and 2010, respectively. Auxiliary and investment income comprise the majority of other revenues.

## Total Expenses

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

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



At 33% and 34% of the total expenditures for 2011 and 2010, respectively, instruction is by far the System's largest expense category. The scholarship category moves to second place in 2011 due to an increase in financial aid expenditures. Academic support is next highest at 15% as the System continues to accommodate record student growth. Plant expenditures decreased slightly during 2011. All other categories remained relatively the same.

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

As depicted in Footnote 5 to the financial statements, capital assets increased from \$551 million in 2010 to \$735 million in 2011. The following lists some of the major projects and changes that occurred during 2011 and 2010:

#### 2011 Projects

##### Bond Projects

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

##### Real Estate Transactions

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

#### 2010 Projects

##### Bond Projects

- Completed the design phase on 18 major buildings supporting student services, conference centers, fine arts, applied technology, health science, veterinary technology, performing arts, academic and workforce development buildings/additions.
- Construction services were procured for 17 major bid packages resulting in the award of approximately \$210 million of construction contracts to 13 general contractors.
- Construction was substantially completed for the Willowchase Center renovation project at University Park on December 31, 2009, the Greenspoint Center renovation on June 4, 2010, and the Montgomery Parking Garage on August 30, 2010.

##### Real Estate Transactions

- Purchased 11.857 acres on Clay Road on December 23, 2009 for construction of a new Cypress Center for \$2.3M.
- Purchased the Fairbanks Center on February 18, 2010 consisting of a 52,048 SF building and 6.523 acres of land.
- Willowchase Center, consisting of 9.182 acres of land was sold on December 17, 2009 for \$8.9M.
- A 15.716 acre tract on FM 3083 in Conroe, TX was donated on September 22, 2009 for a new Conroe Center. Land is valued at \$1.27M

As detailed in Note 6 to the financial statements, financing for the above projects has been achieved through the issuance of long-term bonds.

### ***Subsequent Events***

In fall 2011, the system had a record 75,680 credit students enrolled, a 9% increase over fall 2010.



**Lone Star College System**  
**STATEMENTS OF NET ASSETS**  
**AUGUST 31, 2011 AND 2010**

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 164,585,703	\$ 313,037,780
Short-term investments	4,001,002	32,925,808
Accounts receivable	48,286,782	38,986,620
Inventories	44,195	41,059
Prepaid items	47,292	231,771
<b>Total current assets</b>	<b>216,964,974</b>	<b>385,223,038</b>
<b>Noncurrent assets:</b>		
Capital assets, net	735,084,688	551,278,210
<b>Total non-current assets</b>	<b>735,084,688</b>	<b>551,278,210</b>
<b>TOTAL ASSETS</b>	<b>952,049,662</b>	<b>936,501,248</b>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 52,720,827	\$ 50,143,092
Accrued compensable absences	400,000	300,000
Funds held for others	4,304,925	3,243,051
Deferred revenues	40,395,713	34,312,750
Bonds payable-current portion	20,003,089	17,478,438
<b>Total current liabilities</b>	<b>117,824,554</b>	<b>105,477,331</b>
<b>Noncurrent liabilities:</b>		
Accrued compensable absences	6,035,594	5,231,554
Bonds payable-noncurrent portion	582,102,714	602,105,803
<b>Total non-current liabilities</b>	<b>588,138,308</b>	<b>607,337,357</b>
<b>TOTAL LIABILITIES</b>	<b>705,962,862</b>	<b>712,814,688</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	190,949,160	178,172,571
Restricted:		
Expendable-		
Restricted	737,601	-
Loans	485,631	485,631
Debt service	6,350,839	6,068
Unrestricted	47,563,569	45,022,290
<b>TOTAL NET ASSETS (Schedule D)</b>	<b>\$ 246,086,800</b>	<b>\$ 223,686,560</b>

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

**Lone Star College System**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>		
Tuition and fees (net of discounts of \$28,775,816 in 2011 and 24,631,307 in 2010)	\$ 54,089,193	\$ 46,329,700
Federal grants and contracts	6,291,443	7,802,710
State and local grants and contracts	9,053,431	6,400,732
Auxiliary enterprises	7,312,944	6,737,211
Other operating revenue	<u>1,546,851</u>	<u>1,326,042</u>
<b>Total operating revenues (Schedule A)</b>	<b>78,293,862</b>	<b>68,596,395</b>
<b>OPERATING EXPENSES</b>		
Instruction	104,577,728	99,672,767
Public service	1,251,663	1,804,659
Academic support	47,497,093	44,994,965
Student services	30,100,534	29,941,588
Institutional support	29,907,988	30,207,521
Operation and maintenance of plant	36,497,134	35,752,714
Scholarships and fellowships	51,120,397	33,743,656
Auxiliary enterprises	5,748,363	5,297,398
Depreciation	<u>12,665,955</u>	<u>10,681,794</u>
<b>Total operating expenses (Schedule B)</b>	<b>319,366,855</b>	<b>292,097,062</b>
Operating loss	(241,072,993)	(223,500,667)
<b>NON-OPERATING REVENUE (EXPENSES)</b>		
Ad-Valorem taxes		
Maintenance and operations	96,232,370	89,415,848
General obligation bonds	38,486,397	39,415,732
State Appropriations	73,405,288	74,594,104
Federal revenue, non-operating	73,146,609	50,747,245
Gifts	270,000	-
Investment income, net	732,471	967,393
Interest and fees on capital asset-related debt (net of capitalized interest costs of \$4,135,287 in 2011 and \$2,048,285 in 2010)	(20,958,652)	(19,730,589)
Gain (Loss) on disposal of capital assets	(634,199)	656,586
Other non-operating revenues	<u>2,792,949</u>	<u>3,938,619</u>
<b>Total non-operating revenue (Schedule C)</b>	<b>263,473,233</b>	<b>240,004,938</b>
Increase in net assets	22,400,240	16,504,271
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>223,686,560</b>	<b>207,182,289</b>
<b>NET ASSETS, END OF YEAR</b>	<b><u>\$ 246,086,800</u></b>	<b><u>\$ 223,686,560</u></b>

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

**Lone Star College System**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from students and other customers	\$ 86,697,196	\$ 66,579,758
Receipts from grants and contracts	15,617,032	11,481,601
Payments to suppliers for goods and services	(75,434,979)	(43,387,675)
Payments to or on behalf of employees	(172,596,935)	(168,369,798)
Payments for scholarships and fellowships	(76,180,442)	(55,444,348)
Payments for internal loans issued to students	(653)	(11,154)
Receipts from internal loans for students	655	44,774
Other receipts	4,246,741	2,289,802
Net cash used by operating activities	<u>(217,651,385)</u>	<u>(186,817,040)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Receipts from state appropriations	59,528,079	60,113,340
Receipts from ad-valorem taxes	97,117,400	90,146,159
Receipts from Non-Operating Federal Revenue	69,737,074	50,643,942
Payments for Federal loans issued to students	(82,253,763)	(92,412,978)
Receipts from Federal loans for students	83,296,012	91,124,290
Net cash provided by non-capital financing activities	<u>227,424,802</u>	<u>199,614,752</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts from ad-valorem taxes	38,900,696	39,691,417
Proceeds from capital debt	0	317,045,129
Paid for acquisition and construction of capital assets	(188,805,799)	(162,005,364)
Proceeds from sale of capital assets	804,446	9,226,946
Principal paid on capital debt and leases	(16,895,000)	(31,080,000)
Interest paid on capital debt and leases	(21,887,114)	(19,373,115)
Net cash provided (used) by financing activities	<u>(187,882,771)</u>	<u>153,505,013</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	36,668,000	33,746,000
Interest on investments	751,277	994,545
Purchase of investments and related fees	(7,762,000)	(55,520,000)
Net cash provided (used) by investing activities	<u>29,657,277</u>	<u>(20,779,455)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(148,452,077)	145,523,270
Cash and Cash Equivalents, Beginning of Year	<u>313,037,780</u>	<u>167,514,510</u>
Cash and Cash Equivalents, End of Year	<u>\$ 164,585,703</u>	<u>\$ 313,037,780</u>

The Notes to Financial Statement are an integral part of this statement.

Lone Star College System  
**STATEMENTS OF CASH FLOWS (continued)**  
**FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>		
Operating loss	\$ (241,072,993)	\$ (223,500,667)
Adjustments to reconcile operating loss to net cash		
Used by operating activities		
Depreciation expense	12,665,955	10,681,794
Bad debt expense	139,000	26,000
Payments made directly by state for benefits	13,877,209	14,480,764
Changes in assets and liabilities		
Receivables, net	(5,717,201)	(15,224,104)
Inventories	(3,137)	6,772
Prepaid items	184,480	332,302
Accounts payable and accrued liabilities	(7,780,287)	20,059,478
Deferred revenue	6,082,965	4,343,122
Funds held for others	3,068,584	963,760
Accrued compensable absences	904,040	1,013,739
Total adjustments	23,421,608	36,683,627
Net Cash used by operating activities	\$ (217,651,385)	\$ (186,817,040)
 <b>NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Unrealized Gain (Loss) on Investments	\$ (48,175)	\$ (12,451)
Net Non-Cash Investing, Capital, and Financing Activities	\$ (48,175)	\$ (12,451)

The Notes to Financial Statement are an integral part of this statement.



## LONE STAR COLLEGE SYSTEM

### Notes to Financial Statements

For the Fiscal Years Ended  
August 31, 2011 and 2010

#### 1. REPORTING ENTITY

Lone Star College System (the "System") was established in 1972 as a junior college district, in accordance with the laws of the State of Texas, to serve the educational needs of the northern part of Harris County and the southern part of Montgomery County, Texas. The System encompasses the Aldine, Conroe, Cypress-Fairbanks, Humble, Klein, Magnolia, New Caney, Splendora, Spring, Tomball and Willis Independent School Districts. The System is a comprehensive, public, two-year institution offering academic, general, occupational, developmental, and continuing adult education programs through a network of colleges. The colleges of LSC-North Harris, LSC-Kingwood, LSC-Tomball, LSC-Montgomery, 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 No.14, *The Financial Reporting Entity*. While the System receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

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

The Lone Star College Foundation (the "Foundation") is a legally separate not-for-profit corporation controlled by a separate board of trustees, whose sole purpose is to advance and assist in the development, growth and operation of the System. The System does not fund; nor is the System obligated to pay debt related to the Foundation. The financial position of the Foundation as of August 31, 2011 and 2010 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 (GASB). The accompanying financial statements also comply with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*.

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

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

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

### ***Tuition Discounting***

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

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

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

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

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

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

### ***Budgetary Data***

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

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

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

### ***Investments***

In accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity date greater than three months but less than one year at time of purchase. The System has designated public funds investment pools comprised of \$151,455,196 and \$291,705,058 at 2011 and 2010, respectively, to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase. The system had no long-term investments at August 31, 2011 and 2010.

### ***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***

A portion of tuition and fee revenue and federal, state, and local grants at August 31, 2011 and 2010, related to the period after August, and therefore have been reported as deferred revenues at August 31, 2011 and 2010, respectively.

### ***Estimates***

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

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

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

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

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

### **3. AUTHORIZED INVESTMENTS**

The System is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (PFIA) (Sec. 2256.001 Texas Government Code) and as authorized by Board policy. The System's Board of Trustees has adopted a written investment policy regarding the investment of its funds as defined in the PFIA. Such investments include (1) Obligations of the United States or its agencies, (2) Certificates of deposit issued by a depository institution that has its main office or branch office in Texas and that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured by obligations in a manner consistent with State law and the Investment Policy, (3) Other obligations, the principal and interest of which are guaranteed or insured by the U.S. government, (4) Fully collateralized repurchase agreements with a defined termination date secured by obligations of the United States government, its agencies or instrumentalities, (5) SEC registered money market mutual funds rated "AAAm", (6) Constant dollar local government investment pools in Texas, and, (7) Commercial paper with a maximum maturity of 180 days rated A1/P1 or equivalent.

#### 4. DEPOSITS AND INVESTMENTS

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

	2011	2010
Demand Deposits	\$ 2,939,513	\$ 696
Petty Cash on Hand	38,737	41,403
Short-Term Securities	124,436	1,282,869
External Investment Pools	151,455,196	291,705,058
Certificate of Deposits	10,027,821	-
Commercial Paper	-	20,007,754
Total Cash and Cash Equivalents	<u>\$ 164,585,703</u>	<u>\$ 313,037,780</u>

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

	Fair Value at August 31,	
	2011	2010
U. S. Agency Notes and Bonds	\$ 4,001,002	\$ 32,925,808
Certificate of Deposits	10,027,821	-
Commercial Paper	-	20,007,754
Cash and Deposits	154,557,882	293,030,026
Total Deposits and Investments	<u>\$ 168,586,705</u>	<u>\$ 345,963,588</u>
Cash and Cash Equivalents (Exhibit 1)	\$ 164,585,703	\$ 313,037,780
Short Term Investments (Exhibit 1)	4,001,002	32,925,808
Total Deposits and Investments	<u>\$ 168,586,705</u>	<u>\$ 345,963,588</u>

As of August 31, 2011 the System had the following investments and maturities:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External Investment Pools	\$ 151,455,196	0.15
Money Market	124,436	0.14
U. S. Agency Notes and Bonds	4,001,002	2.93
Certificate of Deposits	10,027,821	0.84
Total Investments at Fair Value	<u>\$ 165,608,455</u>	<u>0.26</u>

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

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

portfolio diversification requirements by issuer and/or type of investment. The System’s portfolio is within the stated parameters at August 31, 2011.

The credit quality (ratings) and concentration of the System’s portfolio as of August 31, 2011 is as follows:

Security	Credit Rating	Concentration	
		Actual	Limit
Cash and External Investment Pools	AAA	91.5%	100%
Money Market	AAA	0.08%	100%
U.S. Agencies	AAA	2.42%	80%
Certificate of Deposits	AAA	6.06%	30%

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

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

The First Public (Lone Star Investment Pool) is a public funds investment pool established in accordance with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 225, Texas Government Code. 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.

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

## 5. CAPITAL ASSETS

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

	Balance August 31, 2010	Increase	Decrease	Balance August 31, 2011
<u>Not Depreciated:</u>				
Land	\$ 65,866,633	\$ 9,555,571	\$ (338,292)	\$ 75,083,912
Construction-in-Progress	171,441,940	193,862,644	(185,736,511)	179,568,073
Subtotal	<u>237,308,573</u>	<u>203,418,215</u>	<u>(186,074,803)</u>	<u>254,651,985</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	354,536,927	131,947,360	-	486,484,287
Other Real Estate Improvements	<u>19,609,179</u>	<u>15,039,582</u>	<u>(3,652,934)</u>	<u>30,995,827</u>
Total Buildings & Other Real Estate Improvements	374,146,106	146,986,942	(3,652,934)	517,480,114
Library Books	13,078,550	528,456	(143,404)	13,463,602
Furniture, Machinery, Vehicles & Other	21,595,002	32,349,548	(1,311,838)	52,632,712
Total Buildings and Other Capital Assets	<u>408,819,658</u>	<u>179,864,946</u>	<u>(5,108,176)</u>	<u>583,576,428</u>
<u>Accumulated Depreciation</u>				
Buildings and Building Improvements	67,214,410	8,203,627	-	75,418,037
Other Real Estate Improvements	<u>7,077,101</u>	<u>644,224</u>	<u>(3,287,640)</u>	<u>4,433,685</u>
Total Buildings & Other Real Estate Improvements	74,291,511	8,847,851	(3,287,640)	79,851,722
Library Books	8,671,688	610,223	(143,404)	9,138,507
Furniture, Machinery, Vehicles & Other	<u>11,886,822</u>	<u>3,207,880</u>	<u>(941,206)</u>	<u>14,153,496</u>
Total Accumulated Depreciation	<u>94,850,021</u>	<u>12,665,954</u>	<u>(4,372,250)</u>	<u>103,143,725</u>
Net Capital Assets	<u>\$ 551,278,210</u>	<u>\$ 370,617,208</u>	<u>\$ (186,810,729)</u>	<u>\$ 735,084,688</u>

## 5. CAPITAL ASSETS (Continued)

Capital assets activity for the year ended August 31, 2010 was as follows:

	Balance August 31, 2009	Increase	Decrease	Balance August 31, 2010
<u>Not Depreciated:</u>				
Land	\$ 62,753,363	\$ 3,397,680	\$ (284,410)	\$ 65,866,633
Construction-in-Progress	17,978,291	165,829,232	(12,365,583)	171,441,940
Subtotal	<u>80,731,654</u>	<u>169,226,912</u>	<u>(12,649,993)</u>	<u>237,308,573</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	354,787,567	8,926,990	(9,177,630)	354,536,927
Other Real Estate Improvements	<u>19,623,342</u>	<u>40,913</u>	<u>(55,076)</u>	<u>19,609,179</u>
Total Buildings & Other Real Estate Improvements	374,410,909	8,967,903	(9,232,706)	374,146,106
Library Books	12,619,172	559,175	(99,797)	13,078,550
Furniture, Machinery, Vehicles & Other	<u>19,839,861</u>	<u>2,055,412</u>	<u>(300,271)</u>	<u>21,595,002</u>
Total Buildings and Other Capital Assets	<u>406,869,942</u>	<u>11,582,490</u>	<u>(9,632,774)</u>	<u>408,819,658</u>
<u>Accumulated Depreciation</u>				
Buildings and Building Improvements	61,724,046	6,459,966	(969,602)	67,214,410
Other Real Estate Improvements	<u>6,184,778</u>	<u>896,406</u>	<u>(4,083)</u>	<u>7,077,101</u>
Total Buildings & Other Real Estate Improvements	67,908,824	7,356,372	(973,685)	74,291,511
Library Books	8,143,514	627,971	(99,797)	8,671,688
Furniture, Machinery, Vehicles & Other	<u>9,462,713</u>	<u>2,697,451</u>	<u>(273,342)</u>	<u>11,886,822</u>
Total Accumulated Depreciation	<u>85,515,051</u>	<u>10,681,794</u>	<u>(1,346,824)</u>	<u>94,850,021</u>
Net Capital Assets	<u>\$ 402,086,545</u>	<u>\$ 170,127,608</u>	<u>\$ (20,935,943)</u>	<u>\$ 551,278,210</u>

## 6. LONG-TERM LIABILITIES

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

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

Long-term liability activity for the year ended August 31, 2010 was as follows:

	Balance September 1, 2009	Additions	Reductions	Balance August 31, 2010	Current Portion
Bonds					
General obligation bonds	\$ 283,232,201	\$ 284,497,695	\$ (29,622,262)	\$ 538,107,634	\$ 15,096,395
Revenue bonds	51,239,657	-	(2,243,149)	48,996,508	2,288,150
Maintenance tax note bonds	-	32,547,433	(67,334)	32,480,099	93,893
Subtotal	334,471,858	317,045,128	(31,932,745)	619,584,241	17,478,438
Accrued compensable absences	4,517,815	2,002,845	(989,106)	5,531,554	300,000
Total long-term liabilities	<u>\$ 338,989,673</u>	<u>\$ 319,047,973</u>	<u>\$ (32,921,851)</u>	<u>\$ 625,115,795</u>	<u>\$ 17,778,438</u>

## 7. BONDS PAYABLE

General information related to bonds payable is summarized below:

Series	Purpose	Maturity Date	Interest Rate	Original Issue Amount	Repayment Source	Amount Outstanding	
						8/31/2011	8/31/2010
<b>Revenue Bonds</b>							
2000 Rev	Constr/Refunding	2001 - 2025	5.12% - 6.50%	\$ 11,000,000	Pledged Rev	\$ 7,950,890	\$ 8,315,236
2003 Rev	Construction	2004 - 2028	2.50% - 5.00%	10,000,000	Pledged Rev	6,025,901	6,477,894
2003A Rev	Construction	2004 - 2018	2.00% - 4.25%	10,390,000	Pledged Rev	5,456,734	6,121,734
2007 Rev	Construction	2008 - 2038	4.00% - 5.00%	29,900,000	Pledged Rev	27,274,833	28,081,644
<b>Total Revenue</b>						<b>\$ 46,708,358</b>	<b>\$ 48,996,508</b>
<b>General Obligation Bonds</b>							
2002A	Construction	2003 - 2027	3.26% - 5.37%	95,040,000	Ad Val Tax	\$ 47,948,067	\$ 55,082,947
2003	Constr/Refunding	2004 - 2028	2.50% - 5.00%	36,464,997	Ad Val Tax	16,219,068	17,414,308
2005 Ref	Refunding	2006 - 2013	3.00% - 5.00%	6,915,000	Ad Val Tax	947,984	1,407,984
2005A Ref	Refunding	2006 - 2026	3.00% - 5.00%	50,244,217	Ad Val Tax	43,003,420	46,584,833
2007 Ref	Refunding	2008 - 2012	3.44% - 4.00%	13,410,000	Ad Val Tax	60,443	124,280
2008	Construction	2009 - 2038	3.50% - 5.25%	149,780,000	Ad Val Tax	137,598,008	137,598,008
2009	Construction	2009 - 2034	2.50% - 5.00%	144,520,000	Ad Val Tax	145,430,433	146,676,968
2010A	Construction	2010 - 2025	2.00% - 5.00%	110,625,000	Ad Val Tax	123,826,373	123,826,373
2010B Ref	Refunding	2010 - 2025	2.00% - 5.00%	8,470,000	Ad Val Tax	7,977,444	9,391,933
<b>Total General Obligation</b>						<b>\$ 523,011,239</b>	<b>\$538,107,634</b>
<b>Maintenance Tax Note Bond</b>							
	Construction /Energy Management						
Maintenance Tax Note Bond	Contract	2009 - 2027	2.00% - 5.00%	30,740,000	Ad Val Tax	32,386,206	32,480,099
<b>Total Maintenance Tax Note</b>						<b>\$ 32,386,206</b>	<b>\$ 32,480,099</b>

Debt service requirements at August 31, 2011 were as follows:

For the Year Ended August 31,	General Obligation Bonds		Revenue Bonds		Maintenance Tax Notes		Total Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 16,379,575	\$ 23,873,151	\$ 2,353,150	\$ 2,120,065	\$ 1,270,365	\$ 1,204,250	\$ 20,003,089	\$ 27,197,466
2013	18,662,616	23,079,826	2,418,150	2,020,879	1,362,815	1,180,150	22,443,581	26,280,856
2014	20,770,985	22,226,442	2,293,150	1,921,320	1,448,890	1,152,631	24,513,025	25,300,393
2015	21,500,042	21,430,839	2,363,150	1,821,787	1,544,239	1,116,163	25,407,431	24,368,788
2016	24,416,314	20,683,336	2,438,150	1,718,361	1,639,502	1,071,838	28,493,966	23,473,534
2017-2021	151,343,369	84,774,200	10,223,849	7,060,794	9,778,790	4,451,294	171,346,008	96,286,288
2022-2026	111,304,499	54,156,331	8,858,598	4,817,210	12,553,766	2,201,763	132,716,864	61,175,303
2027-2031	74,937,316	32,190,975	5,981,552	3,079,625	2,787,839	69,500	83,706,707	35,340,100
2032-2036	66,419,803	13,230,250	6,814,056	1,614,925	-	-	73,233,859	14,845,175
2037+	17,276,719	1,336,750	2,964,553	196,875	-	-	20,241,272	1,533,625
	<b>\$ 523,011,239</b>	<b>\$ 296,982,100</b>	<b>\$ 46,708,357</b>	<b>\$ 26,371,842</b>	<b>\$ 32,386,206</b>	<b>\$ 12,447,588</b>	<b>\$ 602,105,803</b>	<b>\$ 335,801,529</b>

### ***Arbitrage***

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the System performed calculations of excess investment earnings on various bonds and financings and at August 31, 2011 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 \$41,688,000 and \$33,418,000 for the years ended August 31, 2011 and 2010, respectively. The pledged revenue amount equates to 57.6% and 53.7% of the above total revenue streams, respectively. Debt service on the revenue bonds was \$6,059,000 and \$4,543,000 for the years ended August 31, 2011 and 2010, and the debt service coverage ratio was 6.88 and 7.36, respectively. Revenue bonds are payable in annual installments varying from \$240,000 to \$1,545,000 with interest rates from 2.0% to 6.50% and the final installment due in 2038. The System was in compliance with all bond covenants for the years ended August 31, 2011 and 2010.

## 8. REFUNDING BONDS AND DEFEASED BONDS OUTSTANDING

### REFUNDING BONDS

On June 17, 2010 the System issued \$8,470,000 of Limited Tax General Obligation Refunding Bonds, Series 2010B. The issue consisted solely of Refunding Bonds with a reoffering premium of \$921,934. The bonds mature serially through February 15, 2015. Interest rates on the bonds range from 2.0% to 5.0%. The net refunding proceeds were applied to refund \$9,410,000 of outstanding Limited Tax General Obligation Bonds, Series 2001 with an average interest rate of 5.06%. The Series 2001 Bonds were callable on June 21, 2010. The aggregate debt service payments of the refunding bonds (\$9,966,586) are \$2,715,605 less than the aggregate debt service payments of the refunded bonds (\$12,682,191). The net present value savings of the refunding transactions is \$1,568,119. The refunding proceeds were deposited into an irrevocable trust with an escrow agent to provide all the debt service payments. The refunded bonds are considered defeased and the liability for those bonds was removed from the System's liabilities in fiscal year 2010.

### DEFEASED BONDS OUTSTANDING

The liability for the bonds below does not appear on the System's financial statements as these bonds are considered legally defeased as of August 31, 2011 and 2010.

Bond Issue	Year Refunded	2011 Par Value Outstanding	2010 Par Value Outstanding
General Obligation Bonds Series 2002	2007	\$13,410,000	\$13,410,000
Total		\$13,410,000	\$13,410,000

## 9. OPERATING LEASES

The System leases certain of its educational facilities, offices and other equipment. These lease agreements have clauses which allow the System to terminate the agreement if funding becomes unavailable or the Board does not approve funding. Rent expense for the years ended August 31, 2011 and 2010 was \$2,148,271 and \$2,247,306, respectively. Future minimum lease payments are as follows:

For the Year Ended <u>August 31,</u>	<u>Total</u>
2012	\$ 364,550
2013	351,950
2014	345,518
2015	97,586
2016	48,000
2017-2018	96,000
Total future minimum lease payments	<u>\$ 1,303,604</u>

## 10. EMPLOYEES' RETIREMENT PLANS

The state of Texas has joint contributory retirement plans for almost all its employees. Within the first 90 days of employment, higher education employees make an irrevocable choice to be covered by either the Teacher Retirement System (TRS) or the Optional Retirement Plan (ORP). The total payroll for all System employees was \$160,459,971 and \$155,713,082 for fiscal years 2011 and 2010, respectively.

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

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

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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 2011, 2010 and 2009. The state contribution rate for fiscal year 2011 was 6.644%. The rate for the first 4 months of fiscal year 2010 was 6.4%. Effective January 1, 2010 the state contribution rate increased to 6.644% for the remainder of the fiscal year. A state contribution rate of 6.58% was in effect for fiscal year 2009. In certain instances the reporting district is required to make all or a portion of the state's contribution.

The percentages of participant salaries currently contributed by the state and by each participant are 6.644% and 6.4%, respectively, of annual compensation. The total payroll of employees covered by TRS for fiscal years 2011, 2010 and 2009 was \$87,941,549, \$85,035,252 and \$75,748,414, respectively. The retirement expense to the state for System employees was \$5,561,621, \$5,581,188 and \$4,984,246 for the fiscal years ended August 31, 2011, 2010 and 2009, respectively, and for all years are 100% of required contributions. This amount represents the portion of expended appropriations made by the state legislature on behalf of the System. These amounts are recorded by the System as on-behalf revenue and expense.

### **Optional Retirement Plan (Defined Contribution Plan)**

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

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

The total payroll of employees covered by the ORP was \$35,439,517, \$36,092,113, and \$36,284,931 for fiscal years 2011, 2010 and 2009, respectively. The retirement expense to the state for the System was \$2,525,612, \$2,309,864, and \$2,392,627 for the fiscal years ended August 31, 2011, 2010 and 2009, respectively. This amount represents the portion of expended appropriations made by the state legislature on behalf of the System. These amounts are recorded by the System as on-behalf revenue and expense.

## **11. DEFERRED COMPENSATION PROGRAM**

Certain System employees elected 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, 2011 and 2010, there are no employees participating in the program. There were no contributions invested in the plan during either fiscal year and vested distributions to employees amounted to zero and \$34,465 in fiscal years 2011 and 2010, respectively.

## **12. COMPENSABLE ABSENCES**

Full-time non-faculty employees on a twelve month work schedule are eligible for paid annual leave. Eligible employees accrue vacation leave at different rates depending on their length of service and position. Accrual rates range from 8 hours per month to 13.33 hours per month. The System's policy is to allow employees to carry their accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours accrued equal to 400 hours. Eligible employees are entitled to payment for all accumulated annual leave up to the maximum allowed at the time employment with the System is terminated. The System recognizes an accrued liability for the unpaid compensated absences in the amounts of \$6,435,594 and \$5,531,554 for the fiscal years ended August 31, 2011 and 2010, respectively.

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

### **13. COMMITMENTS, CONTINGENCIES, PENDING LAWSUITS AND CLAIMS**

*Commitments* – In an election held May 10, 2008, voters approved the System’s 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. As of August 31, 2011, all of these bonds have been sold and the construction projects funded by the bonds are complete, or nearing completion.

*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, 2011, 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.

**14. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2011 and 2010 were as follows:

	August 31	
	2011	2010
Student Receivables	\$27,223,331	\$15,443,767
Taxes Receivable	6,626,977	6,669,376
Federal Receivable	11,176,644	8,142,648
Accounts Receivable	4,385,311	9,288,763
Other Receivables	(144,803)	423,640
Subtotal	49,267,461	39,968,193
Allowance for Doubtful Accounts	(980,678)	(981,573)
<b>TOTAL ACCOUNTS RECEIVABLE</b>	<b>\$48,286,782</b>	<b>\$38,986,620</b>

Payables at August 31, 2011 and 2010 were as follows:

	August 31	
	2011	2010
Vendors Payable	\$41,958,854	\$44,049,061
Salaries and Benefits Payable	4,081,778	1,359,205
Students Payable	1,568,428	1,736,791
Accrued Interest	1,760,167	2,105,191
Other Payables	3,351,600	892,844
<b>TOTAL ACCOUNTS PAYABLE AND ACCRUED LIABILITIES</b>	<b>\$52,720,827</b>	<b>\$50,143,092</b>

**15. CONTRACT AND GRANT AWARDS**

Contract and grant awards are accounted for in accordance with accounting principles generally accepted in the United States of America. 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.

## **16. 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, 2011 and 2010.

## **17. 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 \$413.26 per month for the fiscal year ended August 31, 2011 (\$360.54 per month for 2010) and totaled \$8,584,534 for 2011 (\$8,899,576 for 2010). The cost of providing those benefits for 306 retirees for the year ended August 31, 2011 was \$1,514,872 (retiree benefits for 286 retirees cost \$1,227,092 in 2010). For 2,194 active employees, the cost of providing benefits was \$16,131,969 for the fiscal year ended August 31, 2011 (active employee benefits for 2,183 employees cost \$14,892,475 in 2010).

**18. AD VALOREM TAX**

The System’s ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the System’s taxing jurisdiction. The System’s taxable values at August 31, 2011 and 2010 are as follows:

	2011	2010
Assessed Valuation of the System	\$ 124,218,962,126	\$ 126,352,009,291
Less: Exemptions	( 8,525,497,952)	( 8,422,514,562)
Less: Abatements	-	-
Net Assessed Valuation of the System	<u>\$115,693,464,174</u>	<u>\$117,929,494,729</u>

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

	2011			2010		
	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	\$0.0841	\$0.0335	\$0.1176	\$0.0766	\$0.0335	\$0.1101

Taxes levied for the year ended August 31, 2011 and 2010 amounted to \$135,922,813 and \$129,532,132 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, 2011 and 2010 are as follows:

	2011			2010		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Current Taxes	\$ 94,930,716	\$ 37,757,374	\$ 132,688,090	\$ 88,287,041	\$ 38,616,775	\$ 126,903,816
Delinquent Taxes	1,519,572	635,687	2,155,259	1,553,283	739,448	2,292,731
Penalties & Interest	431,517	168,204	599,721	896,146	332,015	1,228,161
Total	<u>\$ 96,881,805</u>	<u>\$ 38,561,265</u>	<u>\$135,443,070</u>	<u>\$ 90,736,470</u>	<u>\$ 39,688,238</u>	<u>\$ 130,424,708</u>

Tax collections for the year ended August 31, 2011 and 2010 were 98% and 97.50%, 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.

## 19. INCOME TAXES

The System is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations*. The System had no unrelated business income tax liability for the years ended August 31, 2011 and 2010.

**20. 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 \$785,320 and \$594,111 to the System during the years ended August 31, 2011 and 2010, respectively. The System furnished certain services, such as office space, utilities and some staff assistance, to the Foundation which totaled \$279,673 and \$297,650 for 2011 and 2010, respectively. There were no related receivables as of August 31, 2011 and 2010.

## **21. 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, 2011, 2010 and 2009 were \$1,514,872, \$1,227,092 and \$1,022,349, respectively. This equaled the required contributions each year and no employee contributions were required.

## **22. SUBSEQUENT EVENTS**

The System issued \$25,305,000 of general obligation refunding bonds. Bond closing and delivery of proceeds took place on October 5, 2011. The bonds were issued for the purpose of refunding general obligation and refunding bonds, series 2002.

In addition, the System issued \$7,980,000 of revenue financing system refunding bonds. Bond closing and delivery of proceeds took place on October 5, 2011. The bonds were issued for the purpose of refunding revenue bonds, series 2000.

No changes are necessary to be made to the financial statements as a result of these events.



LONE STAR COLLEGE SYSTEM  
 SCHEDULE OF OPERATING REVENUES  
 YEAR ENDED AUGUST 31, 2011 (With Memorandum Totals for the Year Ended August 31, 2010)

	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises	Total	2010 Totals
<b>Tuition</b>						
State funded courses						
In-district resident tuition	\$ 41,164,758	\$ -	\$ 41,164,758	\$ -	\$ 41,164,758	\$ 38,066,708
Out-of-district resident tuition	9,599,808	-	9,599,808	-	9,599,808	8,315,021
Non-resident tuition	4,785,372	-	4,785,372	-	4,785,372	4,651,787
TPEG -credit (set aside)*	(3,275,427)	-	(3,275,427)	-	(3,275,427)	(2,803,126)
State-funded continuing education	3,764,257	-	3,764,257	-	3,764,257	4,078,407
TPEG -non-credit (set aside)*	(162,820)	-	(162,820)	-	(162,820)	(219,343)
Non-state funded continuing education	3,654,897	-	3,654,897	-	3,654,897	2,079,743
Total tuition	59,530,845	-	59,530,845	-	59,530,845	54,169,197
<b>Fees</b>						
Registration fee	1,853,352	-	1,853,352	-	1,853,352	1,686,901
Student activity fee	2,406,506	-	2,406,506	-	2,406,506	2,166,147
Laboratory fee	1,186,884	-	1,186,884	-	1,186,884	1,102,817
Technology Fee	8,444,663	-	8,444,663	-	8,444,663	7,695,942
General use fee	5,871,640	-	5,871,640	-	5,871,640	2,217,720
Distance learning fee	2,125,134	-	2,125,134	-	2,125,134	1,734,094
Incidental fee	1,168,310	-	1,168,310	-	1,168,310	-
Other fees	277,675	-	277,675	-	277,675	188,189
Total fees	23,334,164	-	23,334,164	-	23,334,164	16,791,810
<b>Scholarship allowances and discounts</b>						
Scholarship Allowances	(1,500,221)	-	(1,500,221)	-	(1,500,221)	(9,120,570)
Remissions and Exemptions - state	(3,715,771)	-	(3,715,771)	-	(3,715,771)	(2,930,615)
TPEG Allowances	(820,335)	-	(820,335)	-	(820,335)	(608,091)
State Grants to Students	(140,105)	-	(140,105)	-	(140,105)	(185,091)
Federal Grants to Students	(22,599,384)	-	(22,599,384)	-	(22,599,384)	(11,786,940)
Other	-	-	-	-	-	-
Total scholarship allowances and discounts	(28,775,816)	-	(28,775,816)	-	(28,775,816)	(24,631,307)
Total net tuition and fees	54,089,193	-	54,089,193	-	54,089,193	46,329,700
<b>Additional operating revenues</b>						
Federal grants and contracts	-	6,282,601	6,282,601	-	6,282,601	7,802,710
State grants and contracts	-	3,271,584	3,271,584	-	3,271,584	2,744,431
Local grants and contracts	1,801,230	3,989,459	5,790,689	-	5,790,689	3,656,301
Other operating revenues	1,546,851	-	1,546,851	-	1,546,851	1,326,042
Total additional operating revenues	3,348,081	13,543,644	16,891,725	-	16,891,725	15,529,484

## LONE STAR COLLEGE SYSTEM

## SCHEDULE OF OPERATING REVENUES

YEAR ENDED AUGUST 31, 2011 (With Memorandum Totals for the Year Ended August 31, 2010)

Auxiliary enterprises						
Food Service	-	-	-	1,780,538	1,780,538	1,772,342
Bookstore	-	-	-	2,496,438	2,496,438	2,113,789
Child Care Fees	-	-	-	321,499	321,499	485,985
Special Events	-	-	-	673,029	673,029	870,854
Other	-	-	-	2,041,440	2,041,440	1,494,241
Total net auxiliary enterprises	-	-	-	7,312,944	7,312,944	6,737,211
Total Operating Revenues	\$ 57,437,274	\$ 13,543,644	\$ 70,980,918	\$ 7,312,944	\$ 78,293,862	\$ 68,596,395
					(Exhibit 2)	(Exhibit 2)

\* In accordance with Education Code 56.033, \$3,438,247 and \$3,022,469 was set aside for Texas Public Education Grants in 2011 and 2010, respectively.

LONE STAR COLLEGE SYSTEM  
 SCHEDULE OF OPERATING EXPENSES BY OBJECT  
 YEAR ENDED AUGUST 31, 2011 (with Memorandum Totals for the Year Ended August 31, 2010)

	Operating Expenses			2011 Total	2010 Total	
	Salaries and Wages	Benefits State	Local			Other Expenses
<b>Unrestricted Educational Activities</b>						
Instruction	\$ 78,476,178	\$ -	\$ 3,868,565	\$ 8,888,371	\$ 91,233,114	\$ 87,225,543
Public service	574,089	-	79,697	240,986	894,772	1,219,981
Academic support	30,248,712	-	2,584,539	8,432,705	41,265,956	40,844,964
Student services	17,476,488	-	1,462,079	8,385,432	27,323,999	26,322,457
Institutional support	15,591,016	-	4,144,204	8,816,039	28,551,259	26,924,765
Operation and maintenance of plant	10,653,987	-	2,814,044	22,867,103	36,335,134	35,653,179
Total unrestricted educational activities	153,020,470	-	14,953,128	57,630,636	225,604,234	218,190,889
<b>Restricted Educational Activities</b>						
Instruction	2,126,602	8,498,882	237,847	2,481,283	13,344,614	12,447,224
Public service	138,833	89,641	31,969	96,448	356,891	584,678
Academic support	1,677,382	4,199,531	252,310	101,914	6,231,137	4,150,001
Student services	226,180	2,080,010	37,228	433,117	2,776,535	3,619,131
Institutional support	15,258	1,326,214	3,575	11,682	1,356,729	3,282,756
Operation and maintenance of plant	35,861	-	16,951	109,188	162,000	99,535
Scholarships and fellowships	-	-	-	51,120,397	51,120,397	33,743,656
Total restricted educational activities	4,220,116	16,194,278	579,880	54,354,029	75,348,303	57,926,981
Total educational activities	157,240,586	16,194,278	15,533,008	111,984,665	300,952,537	276,117,870
Auxiliary enterprises	859,166	-	290,601	4,598,596	5,748,363	5,297,398
Depreciation expense - buildings	-	-	-	8,847,851	8,847,851	7,356,372
Depreciation expense - equip & furn	-	-	-	3,818,104	3,818,104	3,325,422
Total Operating Expenses	\$ 158,099,752	\$ 16,194,278	\$ 15,823,609	\$ 129,249,216	\$ 319,366,855	\$ 292,097,062
				(Exhibit 2)	(Exhibit 2)	

\* In accordance with Education Code 56.033, \$3,438,247 and \$3,022,469 was set aside for Texas Public Education Grants in 2011 and 2010, respectively.

LONE STAR COLLEGE SYSTEM  
 SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES  
 YEAR ENDED AUGUST 31, 2011 (With Memorandum Totals for the Year Ended August 31, 2010)

	Unrestricted	Restricted	Auxiliary Enterprises	August 31,	
				2011	2010
<b>NON-OPERATING REVENUES:</b>					
State appropriations:					
Education and general state support	\$ 57,172,803	\$ -	\$ -	\$ 57,172,803	\$ 57,803,475
State group insurance	-	8,584,534	-	8,584,534	8,899,576
State retirement matching	-	7,647,951	-	7,647,951	7,891,053
Total state appropriations	57,172,803	16,232,485	-	73,405,288	74,594,104
Maintenance ad valorem taxes	96,232,370	-	-	96,232,370	89,415,848
General obligation ad valorem taxes	-	38,486,397	-	38,486,397	39,415,732
Federal revenue, non-operating		73,146,609		73,146,609	50,747,245
Gifts	270,000			270,000	-
Investment income	732,471	-	-	732,471	967,393
Gain on disposal of capital asset	804,448	-	-	804,448	661,683
Other non-operating revenue	898,111	1,894,838	-	2,792,949	3,938,619
<b>Total non-operating revenues</b>	<b>156,110,203</b>	<b>129,760,329</b>	<b>-</b>	<b>285,870,532</b>	<b>259,740,624</b>
<b>NON-OPERATING EXPENSES:</b>					
Interest on capital related debt	-	20,958,652	-	20,958,652	19,730,589
Loss on disposal of capital assets	1,438,647		-	1,438,647	5,097
<b>Total non-operating expenses</b>	<b>1,438,647</b>	<b>20,958,652</b>	<b>-</b>	<b>22,397,299</b>	<b>19,735,686</b>
<b>Net non-operating revenues</b>	<b>\$ 154,671,556</b>	<b>\$ 108,801,677</b>	<b>\$ -</b>	<b>\$ 263,473,233</b>	<b>\$ 240,004,938</b>
				(Exhibit 2)	(Exhibit 2)

## LONE STAR COLLEGE SYSTEM

## SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY

YEAR ENDED AUGUST 31, 2011 (with Memorandum Totals for the Year Ended August 31, 2010)

	Detail by Source					Available for Current Operations		
	Unrestricted	Restricted		Non-Expendable	Capital Assets (Net)	Total	Yes	No
		Expendable						
Current:								
Unrestricted	\$ 42,059,157	\$ -	\$ -	\$ -	\$ 42,059,157	\$ 42,059,157	\$ -	
Board designated	-	-	-	-	-	-	-	
Restricted	-	737,601	-	-	737,601	-	737,601	
Auxiliary enterprises	5,504,412	-	-	-	5,504,412	5,504,412	-	
Loan	-	485,631	-	-	485,631	-	485,631	
Endowment:								
Quasi:								
Unrestricted	-	-	-	-	-	-	-	
Restricted	-	-	-	-	-	-	-	
Endowment								
True	-	-	-	-	-	-	-	
Term	-	-	-	-	-	-	-	
Life income contracts	-	-	-	-	-	-	-	
Annuities	-	-	-	-	-	-	-	
Plant:								
Unexpended	-	-	-	-	-	-	-	
Renewals	-	-	-	-	-	-	-	
Debt service	-	6,350,839	-	-	6,350,839	-	6,350,839	
Investment in Plant	-	-	-	190,949,160	190,949,160	-	190,949,160	
Total Net Assets, August 31, 2011	47,563,569	7,574,071	-	190,949,160	246,086,800	47,563,569	198,523,231	
Total Net Assets, August 31, 2010	45,022,290	491,699	-	178,172,571	223,686,560	45,022,290	178,664,270	
Net Increase in Net Assets	\$ 2,541,279	\$ 7,082,372	\$ -	\$ 12,776,589	\$ 22,400,240	\$ 2,541,279	\$ 19,858,961	

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2011**

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Direct Programs:</u>			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants-FSEOG(09-10)	84.007	P007A094084	\$ 5,915
Federal Supplemental Educational Opportunity Grants-FSEOG(10-11)	84.007	P007A104084	522,060
Total Federal Supplemental Educational Opportunity Grants			<u>527,975</u>
FFEL Program (08-09)	84.032	N/A	172
FFEL Program (09-10)	84.032	N/A	28,762
Total FFEL Program			<u>28,934</u>
Federal Work-Study Program (10-11)	84.033	P933A104084	232,735
Federal Work-Study Program (11-12)	84.033	P933A114084	35,447
Total Federal Work-Study Program			<u>268,182</u>
Federal Pell Grant Program (09-10)	84.063	P063P093422	82,738
Federal Pell Grant Program (10-11)	84.063	P063P103422	73,063,871
Total Federal Pell Grant Program			<u>73,146,609</u>
Direct Loan Program (09-10)	84.268	P268K103422	307,063
Direct Loan Program (10-11)	84.268	P268K113422	48,427,043
Total Direct Loan Program			<u>48,734,106</u>
Academic Competitiveness (09-10)	84.375	P375A093422	(15,469)
Academic Competitiveness (10-11)	84.375	P375A103422	427,865
Total Federal Academic Competitiveness Program			<u>412,396</u>
TRIO Cluster			
TRIO - Student Support Services - North Harris	84.042A	P042A050846	168,644
TRIO - Student Support Services - Tomball	84.042a	P042A101133	125,699
Total TRIO - Student Support Services			<u>294,343</u>
TRIO - Talent Search (10-11)			
NHC's Student Support Services Initiative	84.044A	P044A020444-6	182,208
TRIO - Upward Bound (10-11)	84.047A	P047A031128-06	286,496
TRIO - Upward Bound (10-11)	84.047A	P047A030935-06	178,726
Total TRIO - Upward Bound			<u>465,222</u>
<u>Pass-Through From:</u>			
Texas Education Agency			
Adult Education - State Grant Program (10-11)	84.002A	084100017110208	1,062,878
Adult Education - State Grant Program EL Civics (10-11)	84.002A	114100087110378	97,551
Total Adult Basic Education - State Grant Program			<u>1,160,429</u>
Career and Technology Education (10-11) ATC Professional Development	84.048	17417348848	155,245
Texas Higher Education Coordinating Board			
Vocational Education - Basic Grants to States (10-11)	84.048	N/A	728,688
			<u>883,933</u>
Leveraging Educational Assistance Partnership (10-11)	84.069A	N/A	24,498
Special Leveraging Educational Assistance Partnership (09-10)	84.069B	N/A	(300)
Special Leveraging Educational Assistance Partnership (10-11)	84.069B	N/A	33,774
Total Special Leveraging Educational Assistance Partnership			<u>33,474</u>

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

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2011**

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
Texas Higher Education Coordinating Board Tech Prep Education (10-11)	84.243	71713	\$ 907,367
Teachers College Summer Bridge Program (10-11)	84.305A	51128	9,144
North American Mobility In Higher Education Fund for the Improvement of Postsecondary Education (10-11)	84.116N	P116N070021	13,678
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>127,092,498</b>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Direct Program: Bullet Proof Vest Program (09-10)	16.607	15-0404-01-754	3,745
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Pass-Through From:</u> Texas Education Agency Temporary Assistance for Needy Families (10-11)	93.558	113625017110335	61,901
<b>NATIONAL SCIENCE FOUNDATION</b>			
Direct Program: Creating Pathways and Opportunities for Audio Visual System Specialists (10-11)	47.076	N/A	26,622
Pass-Through from: Landmark College (10-11) ATE	47.076	LSCS-09-11	6,094
<b>TOTAL NATIONAL SCIENCE FOUNDATION</b>			<b>32,716</b>
<b>U.S. DEPARTMENT OF LABOR</b>			
Pass-Through from: WIA Cluster TWC to Houston-Galveston Area Council ARRA - WIA Adult Program (HGAC grant) (10-11)	17.258	N/A	8,843
ARRA - WIA Dislocated Workers (HGAC grant) (10-11)	17.260	N/A	14,738
Texas Workforce Commission ARRA - WIA Dislocated Workers (NOV grant) (10-11)	17.260	1510XSD000	616,705
			631,443
DOL North TX CBJT (10-11)	17.269	CB-20564-10-60-A-48	60,230
<b>Total U.S. DEPARTMENT OF LABOR</b>			<b>700,516</b>
<b>U.S. DEPARTMENT OF STATE</b>			
Pass-Through from: Kirkwood College  Academic Exchange Programs (CCID Projects) (10-11)	19.009	S-ECAAS-08-CA-207(SM) S-ECAAS-09-CA-055(TG) S-ECAAS-09-CA-179(SM) S-ECAAS-10-CA-077(SM)	86,008

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, 2011**

**SCHEDULE E (Continued)**

**SMALL BUSINESS ADMINISTRATION**

Pass-Through from:

University of Houston

Small Business Development Center (10-11)

59.037

R040212

214,866

**TOTAL FEDERAL FINANCIAL ASSISTANCE**

\$128,192,250

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, 2011**

**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, 2011. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations* and includes awards received directly from federal agencies as well as federal awards passed through other government agencies.

**2 Basis of Accounting**

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

**3 Federal Assistance Reconciliation**

Federal Grants and Contracts Revenue - per Schedule of Operating Revenues (Schedule A)	\$	6,282,601
Federal Revenue, Non-Operating - per Schedule of Non-Operating Revenues and Expenses (Schedule C)		73,146,609
Federal Direct Student Loan Program		48,734,106
Federal Family Education Loan Program		<u>28,934</u>
 Total Federal Revenues per Schedule of Expenditures of Federal Awards (Schedule E)	 \$	 <u>128,192,250</u>

**4 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, 2011**

**5 Sub recipients**

The following amounts were passed-through to the listed sub recipients by the System.  
These amounts were from the Tech Prep (10-11) program CFDA 84.243A from U. S. Department of Education through the Texas Higher Education Coordinating Board.

**ISD**

Aldine ISD	\$ 18,798
Alief ISD	7,843
Alvin ISD	3,327
Barbers Hill ISD	-
Brazosport ISD	1,700
Clear Creek ISD	19,607
Columbus ISD	1,765
Cypress-Fairbanks ISD	24,995
Danbury ISD	1,078
Dayton ISD	754
Deer Park ISD	8,038
Fort Bend ISD	28,934
Friendswood ISD	11,567
Galena Park ISD	7,488
Galveston ISD	1,739
Goose Creek ISD	6,374
Hitchcock ISD	510
Huffman ISD	-
Huntsville ISD	5,980
Katy ISD	21,182
Klein ISD	4,899
Lamar CISD	3,574
Magnolia ISD	558
Needville ISD	1,778
New Caney ISD	3,136
Pearland ISD	11,723
Santa Fe ISD	1,774
Sealy ISD	2,287
Spring ISD	21,910
Spring Branch ISD	12,241
Stafford MSD	850
Sweeny ISD	2,040
Tidehaven ISD	1,015
Waller ISD	1,140
Willis ISD	-

**Colleges**

Alvin CC	3,028
Brazosport College	2,014
College of the Mainland	122,996
HCCS	72,606
Lee College	28,564
Lone Star College	7,000
Wharton County Junior College	1,288
	<u>478,100</u>

These amounts were from NOV 10-11 Program CFDA 17.260 from the Department of Labor:

**Colleges**

Austin Community College	105,650
	<u>105,650</u>

TOTAL

\$ 583,750

LONE STAR COLLEGE SYSTEM  
 SCHEDULE OF EXPENDITURES OF STATE AWARDS  
 YEAR ENDED AUGUST 31, 2011

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>			
College Work - Study Program (10-11)	N/A	N/A	\$ 79,156
Total College Work - Study Program			<u>79,156</u>
Texas Grant Program (09-10)	N/A	N/A	1,188
Texas Grant Program (10-11)	N/A	N/A	446,508
Texas Grant Renewal Program (10-11)	N/A	N/A	56,070
Total Texas Grant Program			<u>503,766</u>
Texas Educational Opportunity Grant Program (10-11)	N/A	N/A	173,200
Texas Educational Opportunity Grant Renewal Program (10-11)	N/A	N/A	64,080
Total Texas Educational Opportunity Grant Program			<u>237,280</u>
Professional Nursing (09-10)	N/A	N/A	(1,000)
Professional Nursing (10-11)	N/A	N/A	52,889
Total Professional Nursing			<u>51,889</u>
Vocational Nursing (09-10)	N/A	N/A	100
Vocational Nursing (10-11)			1,780
Total Vocational Nursing			<u>1,880</u>
Fifth-Year Accounting (10-11)	N/A	N/A	21,621
Professional Nursing Shortage Reduction Program (09-10)	N/A	N/A	129,137
Professional Nursing Shortage Reduction Plan (10-11)	N/A	N/A	98,600
Total Professional Nursing Shortage Reduction Program			<u>227,737</u>
Nursing Shortage Reduction Plan - Over 70	N/A	N/A	1,194
Faculty Online Teaching	N/A	N/A	64,184
Developmental Education Demonstration Projects	N/A	4015	618,986
Intensive College Readiness Program	N/A	N/A	82,367
<b>Total Texas Higher Education Coordinating Board</b>			<u>\$ 1,890,060</u>

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

**LONE STAR COLLEGE SYSTEM**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
**YEAR ENDED AUGUST 31, 2011**

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>			
Lone Star College in Partnership with Godwin-SBO and Lectrus Corporation	N/A	2807SDF002	\$ 305,701
TSU-San Marcos Side M (Subaward)	N/A	N/A	15,423
TWC NOV	N/A	1510XSD000	120,100
TWC- T-3 Energy	N/A	2809SDF003	18,388
TWC Small Business	N/A	2810SSD002	13,003
TWC Tenaris	N/A	2809SDF000	221,237
<b>Total Texas Workforce Commission</b>			693,852
<b>TEXAS EDUCATION AGENCY:</b>			
<i>Direct Programs:</i>			
Adult Basic Education (09-10)	N/A	100100017110316	197,593
Adult Basic Education (10-11)	N/A	110100017110357	184,615
<b>Total Texas Education Agency</b>			382,208
<b>TEXAS COMPTROLLER OF PUBLIC ACCOUNTS:</b>			
<i>Direct Programs:</i>			
JET: Scholarship Program	N/A	N/A	206,958
JET: Job Building Fund	N/A	N/A	98,506
			305,464
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>			\$ 3,271,584

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

**LONE STAR COLLEGE SYSTEM  
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2011**

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

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

**2            State Assistance Reconciliation**

State Grants and Contracts (Schedule A)	\$	3,271,584
Reconciling items:		
None		-
Total expenditures per Schedule of State Awards	<u>\$</u>	<u>3,271,584</u>



## STATISTICAL SECTION

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

### Contents

#### Financial Trends

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

#### Revenue Capacity

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

#### Debt Capacity

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

#### Demographic and Economic Information

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

#### Operating Information

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

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

**Lone Star College System**  
**Statistical Supplement 1**  
**Net Assets by Component**  
**Fiscal Years 2002 to 2011**  
(unaudited)

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

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Invested in capital assets, net of related debt	\$190,949	\$178,172	\$153,534	\$139,813	\$119,598	\$105,149	\$88,362	\$79,699	\$81,262	\$79,681
Restricted - expendable	7,574	492	7,652	5,617	6,537	3,822	2,810	2,246	2,818	4,537
Restricted - nonexpendable	-	-	-	-	-	-	-	-	-	-
Unrestricted	47,563	45,022	45,996	47,832	40,506	37,603	29,486	26,525	21,283	19,133
<b>Total net assets</b>	<b>\$ 246,086</b>	<b>\$223,686</b>	<b>\$ 207,182</b>	<b>\$193,262</b>	<b>\$ 166,641</b>	<b>\$ 146,574</b>	<b>\$ 120,658</b>	<b>\$ 108,470</b>	<b>\$105,363</b>	<b>\$ 103,351</b>
Net increase in net assets	\$ 22,400	\$ 16,504	\$ 13,920	\$ 26,621	\$ 20,067	\$ 25,916	\$ 12,188	\$ 3,107	\$ 2,012	

**Lone Star College System**  
**Statistical Supplement 2**  
**Revenues by Source**  
**Fiscal Years 2002 to 2011**  
(unaudited)

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Tuition and Fees (Net of Discounts)	\$ 54,089	\$ 46,330	\$ 42,325	\$ 39,171	\$ 36,815	\$ 33,412	\$ 30,134	\$ 28,615	\$ 22,311	\$ 19,423
Governmental Grants and Contracts										
Federal Grants and Contracts	6,283	7,803	7,213	6,642	6,741	6,064	5,995	4,947	6,765	8,888
State Grants and Contracts	3,271	2,744	2,215	1,517	826	524	901	910	1,680	1,416
Local Grants and Contracts	5,791	3,656	3,388	3,895	3,876	8,098	3,172	2,978	4,778	2,624
Auxiliary enterprises	7,313	6,737	5,663	6,052	5,671	5,390	4,886	5,025	3,681	3,765
Other Operating Revenues	1,547	1,326	1,694	892	910	891	1,089	429	300	131
<b>Total Operating Revenues</b>	<u>\$ 78,294</u>	<u>\$ 68,596</u>	<u>\$ 62,498</u>	<u>\$ 58,169</u>	<u>\$ 54,839</u>	<u>\$ 54,379</u>	<u>\$ 46,177</u>	<u>\$ 42,904</u>	<u>\$ 39,515</u>	<u>\$ 36,247</u>
Ad Valorem Taxes:										
Maintenance and Operations	96,232	89,416	86,540	83,480	73,756	70,130	60,589	55,442	47,337	45,720
General Obligation Bonds	38,486	39,416	38,050	34,698	31,368	28,437	26,362	24,243	20,016	20,517
State Appropriations	73,405	74,594	71,148	72,000	62,750	62,266	54,697	53,998	46,501	48,744
Federal Revenue, Non-Operating	73,147	50,747	23,243	18,599	17,118	17,965	18,290	16,443	11,603	9,659
Investment income	732	967	3,434	3,961	4,477	2,540	1,111	1,204	2,099	2,538
Other non-operating revenues	3,868	4,601	1,120	1,379	1,320	1,395	655	618	539	2,284
<b>Total Non-Operating Revenues</b>	<u>285,870</u>	<u>259,741</u>	<u>223,535</u>	<u>214,117</u>	<u>190,789</u>	<u>182,733</u>	<u>161,704</u>	<u>151,948</u>	<u>128,095</u>	<u>129,462</u>
<b>Total Revenues</b>	<u>\$ 364,164</u>	<u>\$ 328,337</u>	<u>\$ 286,033</u>	<u>\$ 272,286</u>	<u>\$ 245,628</u>	<u>\$ 237,112</u>	<u>\$ 207,881</u>	<u>\$ 194,852</u>	<u>\$ 167,610</u>	<u>\$ 165,709</u>

Statistical Supplement 2 (Cont)

	For the Year Ended August 31,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Tuition and Fees (Net of Discounts)	14.85%	14.11%	14.80%	14.39%	14.99%	14.09%	14.50%	14.69%	13.31%	11.72%
Governmental Grants and Contracts										
Federal Grants and Contracts	1.73%	2.38%	2.52%	2.44%	2.74%	2.56%	2.88%	2.54%	4.04%	5.36%
State Grants and Contracts	0.90%	0.84%	0.77%	0.56%	0.34%	0.22%	0.43%	0.47%	1.00%	0.85%
Local Grants and Contracts	1.59%	1.11%	1.18%	1.43%	1.58%	3.42%	1.53%	1.53%	2.85%	1.58%
Auxiliary enterprises	2.01%	2.05%	1.98%	2.22%	2.31%	2.27%	2.35%	2.58%	2.20%	2.27%
Other Operating Revenues	0.42%	0.40%	0.59%	0.33%	0.37%	0.38%	0.51%	0.22%	0.18%	0.08%
<b>Total Operating Revenues</b>	<b>21.50%</b>	<b>20.89%</b>	<b>21.85%</b>	<b>21.37%</b>	<b>22.33%</b>	<b>22.93%</b>	<b>22.20%</b>	<b>22.02%</b>	<b>23.58%</b>	<b>21.87%</b>
Ad Valorem Taxes:										
Maintenance and Operations	26.43%	27.23%	30.26%	30.66%	30.03%	29.58%	29.15%	28.45%	28.24%	27.59%
General Obligation Bonds	10.57%	12.00%	13.30%	12.74%	12.77%	11.99%	12.68%	12.44%	11.94%	12.38%
State Appropriations	20.16%	22.72%	24.87%	26.44%	25.55%	26.26%	26.31%	27.71%	27.74%	29.42%
Federal Revenue, Non-Operating	20.09%	15.46%	8.13%	6.83%	6.97%	7.58%	8.80%	8.44%	6.92%	5.83%
Investment income	0.20%	0.29%	1.20%	1.45%	1.82%	1.07%	0.53%	0.62%	1.25%	1.53%
Other non-operating revenues	1.06%	1.40%	0.39%	0.51%	0.53%	0.59%	0.33%	0.32%	0.32%	1.38%
<b>Total Non-Operating Revenues</b>	<b>78.50%</b>	<b>79.11%</b>	<b>78.15%</b>	<b>78.63%</b>	<b>77.67%</b>	<b>77.07%</b>	<b>77.80%</b>	<b>77.98%</b>	<b>76.42%</b>	<b>78.13%</b>
<b>Total Revenues</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Lone Star College System**  
**Statistical Supplement 3**  
**Program Expenses by Function**  
**Fiscal Years 2002 to 2011**  
(unaudited)

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Instruction	\$ 104,578	\$ 99,673	\$ 92,039	\$ 88,102	\$ 81,585	\$ 77,225	\$ 69,557	\$ 71,587	\$ 63,503	\$ 54,145
Research	-	-	-	-	-	-	-	-	-	-
Public service	1,252	1,805	1,757	1,510	1,475	1,475	1,324	1,408	2,146	2,455
Academic support	47,497	44,995	44,796	36,140	31,411	29,010	25,892	16,270	19,319	15,096
Student services	30,101	29,942	24,065	18,469	16,705	15,551	13,947	12,770	13,101	11,557
Institutional support	29,908	30,207	27,105	33,961	30,898	28,571	28,728	26,468	18,687	19,831
Operation and maintenance of plant	36,497	35,753	38,258	31,868	27,362	23,665	20,843	23,262	20,705	8,481
Scholarships and fellowships	51,120	33,743	14,092	10,662	10,392	9,341	10,716	11,060	6,795	8,526
Auxiliary enterprises	5,748	5,297	4,952	5,696	5,304	5,132	4,796	4,345	3,326	3,726
Depreciation	12,666	10,682	9,369	8,492	8,825	8,702	8,459	7,389	7,995	4,613
<b>Total Operating Expenses</b>	<b>\$ 319,367</b>	<b>\$ 292,097</b>	<b>\$ 256,433</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	20,959	19,731	15,582	10,419	11,359	12,518	11,431	11,728	8,330	9,151
Loss on disposal of fixed assets	1,439	5	97	347	245	6	-	-	1,691	-
<b>Total Non-Operating Expenses</b>	<b>22,398</b>	<b>19,736</b>	<b>15,679</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>\$ 341,765</b>	<b>\$ 311,833</b>	<b>\$ 272,112</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>

Statistical Supplement 3 (Cont)

	For the Year Ended August 31,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Instruction	30.60%	31.96%	33.83%	35.87%	36.16%	36.57%	35.54%	38.43%	38.35%	39.35%
Research	-	-	-	-	-	-	-	-	-	-
Public service	0.37%	0.58%	0.65%	0.61%	0.65%	0.70%	0.68%	0.76%	1.30%	1.78%
Academic support	13.90%	14.43%	16.46%	14.71%	13.93%	13.74%	13.23%	8.73%	11.67%	10.97%
Student services	8.81%	9.60%	8.84%	7.52%	7.41%	7.36%	7.13%	6.86%	7.91%	8.40%
Institutional support	8.75%	9.69%	9.96%	13.82%	13.70%	13.53%	14.68%	14.21%	11.28%	14.41%
Operation and maintenance of plant	10.67%	11.46%	14.05%	12.97%	12.13%	11.21%	10.65%	12.49%	12.50%	6.16%
Scholarships and fellowships	14.96%	10.82%	5.18%	4.34%	4.61%	4.42%	5.48%	5.94%	4.10%	6.20%
Auxiliary enterprises	1.68%	1.70%	1.82%	2.32%	2.35%	2.43%	2.45%	2.33%	2.01%	2.71%
Depreciation	3.71%	3.43%	3.44%	3.46%	3.91%	4.12%	4.32%	3.97%	4.83%	3.35%
<b>Total Operating Expenses</b>	<b>93.45%</b>	<b>93.67%</b>	<b>94.23%</b>	<b>95.62%</b>	<b>94.85%</b>	<b>94.07%</b>	<b>94.16%</b>	<b>93.70%</b>	<b>93.95%</b>	<b>93.35%</b>
Interest on capital related debt	6.13%	6.33%	5.73%	4.24%	5.04%	5.93%	5.84%	6.30%	5.03%	6.65%
Loss on disposal of fixed assets	0.42%	0.00%	0.04%	0.14%	0.11%	-	-	-	1.02%	-
<b>Total Non-Operating Expenses</b>	<b>6.55%</b>	<b>6.33%</b>	<b>5.77%</b>	<b>4.38%</b>	<b>5.15%</b>	<b>5.93%</b>	<b>5.84%</b>	<b>6.30%</b>	<b>6.05%</b>	<b>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>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

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

Academic Year (Fall)	Registration Fee (per student)	Resident Fees per Semester Credit Hour (SCH)									
		In-District Tuition	Out-of-District Tuition	Technology Fees	Student Activity Fees	General Use Fee	Infrastructure Fee (per semester)	Cost for 12 SCH In-District	Cost for 12 SCH Out-of-District	Increase from Prior Year In-District	Increase from Prior Year Out-of-District
2011	\$12	\$40	\$110	\$7	\$2	\$7	\$20	\$704	\$1,544	17.33%	7.22%
2010	12	38	108	7	2	2		600	1,440	0.00%	0.00%
2009	12	38	108	7	2	2		600	1,440	6.38%	12.15%
2008	12	36	96	6	2	2		564	1,284	4.44%	25.88%
2007	12	36	76	6	2			540	1,020	0.00%	0.00%
2006	12	36	76	6	2			540	1,020	9.76%	4.94%
2005	12	32	72	6	2			492	972	0.00%	0.00%
2004	12	32	72	6	2			492	972	13.89%	6.58%
2003	12	28	68	5	2			432	912	12.50%	5.56%
2002	12	26	66	5	0			384	864		

Academic Year (Fall)	Registration Fee (per student)	Non-Resident Fees per Semester Credit Hour (SCH)									
		In-District Tuition	Out-of-District Tuition	Technology Fees	Student Activity Fees	General Use Fee	Infrastructure Fee (per semester)	Cost for 12 SCH Out of State	Cost for 12 SCH International	Increase from Prior Year In-District	Increase from Prior Year Out-of-District
2011	\$12	\$125	\$125	\$7	\$2	\$7	\$20	\$1,724	\$1,724	6.42%	6.42%
2010	12	123	123	7	2	2		1,620	1,620	0.00%	0.00%
2009	12	123	123	7	2	2		1,620	1,620	10.66%	10.66%
2008	12	111	111	6	2	2		1,464	1,464	22.00%	22.00%
2007	12	91	91	6	2			1,200	1,200	0.00%	0.00%
2006	12	91	91	6	2			1,200	1,200	4.17%	4.17%
2005	12	87	87	6	2			1,152	1,152	0.00%	0.00%
2004	12	87	87	6	2			1,152	1,152	5.49%	5.49%
2003	12	83	83	5	2			1,092	1,092	4.60%	4.60%
2002	12	81	81	5	0			1,044	1,044		

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

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

Fiscal Year	(amounts expressed in thousands)			Ratio of Taxable Assessed Value to Assessed Value	Direct Rate		
	Assessed Valuation of Property	Less: Exemptions	Taxable Assessed Value (TAV)		Maintenance & Operations (a)	Debt Service (a)	Total (a)
2010-11	\$ 124,218,962	\$ (8,525,498)	\$ 115,693,464	93.14%	\$ 0.0841	\$ 0.0335	\$ 0.1176
2009-10	126,352,009	(8,422,514)	117,929,495	93.33%	0.0766	0.0335	0.1101
2008-09	122,354,425	(9,679,185)	112,675,240	92.09%	0.0766	0.0335	0.1101
2007-08	110,258,237	(6,990,029)	103,268,208	93.66%	0.0809	0.0335	0.1144
2006-07	96,720,584	(6,573,726)	90,146,858	93.20%	0.0820	0.0347	0.1167
2005-06	87,974,128	(6,037,955)	81,936,173	93.14%	0.0860	0.0347	0.1207
2004-05	82,601,478	(7,311,588)	75,289,890	91.15%	0.0798	0.0347	0.1145
2003-04	75,893,959	(6,295,666)	69,598,293	91.70%	0.0798	0.0347	0.1145
2002-03	67,901,932	(4,063,296)	63,838,636	94.02%	0.0742	0.0313	0.1055
2001-02	62,474,553	(3,964,601)	58,509,952	93.65%	0.0760	0.0340	0.1100

Source: Montgomery and Harris County Appraisal Districts.

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

(a) per \$100 Taxable Assessed Valuation

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

Fiscal Year	Appropriation per FTSE			Appropriation per Contact Hour			
	State	FTSE (a)	State	(hours expressed in thousands)			State
	Appropriation (expressed in thousands)		Appropriation per FTSE	Academic Contact Hours (b)	Voc/Tech Contact Hours (c)	Total Contact Hours	Appropriation per Contact Hour
2010-11	\$ 73,405	42,255	\$ 1,737	7,287	195	7,482	\$ 9.81
2009-10	74,594	32,124	2,322	7,692	183	7,875	9.47
2008-09	71,148	28,358	2,509	6,821	199	7,020	10.14
2007-08	72,001	27,168	2,650	6,592	153	6,745	10.67
2006-07	62,750	25,688	2,443	6,229	182	6,411	9.79
2005-06	62,266	25,269	2,464	6,160	236	6,396	9.74
2004-05	54,697	23,348	2,343	5,750	154	5,904	9.26
2003-04	53,997	22,114	2,442	5,649	193	5,842	9.24
2002-03	46,501	20,552	2,263	5,097	210	5,307	8.76
2001-02	48,744	18,706	2,606	4,599	223	4,822	10.11

Source

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

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

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

Taxpayer	Type of Business	Taxable Assessed Value (TAV) by Tax Year (amounts expressed in thousands)													
		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001				
National Oilwell Inc.	Oil and Gas	\$ 1,029,299	\$ 542,361	\$ 344,584											
Hewlett Packard	Manufacturing	773,400	951,681	851,026	1,070,242	717,813	612,508	328,867	259,341						
Centerpoint Energy Inc	Utility	607,492	631,661	634,424	629,973	669,281	627,004	665,897	604,808						
Walmart	Retail	532,664	562,119	540,093	512,420	272,154	194,673	231,324	245,454						
Halliburton	Oil and Gas	243,305	251,237	264,056						178,640	156,242				
Continental Airlines Inc	Airline	234,462			190,396	190,101	218,579	218,060	197,419						212,018
Smith International	Oil and Gas	227,655	254,117	235,543											
LeTourneau Technologies	Oil and Gas	226,670	282,033												
Comcast of Houston LLC	Utility	218,045													
Hines Interests Ltd Psp	Real Estate	215,407	234,733	286,343	248,302	226,654	211,493	190,395	214,578						206,790
Houston Pipeline Co LP	Utility		355,074	324,603	253,573	525,621	368,197								
Baker Huges	Oil and Gas		244,222												
Schlumberger Technology	Oil and Gas			269,686		-	-	-							
AT&T/Southwestern Bell	Utility			236,936	348,855	254,770	260,074	243,006							365,921
Nabors Drilling USA LP	Oil and Gas				507,533										
Express Jet Airlines Inc	Airline				200,909										
Exxon Mobil Corp	Oil and Gas				198,660	174,024	127,130								137,282
Wal-Mart Real Estate Bus Trst	Real Estate					220,261									
HEB Grocery Co LP	Retail grocer					158,170									
Texas Cable Partners LP	Utility						136,543								
Wachovia Develop Corp	Real Estate						136,277								
Woodlands Land Dev LP	Real Estate								248,881	248,881	302,183	250,185			
AEP Energy Services, Inc	Utility								185,355		126,266				
Gulf States Utilities	Utility								143,586	143,585	141,063	139,439			
First Security Bank, Trustee	Other								136,277						
Compaq	Manufacturing										202,282	538,611	859,405		
BAM Lease Company	Property Management										160,887	168,148			
Houston Lighting & Power	Utility											532,028	569,840		
Enron Corporation	Conglomerate													222,394	
Weingarten Realty	Real Estate											131,219	109,772		
Greenspoint Plaza Ltd	Property Management												186,453		
	Totals	\$ 4,308,399	\$ 4,309,238	\$ 3,987,294	\$ 4,160,863	\$ 3,408,849	\$ 2,892,478	\$ 2,591,648	\$ 2,455,875	\$ 2,282,213	\$ 3,073,046				
	Total Taxable Assessed Value	\$ 115,693,464	\$ 117,929,495	\$ 112,675,240	\$ 103,268,208	\$ 90,146,858	\$ 81,936,173	\$ 75,289,890	\$ 69,598,293	\$ 63,838,636	\$ 58,509,952				

Statistical Supplement 7 (Cont)

Taxpayer	Type of Business	% of Taxable Assessed Value (TAV) by Tax Year									
		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
National Oilwell Inc	Oil and Gas	0.89%	0.46%	0.31%							
Hewlett Packard	Manufacturing	0.67%	0.81%	0.76%	1.04%	0.80%	0.75%	0.44%	0.37%		
Centerpoint Energy Inc	Utility	0.53%	0.54%	0.56%	0.61%	0.74%	0.77%	0.88%	0.87%		
Walmart	Retail	0.46%	0.48%	0.48%	0.50%	0.30%	0.24%	0.31%	0.35%		
Halliburton	Oil and Gas	0.21%	0.21%	0.23%					0.26%	0.24%	
Continental Airlines Inc	Airline	0.20%			0.18%	0.21%	0.27%	0.29%	0.28%		0.36%
Smith International	Oil and Gas	0.20%	0.22%	0.21%							
LeTourneau Technologies	Oil and Gas	0.20%	0.24%								
Comcast of Houston LLC	Utility	0.19%									
Hines Interests Ltd Psp	Real Estate	0.19%	0.20%	0.25%	0.24%	0.25%	0.26%	0.25%	0.31%		0.35%
Houston Pipeline Co LP	Utility		0.30%	0.29%	0.25%	0.58%	0.45%				
Baker Huges	Oil and Gas		0.21%								
Schlumberger Technology	Oil and Gas			0.24%							
AT&T/Southwestern Bell	Utility			0.21%	0.34%	0.28%	0.32%	0.32%			0.63%
Nabors Drilling USA LP	Oil and Gas				0.49%						
Express Jet Airlines Inc	Airline				0.19%						
Exxon Mobil Corp	Oil and Gas				0.19%	0.19%	0.16%	-			0.23%
Wal-Mart Real Estate Bus Trst	Real Estate					0.24%					
HEB Grocery Co LP	Retail grocer					0.18%					
Texas Cable Partners LP	Utility						0.17%				
Wachovia Develop Corp	Real Estate						0.17%				
Woodlands Land Dev LP	Real Estate							0.33%	0.36%	0.47%	0.43%
AEP Energy Services, Inc	Utility							0.25%	-	0.20%	
Gulf States Utilities	Utility							0.19%	0.21%	0.22%	0.24%
First Security Bank, Trustee	Other							0.18%			
Compaq	Manufacturing								0.29%	0.84%	1.47%
BAM Lease Company	Property Management								0.23%	0.26%	
Houston Lighting & Power	Utility									0.83%	0.97%
Enron Corporation	Conglomerate										0.38%
Weingarten Realty	Real Estate									0.21%	0.19%
Greenspoint Plaza Ltd	Property Management									0.29%	
		3.72%	3.65%	3.54%	4.03%	3.78%	3.53%	3.44%	3.53%	3.57%	5.25%

Source: Harris County and Montgomery County Appraisal Districts

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

Fiscal Year Ended August 31	Levy (a)	Cumulative Adjustments	Adjusted Tax Levy (b)	Tax Levy	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
2011	\$ 121,564	\$ 14,359	\$ 135,923	\$ 133,207	\$ 133,207	98.00%	\$ 1,679	\$ 1,257	\$ 136,143	100.16%
2010	115,096	14,436	129,532	126,317	126,317	97.52%	2,292	1,228	129,837	100.24%
2009	110,518	13,297	123,815	122,271	122,271	98.75%	-	-	122,271	98.75%
2008	105,100	13,039	118,139	114,588	114,588	96.99%	-	-	114,588	96.99%
2007	91,528	13,673	105,201	102,060	102,060	97.01%	-	-	102,060	97.01%
2006	91,695	5,876	97,571	94,882	94,882	97.24%	-	1,769	96,651	99.06%
2005	78,300	7,830	86,130	83,765	83,765	97.25%	1,387	381	85,533	99.31%
2004	74,477	5,173	79,650	77,593	77,593	97.42%	1,407	189	79,189	99.42%
2003	67,075	1,025	68,100	64,734	64,734	95.06%	2,864	121	67,719	99.44%
2002	60,906	3,905	64,811	62,478	62,478	96.40%	1,935	100	64,513	99.54%

Source: Local Tax Assessor/Collector and System records.

(a) per original certified tax levy.

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

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

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

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

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

	For the Year Ended August 31 (amounts expressed in thousands)									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>General Bonded Debt</b>										
General obligation bonds	\$ 523,011	\$ 538,108	\$ 283,232	\$ 155,503	\$ 184,419	\$ 203,905	\$ 220,639	\$ 236,164	\$ 212,193	\$ 222,729
Notes	-	-	-	-	-	-	-	-	-	-
Less: Funds restricted for debt service	-	-	-	-	-	-	-	-	-	-
Net general bonded debt	\$ 523,011	\$ 538,108	\$ 283,232	\$ 155,503	\$ 184,419	\$ 203,905	\$ 220,639	\$ 236,164	\$ 212,193	\$ 222,729
<b>Other Debt</b>										
Revenue bonds	\$ 46,708	\$ 48,997	\$ 51,240	\$ 53,488	\$ 55,296	\$ 26,540	\$ 27,992	\$ 29,408	\$ 21,600	\$ 12,835
Maintenance Tax Notes	32,386	32,480	-	-	-	-	-	-	-	-
Capital lease obligations	-	-	-	-	-	-	-	-	-	-
Total Outstanding Debt	\$ 602,105	\$ 619,585	\$ 334,472	\$ 208,991	\$ 239,715	\$ 230,445	\$ 248,631	\$ 265,572	\$ 233,793	\$ 235,564

**General Bonded Debt Ratios**

Per Capita	\$ 238.40	\$ 245.29	\$ 129.11	\$ 70.88	\$ 84.06	\$ 92.95	\$ 100.57	\$ 107.65	\$ 96.72	\$ 101.53
Per FTSE	12,290	15,041	9,988	5,724	7,179	8,069	9,450	10,679	10,325	11,907
As a percentage of Taxable Assessed <sup>1</sup>	0.51%	0.52%	0.27%	0.15%	0.20%	0.25%	0.29%	0.34%	0.33%	0.38%

**Total Outstanding Debt Ratios**

Per Capita	\$ 406.83	\$ 418.64	\$ 225.99	\$ 141.21	\$ 161.97	\$ 155.71	\$ 167.99	\$ 179.44	\$ 157.97	\$ 159.16
Per FTSE	14,149	17,318	11,795	7,693	9,332	9,120	10,649	12,009	11,376	12,593
As a percentage of Taxable Assessed <sup>1</sup>	0.58%	0.60%	0.32%	0.20%	0.27%	0.28%	0.33%	0.38%	0.37%	0.40%

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

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

	For the Year Ended August 31 (amounts expressed in thousands)									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Taxable Assessed Value	\$ 115,693,464	\$ 117,929,495	\$ 112,675,240	\$ 103,268,207	\$ 90,146,858	\$ 81,936,173	\$ 75,289,890	\$ 69,598,293	\$ 63,838,636	\$ 58,509,952
<b>General Obligation Bonds</b>										
Statutory Tax Levy Limit for Debt Service	\$ 578,467	\$ 589,647	\$ 563,376	\$ 516,341	\$ 450,734	\$ 409,681	\$ 376,449	\$ 347,991	\$ 319,193	\$ 292,550
Less: Funds Restricted for Repayment of General Obligation Bonds	(9,133)	(6)	(7,166)	(5,131)	(6,051)	(3,337)	(2,324)	(1,760)	(2,453)	(2,817)
Total Net General Obligation Debt	569,334	589,641	556,210	511,210	444,683	406,344	374,125	346,231	316,740	289,733
Current Year Debt Service Requirements	47,201	46,679	36,300	31,836	30,107	28,809	26,854	22,780	21,136	21,010
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 522,133	\$ 542,962	\$ 519,910	\$ 479,374	\$ 414,576	\$ 377,535	\$ 347,271	\$ 323,451	\$ 295,604	\$ 268,723
Net Current Requirements as a % of Statutory Lim	6.58%	7.92%	5.17%	5.17%	5.34%	6.22%	6.52%	6.04%	5.85%	6.22%

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

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

**Revenue Bonds**

Fiscal Year Ended August 31	Pledged Revenues (amounts expressed in thousands)									Debt Service Requirements (amounts expressed in thousands)			
	Tuition	Technology and Other Fees	General Fees	Laboratory Fees	Community Education Fees	Interest Income	Vending Commission	Bookstore Commission	Total	Principal	Interest	Total	Coverage Ratio
2011	\$ 10,291	\$ 13,869	\$ 5,872	\$ 1,187	\$ 7,256	\$ 339	\$ 377	\$ 2,496	\$ 41,688	\$ 2,280	\$ 3,779	\$ 6,059	6.88
2010	9,517	11,836	1,687	1,416	6,158	320	166	2,318	33,418	2,235	2,308	4,543	7.36
2009	7,381	8,942	1,416	937	5,601	836	333	2,029	27,474	2,240	2,394	4,634	5.93
2008	6,846	6,637	1,351	899	5,936	1,696	329	1,654	25,348	1,808	2,817	4,625	5.48
2007	6,528	5,403	1,269	855	6,322	2,304	293	1,579	24,553	1,346	1,179	2,525	9.72
2006	6,160	4,772	1,222	882	5,964	1,415	242	1,507	22,164	1,451	1,222	2,673	8.29
2005	6,697	4,465	1,157	834	5,933	689	255	1,345	21,375	1,416	1,266	2,682	7.97
2004	6,184	4,157	1,061	697	5,012	645	241	1,789	19,786	1,938	995	2,933	6.75
2003	3,796	3,172	986	619	4,903	570	192	969	15,207	1,310	666	1,976	7.70
2002	1,021	2,841	877	578	4,466	564	319	842	11,508	1,240	730	1,970	5.84

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

Fiscal Year	District Population (a)	District Personal Income (thousands of dollars)	District Personal Income Per Capita (b)	District Unemployment Rate (d)
2011	2,402,202	\$130,999,282	\$ 54,533 (c)	8.6%
2010	2,193,792	114,483,036	52,185 (c)	8.8%
2009	1,983,113	99,032,697	49,938 (c)	8.3%
2008	1,500,000	71,682,000	47,788	8.3%
2007	1,480,000	68,060,760	45,987	4.1%
2006	1,440,000	66,183,840	45,961	5.0%
2005	1,406,264	60,785,761	43,225	5.3%
2004	1,369,371	54,298,299	39,652	6.2%
2003	1,333,474	49,063,842	36,794	7.2%
2002	1,298,518	46,716,782	35,977	5.9%

**Sources:**

- (a) District estimate. 2002 includes annexation of Cypress Fairbanks ISD and Magnolia ISD.
- (b) U.S. Department of Commerce Bureau of Economic Analysis, Local Area BEARFACTS by SMSA/FIPS Code for Harris County, Texas.  
New estimates for 2008 and revisions for 1999-2007 were released on April 22, 2010
- (c) Estimated using average increase in per capita income 1999-2008 of 4.5%
- (d) U.S. Bureau of Labor Statistics, Metropolitan Area Employment and Unemployment, Sept. 2011

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

Principal Employment Sectors (a)	2009 (b)		2001 (b)	
	Number of Employees	Percentage of Total Employment	Number of Employees	Percentage of Total Employment
State and local	427,665	10.94%	376,255	11.17%
Retail trade	371,162	9.50%	356,622	10.59%
Construction	327,608	8.38%	271,022	8.05%
Health care and social assistance	300,912	7.70%	237,563	7.05%
Professional, scientific, and technical services	295,684	7.57%	244,541	7.26%
Manufacturing	275,791	7.06%	289,970	8.61%
Administrative and waste services	258,141	6.61%	215,071	6.39%
Accommodation and food services	257,545	6.59%	203,885	6.05%
Other services, except public administration	221,197	5.66%	193,435	5.74%
Finance and insurance	189,181	4.84%	143,967	4.27%
<b>Total</b>	<b>2,924,886</b>	<b>74.85%</b>	<b>2,532,331</b>	<b>75.19%</b>
<b>Total Employment</b>	<b>3,907,798</b>		<b>3,367,964</b>	

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 2009 year and the earliest year available that is comparable is the 2001 year.

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

		Fiscal Year									
		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Faculty</b>											
	Full-Time	742	780	756	761	704	661	646	605	532	471
	Part-Time	1,900	2,271	2,118	1,923	1,910	1,799	1,636	1,557	1,272	1,130
	<b>Total</b>	<b>2,642</b>	<b>3,051</b>	<b>2,874</b>	<b>2,684</b>	<b>2,614</b>	<b>2,460</b>	<b>2,282</b>	<b>2,162</b>	<b>1,804</b>	<b>1,601</b>
<b>Percent</b>											
	Full-Time	28.1%	25.6%	26.3%	28.4%	26.9%	26.9%	28.3%	28.0%	29.5%	29.4%
	Part-Time	71.9%	74.4%	73.7%	71.6%	73.1%	73.1%	71.7%	72.0%	70.5%	70.6%
<b>Staff and Administrators</b>											
	Full-Time	1,431	1,408	1,340	1,263	1,214	1,187	1,142	1,091	940	852
	Part-Time	1,297	1,334	1,472	1,480	1,260	1,078	1,064	894	895	778
	<b>Total</b>	<b>2,728</b>	<b>2,742</b>	<b>2,812</b>	<b>2,743</b>	<b>2,474</b>	<b>2,265</b>	<b>2,206</b>	<b>1,985</b>	<b>1,835</b>	<b>1,630</b>
<b>Percent</b>											
	Full-Time	52.5%	51.3%	47.7%	46.0%	49.1%	52.4%	51.8%	55.0%	51.2%	52.3%
	Part-Time	47.5%	48.7%	52.3%	54.0%	50.9%	47.6%	48.2%	45.0%	48.8%	47.7%
FTSE per Full-time Faculty		52.69	45.87	33.98	33.76	36.49	38.23	36.14	36.55	38.63	39.72
FTSE per Full-Time Staff Member		27.32	25.41	19.17	20.34	21.16	21.29	20.44	20.27	21.86	21.96
Average Annual Faculty Salary		\$ 65,321	\$ 65,012	\$ 65,301	\$ 62,755	\$ 61,426	\$ 58,424	\$ 58,090	\$ 56,738	\$ 57,252	\$ 56,877

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

Student Classification	Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
00-30 hours	33,296	48.02%	35,171	58.95%	22,237	48.52%	28,830	65.80%	23,372	56.73%	24,543	60.93%
31-60 hours	20,895	30.13%	13,039	21.86%	11,758	25.66%	8,383	19.13%	10,107	24.53%	10,002	24.83%
> 60 hours	15,148	21.85%	11,449	19.19%	11,835	25.82%	6,603	15.07%	7,721	18.74%	5,736	14.24%
<b>Total</b>	<b>69,339</b>	<b>100.00%</b>	<b>59,659</b>	<b>100.00%</b>	<b>45,830</b>	<b>100.00%</b>	<b>43,816</b>	<b>100.00%</b>	<b>41,200</b>	<b>100.00%</b>	<b>40,281</b>	<b>100.00%</b>

Semester Hour Load	Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than 3	702	1.01%	232	0.39%	246	0.54%	218	0.50%	223	0.54%	227	0.56%
3-5 semester hours	13,089	18.88%	11,974	20.07%	10,941	23.87%	10,301	23.51%	9,669	23.47%	9,142	22.70%
6-8 Semester hours	17,940	25.87%	15,455	25.91%	11,669	25.46%	11,110	25.36%	10,254	24.89%	10,308	25.59%
9-11 semester hours	13,851	19.98%	11,442	19.18%	8,514	18.58%	8,309	18.96%	7,716	18.73%	7,589	18.84%
12-14 semester hours	19,948	28.77%	16,917	28.36%	12,053	26.30%	11,541	26.34%	11,206	27.20%	10,938	27.15%
15-17 semester hours	3,377	4.87%	3,213	5.39%	2,185	4.77%	2,161	4.93%	1,955	4.75%	1,921	4.77%
18 & over	432	0.62%	426	0.71%	222	0.48%	176	0.40%	177	0.43%	156	0.39%
<b>Total</b>	<b>69,339</b>	<b>100.00%</b>	<b>59,659</b>	<b>100.00%</b>	<b>45,830</b>	<b>100.00%</b>	<b>43,816</b>	<b>100.00%</b>	<b>41,200</b>	<b>100.00%</b>	<b>40,281</b>	<b>100.00%</b>

Average course load                      8.7                      8.4                      8.7                      8.7                      8.8                      8.6

Tuition Status	Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Texas Resident (in-District)	61,054	88.05%	54,138	90.75%	41,477	90.50%	38,948	88.89%	36,873	89.50%	36,285	90.08%
Texas Resident (out-of-District)	4,839	6.98%	3,965	6.65%	2,951	6.44%	3,481	7.94%	3,093	7.51%	3,002	7.45%
Non-Resident Tuition	3,446	4.97%	1,556	2.61%	1,402	3.06%	1,387	3.17%	1,234	3.00%	994	2.47%
<b>Total</b>	<b>69,339</b>	<b>100.00%</b>	<b>59,659</b>	<b>100.00%</b>	<b>45,830</b>	<b>100.00%</b>	<b>43,816</b>	<b>100.00%</b>	<b>41,200</b>	<b>100.00%</b>	<b>40,281</b>	<b>100.00%</b>



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

	Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Gender												
Female	42,187	70.71%	35,925	60.22%	27,545	60.10%	26,351	60.14%	24,791	60.17%	24,218	60.12%
Male	27,152	45.51%	23,734	39.78%	18,285	39.90%	17,465	39.86%	16,409	39.83%	16,063	39.88%
Total	69,339	100.00%	59,659	100.00%	45,830	100.00%	43,816	100.00%	41,200	100.00%	40,281	100.00%

Ethnic Origin	Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	29,788	42.96%	27,244	45.67%	21,587	47.10%	21,824	49.81%	21,496	52.17%	22,268	55.28%
Hispanic	18,317	26.42%	15,170	25.43%	5,381	11.74%	10,455	23.86%	9,103	22.09%	8,109	20.13%
African American	10,598	15.28%	8,239	13.81%	11,520	25.14%	4,956	11.31%	4,626	11.23%	4,572	11.35%
Asian	4,784	6.90%	4,076	6.83%	3,013	6.57%	2,804	6.40%	2,558	6.21%	2,422	6.01%
Foreign		0.00%	735	1.23%	178	0.39%	753	1.72%	847	2.06%	820	2.04%
Native American	321	0.46%	274	0.46%	758	1.65%	173	0.39%	136	0.33%	148	0.37%
Other	5,531	7.98%	3,921	6.57%	3,393	7.40%	2,851	6.51%	2,434	5.91%	1,942	4.82%
Total	69,339	100.00%	59,659	100.00%	45,830	100.00%	43,816	100.00%	41,200	100.00%	40,281	100.00%

Age	Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 20	22,769	26.31%	12,380	20.75%	16,769	36.59%	16,644	37.99%	15,499	37.62%	14,598	36.24%
20-24	22,029	36.07%	24,654	41.32%	14,969	32.66%	13,881	31.68%	13,231	32.11%	13,075	32.46%
25-29	9,292	14.16%	9,086	15.23%	5,435	11.86%	5,054	11.53%	4,596	11.16%	4,643	11.53%
30-39	9,417	14.50%	8,269	13.86%	5,204	11.36%	4,888	11.16%	4,665	11.32%	4,604	11.43%
40-49	4,203	6.47%	3,710	6.22%	2,497	5.45%	2,464	5.62%	2,353	5.71%	2,469	6.13%
50 & over	1,629	2.49%	1,560	2.61%	956	2.09%	885	2.02%	856	2.08%	892	2.21%
Total	69,339	100.00%	59,659	100.00%	45,830	100.00%	43,816	100.00%	41,200	100.00%	40,281	100.00%

Average Age	24.8	25.6	25.2	23.6	24.1	24.5
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Source: ORIE Current Day Fall 2011

Statistical Supplement 16 (Continued)

Gender	Fall 2004		Fall 2003		Fall 2002		Fall 2001	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Female	22,489	61.04%	21,102	60.75%	19,323	60.46%	16,760	59.85%
Male	14,353	38.96%	13,632	39.25%	12,635	39.54%	11,243	40.15%
Total	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%

Ethnic Origin	Fall 2004		Fall 2003		Fall 2002		Fall 2001	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	21,128	57.35%	20,816	59.93%	19,642	61.46%	17,908	63.95%
Hispanic	7,033	19.09%	6,188	17.82%	5,329	16.68%	4,439	15.85%
African American	4,185	11.36%	3,843	11.06%	3,373	10.55%	2,945	10.52%
Asian	2,058	5.59%	1,900	5.47%	1,906	5.96%	1,528	5.46%
Foreign	733	1.99%	671	1.93%	645	2.02%	383	1.37%
Native American	158	0.43%	145	0.42%	131	0.41%	126	0.45%
Other	1,547	4.20%	1,171	3.37%	932	2.92%	674	2.41%
Total	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%

Age	Fall 2004		Fall 2003		Fall 2002		Fall 2001	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 20	13,017	35.33%	12,226	35.20%	12,000	37.55%	10,310	36.82%
20-24	11,979	32.51%	10,979	31.61%	9,731	30.45%	8,579	30.64%
25-29	4,238	11.50%	3,916	11.27%	3,459	10.82%	2,967	10.60%
30-39	4,415	11.98%	4,213	12.13%	3,693	11.56%	3,357	11.99%
40-49	2,384	6.47%	2,477	7.13%	2,233	6.99%	2,084	7.44%
50 & over	809	2.20%	923	2.66%	842	2.63%	706	2.52%
Total	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%

Average Age	24.6	24.9	24.7	24.9
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**Lone Star College System**  
**Statistical Supplement 17**  
**Transfers to Senior Institutions**  
**(Includes only public senior colleges in Texas)**  
(unaudited)

	Transfer Student Count Academic	Transfer Student Count Technical	Transfer Student Count Tech-Prep	Total of all Lone Star Transfer Students	% of all Lone Star Transfer Students
University of Houston	2,853	148	136	3,137	20.53%
Sam Houston State University	2,355	122	93	2,570	16.82%
Texas A&M University	1,995	57	43	2,095	13.71%
University of Houston - Downtown	1,648	108	85	1,841	12.05%
The University of Texas at Austin	1,456	28	25	1,509	9.88%
Texas State University - San Marcos	750	25	21	796	5.21%
Texas Tech University	442	18	7	467	3.06%
Stephen F. Austin State University	429	28	14	471	3.08%
The University of Texas at San Antonio	382	19	13	414	2.71%
Prairie View A&M University	372	24	31	427	2.79%
University of North Texas	205	5	8	218	1.43%
Texas Southern University	173	25	17	215	1.41%
Texas Woman's University	134	13	19	166	1.09%
The University of Texas at Arlington	128	18	10	156	1.02%
Lamar University	110	10	10	130	0.85%
University of Houston - Victoria	99	13	11	123	0.80%
The University of Texas at Dallas	87	4	4	95	0.62%
University of Houston - Clear Lake	75	2	2	79	0.52%
Texas A&M University at Galveston	70	3		73	0.48%
Texas A&M University - Corpus Christi	63	4	2	69	0.45%
The University of Texas at Tyler	58	1	2	61	0.40%
Midwestern State University	27	1	1	29	0.19%
Texas A&M University - Kingsville	27	1		28	0.18%
Tarleton State University	21			21	0.14%
West Texas A&M University	19	3		22	0.14%
Angelo State University	18	1		19	0.12%
Texas A&M University - Commerce	9		1	10	0.07%
The University of Texas - Pan American	9	2		11	0.07%
Sul Ross State University	7	4		11	0.07%
The University of Texas at El Paso	6			6	0.04%
Texas A&M International University	4	2		6	0.04%
The University of Texas of the Permian Basin	3			3	0.02%
Texas A&M University - San Antonio	1			1	0.01%
Texas A&M University - Central Texas			1	1	0.01%
Grand Total	14,035	689	556	15,280	100.00%

Includes only Texas public institutions

Source:

Texas Higher Education Data, ASALFS Students Pursuing Additional Education updated 2010

**Lone Star College System**  
**Statistical Supplement 18**  
**Capital Asset Information**  
**Fiscal Year 2002 to 2011**  
(unaudited)

	Fiscal Year									
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Academic buildings</b>	64	49	47	35	32	31	30	29	25	20
Square footage (in thousands)	2,981	2,114	2,112	1,575	1,575	1,575	1,575	1,524	1,334	1,034
<b>Libraries</b>	7	7	7	7	7	7	7	7	6	2
Square footage (in thousands)	299	299	299	299	299	299	299	299	232	81
Number of Volume (in thousands)	-	-	-	-	-	-	-	-	-	-
<b>Administrative and support buildings</b>	29	29	29	22	22	22	21	20	19	14
Square footage (in thousands)	1,215	1,208	1,208	452	452	450	448	445	401	236
<b>Dormitories</b>	-	-	-	-	-	-	-	-	-	-
Square footage (in thousands)	-	-	-	-	-	-	-	-	-	-
Number of Beds	-	-	-	-	-	-	-	-	-	-
<b>Apartments</b>	-	-	-	-	-	-	-	-	-	-
Square footage (in thousands)	-	-	-	-	-	-	-	-	-	-
Number of Beds	-	-	-	-	-	-	-	-	-	-
<b>Dining Facilities</b>	5	5	5	5	5	5	5	5	5	4
Square footage (in thousands)	55	55	55	55	55	55	55	55	55	41
Average daily customers	3,900	3,900	3,900	3,900	3,900	N/A	N/A	N/A	N/A	N/A
<b>Athletic Facilities</b>	38	38	38	38	38	38	38	38	36	29
Square footage (in thousands)	112	112	112	112	112	112	112	112	87	78
Stadiums	-	-	-	-	-	-	-	-	-	-
Gymnasiums	-	-	-	-	-	-	-	-	-	-
Fitness Centers	6	6	6	6	6	6	6	6	4	3
Tennis Courts	32	32	32	32	32	32	32	32	32	26
<b>Plant Facilities</b>	9	7	7	6	6	6	6	6	6	5
Square footage (in thousands)	46	37	37	34	34	34	33	33	30	24
<b>Transportation</b>	-	-	-	-	-	-	-	-	-	-
Cars	15	15	15	15	16	16	16	16	15	15
Light Truck/Vans	20	20	20	20	17	17	15	14	12	12
Buses	-	-	-	-	-	-	-	-	-	-





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

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, 2011 and have issued our report thereon dated December 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over  
Financial Reporting**

In planning and performing our audit, we considered the System’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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 deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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, non-compliance 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 management, the Board of Trustees, the Audit Committee, others within the System, 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.

*McConnell & Jones LLP*

Houston, Texas  
December 16, 2011



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

To the Board of Trustees  
Lone Star College System

**Compliance**

We have audited Lone Star College System's (the System") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the State of Texas Single Audit Circular that could have a direct and material effect on each of the System's major federal and state programs for the year ended August 31, 2011. The System's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

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



In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2011.

### Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses, as defined above. 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 management, the Board of Trustees, the Audit Committee, others within the System, 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.

McConnell & Jones LLP

Houston, Texas  
December 16, 2011

**Schedule of Findings and Questioned Cost**

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2011**

**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? | No          |
| 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 OMB Circular A-133? | No          |
| 4. Identification of major programs :                                                                                     |             |

**Federal - CFDA Number Name of Federal Program or Cluster**

**Student Financial Assistance Cluster:**

- |        |                                                     |
|--------|-----------------------------------------------------|
| 84.007 | Federal Supplemental Educational Opportunity Grants |
| 84.032 | Federal Family Education Loans Program              |
| 84.268 | Federal Direct Student Loans Program                |
| 84.033 | Federal Work Study Program                          |
| 84.063 | Federal Pell Grant Program                          |
| 84.375 | Academic Competitiveness Grants                     |

**WIA Cluster:**

- |        |                             |
|--------|-----------------------------|
| 17.258 | ARRA-WIA Adult Program      |
| 17.260 | ARRA-WIA Dislocated Workers |

**State – Contract Number Program Title**

- |     |                                                                          |
|-----|--------------------------------------------------------------------------|
| N/A | Adult Basic Education                                                    |
| N/A | Developmental Education Demonstration Projects                           |
| N/A | Lone Star College in Partnership with Godwin-SBO and Lectrus Corporation |

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2011**

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

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

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

Federal        Yes  
State          Yes

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2011**

**SECTION 2:**

**FINDINGS-FINANCIAL STATEMENT AUDIT**

None reported.

**LONE STAR COLLEGE SYSTEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2011**

**SECTION 3:**

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

None reported.

**LONE STAR COLLEGE SYSTEM  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2011**

**Current Status of Prior Year Findings:**

**SECTION 2:**

**FINDINGS-FINANCIAL STATEMENT AUDIT**

No. 2010-01 *Significant Deficiency in Internal Control over Financial Reporting*

**Condition:** The System did not accrue a significant amount of liabilities, primarily related to the System's construction projects, as of August 31, 2010.

**Recommendation:** We recommend that the System implement policies and procedures within the user departments to ensure that routine monthly accruals of liabilities are made and reflect proper cut-off so that accounts payable are complete as of each reporting date. We also recommend that the accounts payable department review the list of subsequent disbursements and open invoices to ensure that all liabilities related to period end are properly accrued.

**Current Status:** The recommendation has been implemented and the finding was resolved.

**SECTION 3:**

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

There were no audit findings reported in the August 31, 2010 Schedule of Findings and Questioned Costs relative to Federal and State awards.