

OFFICIAL STATEMENT DATED APRIL 2, 2012

NEW ISSUE BOOK-ENTRY-ONLY

Ratings: S&P: "AA"; Moody's: "Aa2"  
(See "RATINGS" herein)

*The delivery of the Bonds (defined herein) is subject to the opinion of Bickerstaff Heath Delgado Acosta LLP, Bond Counsel. Interest on the Bonds is excludable from gross income for federal income tax purposes. See "TAX MATTERS" herein.*

**AUSTIN COMMUNITY COLLEGE DISTRICT  
PUBLIC FACILITY CORPORATION**

**(a non-profit corporation acting on behalf of the Austin Community College District,  
a political subdivision located principally in Travis, Williamson, Hays, Bastrop, Lee and Caldwell Counties, Texas)**

**\$44,430,000**

**LEASE REVENUE BONDS  
(HAYS NEW CAMPUS PROJECT), SERIES 2012**

Dated Date: April 1, 2012 (Interest accrues from Date of Delivery)

Due: August 1, as shown on page ii

The Austin Community College District Public Facility Corporation Lease Revenue Bonds (Hays New Campus Project), Series 2012 (the "Bonds") will be issued by the Austin Community College District Public Facility Corporation (the "Corporation") as fully registered bonds in denominations of \$5,000 or any integral multiple thereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC initially will act as securities depository for the Bonds. Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by the Trustee, which initially is U.S. Bank, National Association (the "Trustee") to DTC, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

The Bonds are being issued pursuant to a resolution (the "Resolution") adopted by the Board of Directors of the Corporation (the "Board") under the authority of and in full conformity with the laws of the State of Texas, and a Master Trust Indenture, dated as of September 20, 2010 (the "Master Trust Indenture") and a Second Supplemental Trust Indenture Relating to the Austin Community College District (Hays New Campus Project) dated as of April 1, 2012 (the "Supplemental Trust Indenture" and together with the Master Trust Indenture, the "Trust Indenture"), by and between the Corporation and the Trustee, to finance the costs of acquisition, construction and equipment of the new campus (as further described herein, the "Project") for the use and benefit of the Austin Community College District (the "District"). A portion of the proceeds of the Bonds will also be used to pay the costs of issuing the Bonds.

Interest on the Bonds will accrue from the date of delivery (the "Date of Delivery") and will be payable on February 1 and August 1 of each year, commencing August 1, 2012 and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of DTC.

The principal of, premium, if any, and interest on the Bonds is payable from lease payments to be made by the District to the Corporation (the "Lease Payments") pursuant to a certain Lease With an Option to Purchase dated as of April 1, 2012, between the District and the Corporation (the "Lease"), as authorized by Section 271.004 of the Texas Local Government Code, as amended. The Lease Payments are due at such times and in such amounts as will be required to timely pay the principal, premium, if any, and interest on the Bonds. As additional security for the Bonds, the Corporation will grant to the Trustee for the benefit of the registered owners of the Bonds (i) a first mortgage lien and first deed of trust lien to the real property relating to the Project and will assign and pledge the Corporation's interest in the leases, rents, and certain other benefits from the Project, pursuant to the Deed of Trust (defined herein), and (ii) a first priority purchase money security interest in the personal property portion of the Project, pursuant to the Deed of Trust. (See "THE BONDS — Security for Payment" and "APPENDIX A — Selected Provisions of the Financing Documents.")

**The obligation of the District to make Lease Payments is a current expense, payable solely from funds annually appropriated by the District for such use. Remedies available upon a failure of the District to appropriate or pay Lease Payments are limited to termination of the District's leasehold interest, the right to take possession and control of the Project, and the right to sell or lease the Project upon foreclosure under the Deed of Trust. The Lease and the obligations of the District thereunder do not constitute a pledge, a liability, or a charge upon the funds of the District and do not constitute a debt or general obligation of the State of Texas, the Corporation, the District, or any other political subdivision of the State of Texas. Neither the faith and credit nor the taxing power of the State of Texas, the District, or any other political subdivision of the State of Texas has been pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Corporation has no authority to levy taxes.**

***The purchase of the Bonds involves a degree of risk and potential purchasers of the Bonds should carefully review the information under "INVESTOR CONSIDERATIONS."***

---

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,  
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE BONDS.

---

The Bonds are offered for delivery when, as, and if issued and received by the Underwriters named below, subject to the approval of the Attorney General of the State of Texas and the legal opinion of Bickerstaff Heath Delgado Acosta LLP, Austin, Texas, Bond Counsel. Certain legal matters will be passed on for the Corporation and the District by Bickerstaff Heath Delgado Acosta LLP. Certain matters will be passed upon for the Underwriters, by their co-counsel, Andrews Kurth LLP, Austin, Texas and Shelton & Valadez, P.C., San Antonio, Texas. It is expected that the Bonds will be delivered through the facilities of DTC on or about May 1, 2012.

**J.P. MORGAN**

**FROST BANK**

**HUTCHINSON, SHOCKEY, ERLEY & CO.**

**ESTRADA HINOJOSA & COMPANY, INC.**

**MATURITY SCHEDULE**  
**\$44,430,000**  
**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**PUBLIC FACILITY CORPORATION LEASE REVENUE BONDS (HAYS NEW CAMPUS PROJECT), SERIES 2012**

Stated Maturity (8/1)	Principal Amount	Interest Rate (%)	Initial Yield (%) <sup>(1)</sup>	CUSIP Numbers <sup>(2)</sup>
2017	\$ 190,000	2.000	1.710	052405BQ9
2018	300,000	3.000	2.020	052405BR7
2019	425,000	3.000	2.250	052405BS5
2020	555,000	3.500	2.470	052405BT3
2021	700,000	4.000	2.670	052405BU0
2022	860,000	4.000	2.860	052405BV8
2023	1,030,000	5.000	3.020 <sup>(4)</sup>	052405BW6
2024	1,225,000	5.000	3.180 <sup>(4)</sup>	052405BX4
2025	1,440,000	5.000	3.340 <sup>(4)</sup>	052405BY2
2026	1,670,000	5.000	3.440 <sup>(4)</sup>	052405BZ9
2027	1,920,000	3.625	3.710	052405CA3

*(Interest to accrue from the Date of Delivery)*

\$10,385,000 4.00% Term Bonds due August 1, 2031, Yield 4.080% CUSIP 052405CB1<sup>(1)(2)(3)</sup>

\$8,730,000 4.125% Term Bonds due August 1, 2036, Yield 4.210% CUSIP 052405CC9<sup>(1)(2)(3)</sup>

\$15,000,000 5.00% Term Bonds due August 1, 2036, Yield 4.000% CUSIP 052405CD7<sup>(1)(2)(3)(4)</sup>

**Redemption.** The Bonds maturing on or after August 1, 2023, are subject to optional redemption, in whole or in part, on or after August 1, 2022, at a redemption price equal to the principal amount thereof plus accrued interest to the date set for redemption. The Bonds are also subject to optional redemption under certain circumstances and are subject to mandatory redemption in the case of casualty loss or condemnation. (See “REDEMPTION PROVISIONS” herein.)

- <sup>(1)</sup> The initial reoffering yield represents the initial offering yield to the public, which has been determined by the Underwriters and may subsequently be changed by the Underwriters and is the sole responsibility of the Underwriters.
- <sup>(2)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor’s Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Corporation, the District, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.
- <sup>(3)</sup> The Term Bonds are also subject to mandatory sinking fund redemption prior to stated maturity. (See “REDEMPTION PROVISIONS – Mandatory Sinking Fund Redemption” herein.)
- <sup>(4)</sup> Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 1, 2022, the first optional call date for such Bonds, at a redemption price of par plus accrued interest to the redemption date.

**AUSTIN COMMUNITY COLLEGE DISTRICT PUBLIC FACILITY CORPORATION  
BOARD OF DIRECTORS**

Dr. Barbara P. Mink, President  
Mr. Jeffrey K. Richard, Vice President  
Mr. John-Michael V. Cortez, Secretary  
Dr. James W. McGuffee, Treasurer  
Mr. Allen H. Kaplan  
Mr. Tim Mahoney  
Ms. Nan McRaven  
Ms. Guadalupe Q. Sosa  
Dr. Victor H.P. Villarreal

**AUSTIN COMMUNITY COLLEGE DISTRICT  
BOARD OF TRUSTEES**

<b><u>Place</u></b>	<b><u>Name</u></b>	<b><u>Term Expires (November<sup>(1)</sup>)</u></b>
1	Mr. Tim Mahoney	2014
2	Mr. John-Michael V. Cortez, Secretary	2014
3	Ms. Nan McRaven	2014
4	Mr. Jeffrey K. Richard, Vice Chair	2016
5	Dr. Victor H.P. Villarreal	2016
6	Ms. Guadalupe Q. Sosa	2016
7	Dr. Barbara P. Mink, Chair	2012
8	Dr. James W. McGuffee	2012
9	Mr. Allen H. Kaplan	2012

<sup>(1)</sup>Date of term expiration changed from May to November beginning in November 2012.

**DISTRICT ADMINISTRATION**

<b><u>Name</u></b>	<b><u>Position</u></b>
Dr. Richard M. Rhodes	President/CEO
Dr. Kathleen Christensen	Vice President, Student Support and Success Systems
Mr. Ben Ferrell, CPA	Executive Vice President, Finance & Administration
Dr. Mary Hensley	Executive Vice President, College Operations
Ms. Brette Lea	Executive Director, Public Information and College Marketing
Ms. Soon Merz	Associate Vice President, Effectiveness and Accountability
Mr. Mike Midgley, CPA	Vice President, Instruction
Ms. Gerry Tucker, JD	Vice President, Human Resources
Mr. Neil Vickers, CPA	Associate Vice President, Finance & Budget
Ms. Linda Young	Special Assistant to the President for External Affairs

*For Additional Information Please Contact:*

Mr. Ben Ferrell  
Executive Vice President, Finance & Administration  
Mr. Neil Vickers  
Associate Vice President, Finance & Budget  
Austin Community College District  
9101 Tuscany Way  
Austin, Texas 78754  
512-223-1099

Mr. Jorge Rodriguez  
Managing Director  
Mr. Daniel Rodriguez  
Coastal Securities, Inc.  
600 Navarro, Suite 350  
San Antonio, Texas 78205  
210-487-7000

## USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized to give any information, or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Corporation or the Underwriters. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. All of the summaries of the statutes, resolutions, orders, contracts, audits, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Corporation. This Official Statement contains, in part, estimates, assumptions and matters of opinion that are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the condition of the Corporation or other matters described herein since the date hereof.

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

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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

Neither the Corporation, the Financial Advisor, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company or its Book-Entry-Only System.

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

[The remainder of this page is intentionally left blank.]

## TABLE OF CONTENTS

INTRODUCTORY STATEMENT .....	1	Lease Payments.....	15
General .....	1	Deed of Trust and Security Agreement .....	15
THE BONDS.....	1	Repair and Replacement Account .....	15
General Description.....	1	Remedies.....	15
Security for Payment.....	1	Additional Parity Bonds.....	16
Bond Validation Lawsuit .....	2	BOOK-ENTRY-ONLY SYSTEM .....	16
REDEMPTION PROVISIONS .....	2	Use of Certain Terms in Other Sections of this Official	
Optional Redemption .....	2	Statement.....	17
Optional Redemption —Upon District’s Exercise of		Effect of Termination of Book-Entry-Only System.....	17
Purchase Option .....	2	FINANCIAL AND OPERATING INFORMATION OF THE	
Optional Redemption—Termination of the Lease.....	2	DISTRICT.....	18
Mandatory Redemption—Casualty Loss or Condemnation.....	2	Authority to Levy Taxes .....	18
Mandatory Sinking Fund Redemption.....	2	Tax Rate Limitations .....	18
Notice of Redemption .....	3	Table 1 — Bond Fund Balances.....	18
Partial Redemption.....	3	Table 2 — Historical Enrollment .....	18
Effect of Redemption .....	4	Tuition Rates.....	19
THE CORPORATION.....	4	Table 3 — Tuition Rates and Fees .....	19
THE DISTRICT .....	4	Employee Organizational Activity .....	20
Introduction .....	4	Retirement Plan.....	20
Background Information .....	5	Pension Fund Liability.....	20
Existing District Campus Facilities.....	6	Postemployment Benefits Other than Pensions.....	20
Riverside, Northridge, Pinnacle and Cypress Creek		Authorized Investments .....	21
Campus Facilities .....	6	Compensated Absences .....	21
Eastview Campus .....	6	Table 4 - Statement of Revenues, Expenses and Changes in	
South Austin Campus .....	6	Net Assets .....	22
Round Rock Campus.....	6	Table 5 — Statement of Net Assets.....	23
Elgin Campus .....	6	Discussion of Fiscal Year 2011 and Fiscal Year 2012	
Highland Instructional Facility .....	7	Budgets .....	24
Administration.....	7	Discussion of State Appropriations and Impact to District.....	24
Master Plan.....	7	Other Financial Matters .....	24
Attendance Costs.....	7	Table 6 — Authorized but Unissued Ad Valorem Debt and	
Accreditation .....	7	Other Indebtedness .....	25
Other Area Colleges and Universities.....	8	Table 7 — Assessed Tax Valuation .....	26
Industry Support .....	8	Table 8 — Tax Data.....	26
College President.....	8	Table 9 — Tax Rate Distribution .....	27
THE PROJECT .....	8	Table 10 — Principal Taxpayers .....	27
PLAN OF FINANCING .....	9	Table 11 — Taxable Assessed Valuation for Tax Years	
INVESTOR CONSIDERATIONS .....	10	2006-2011 .....	27
General .....	10	Table 11A — Taxable Assessed Valuation for Annexed	
Nonappropriation.....	10	Hays Consolidated Independent School District.....	27
Changes in Demographic and Economic Conditions .....	10	Table 12 — Estimated Direct and Overlapping Debt	
Prepayment Risk.....	10	Statement.....	27
Completion/Construction Risks .....	10	District Information .....	29
Damage or Destruction Risk .....	11	NO LITIGATION .....	29
District’s Power of Eminent Domain.....	11	AD VALOREM TAXATION .....	29
Remedies .....	11	TAX MATTERS.....	30
Ability to Sell or Lease Project .....	11	Tax Exemption.....	30
Constitutionality of the Lease Obligation .....	11	REGISTRATION AND QUALIFICATION OF BONDS FOR	
Other Obligations of the District.....	12	SALE.....	33
Transferability of Bonds Upon a Termination Event .....	12	THE BONDS AS LEGAL INVESTMENTS IN TEXAS.....	33
Noncompliance With Arbitrage Provisions: Occurrence of		LEGAL MATTERS .....	33
Taxability.....	12	FINANCIAL ADVISOR .....	34
Non-Recourse Obligation.....	12	RATINGS .....	34
Environmental Risks .....	12	UNDERWRITING .....	34
Trustee .....	12	OTHER MATTERS.....	34
USE OF BOND PROCEEDS .....	13	Forward-Looking Statements .....	34
Sources of Funds .....	13	CONTINUING DISCLOSURE OF INFORMATION .....	35
Uses of Funds .....	13	Annual Reports .....	35
CORPORATION DEBT SERVICE REQUIREMENTS Debt		Event Notices .....	35
Service Requirements for the Bonds.....	13	Availability of Information.....	36
Outstanding Bonds .....	14	Limitations and Amendments.....	36
SECURITY FOR THE BONDS .....	14	Compliance with Prior Agreements .....	36
Trust Estate.....	15	MISCELLANEOUS .....	36
Selected Provisions of the Financing Documents .....	APPENDIX A		
Audited Financial Statements For Year Ended August 31, 2011 .....	APPENDIX B		
Form of Bond Counsel Opinion .....	APPENDIX C		
The cover page and subsequent pages hereof and the appendices attached hereto and any addenda, supplement or amendment hereto, are part of this Official Statement.			

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

## OFFICIAL STATEMENT

### AUSTIN COMMUNITY COLLEGE DISTRICT PUBLIC FACILITY CORPORATION

(a non-profit corporation acting on behalf of the Austin Community College District,  
a political subdivision located in Travis, Williamson, Hays, Bastrop, Lee and Caldwell Counties, Texas)

**\$44,430,000**

### LEASE REVENUE BONDS (HAYS NEW CAMPUS PROJECT), SERIES 2012

## INTRODUCTORY STATEMENT

### General

This Official Statement, which includes the preceding pages and Appendices hereto, has been prepared for the Austin Community College District Public Facility Corporation (the "Corporation") and provides certain information in connection with the issuance of the Corporation's Lease Revenue Bonds (Hays New Campus Project), Series 2012 (the "Bonds") as described on the cover page hereof.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in "APPENDIX A – Selected Provisions of the Financing Documents." Included in this Official Statement are descriptions of the Bonds and certain information about the Corporation and the Austin Community College District (the "District"). ***ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.*** Copies of such documents may be obtained from the Corporation or the Financial Advisor upon payment of reasonable copying and delivery charges. (See "APPENDIX A - Selected Provisions of the Financing Documents.")

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of this Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. (See "CONTINUING DISCLOSURE OF INFORMATION" herein for information regarding the EMMA system and for a description of the Corporation's and the District's undertaking to provide certain information on a continuing basis.)

## THE BONDS

### General Description

***Description of the Bonds.*** The Bonds will be issued in an aggregate principal amount shown on the cover page hereof as fully registered Bonds in denominations of \$5,000 or any integral multiple thereof. The Bonds will be dated as of April 1, 2012 and will bear interest at the rates per annum shown on the inside cover page hereof from the date of delivery, computed on the basis of a 360-day year consisting of twelve 30-day months, payable on August 1, 2012, and semiannually thereafter on February 1 and August 1 of each year (each, an "Interest Payment Date"), and will mature on August 1 in the years and in the amounts shown on the inside cover page hereof, unless earlier called for redemption. (See "APPENDIX A — Selected Provisions of the Financing Documents.")

The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the book-entry system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Trustee to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" below.)

### Security for Payment

The Bonds are being issued pursuant to a resolution (the "Resolution") to be adopted by the Board of Directors of the Corporation (the "Board") on April 2, 2012 under the authority of and in full conformity with the laws of the State of Texas, particularly the provisions of Chapter 303, Texas Local Government Code, as amended (the "Public Facility Corporation Act"), and a Master Trust Indenture, dated as of September 20, 2010 (the "Master Trust Indenture") and a Second Supplemental Trust Indenture Relating to the Austin Community College District (Hays New Campus Project) dated as of April 1, 2012 (the "Second Supplemental Trust Indenture" and together with the Master Trust Indenture, the "Trust Indenture"), by and between the Corporation and the Trustee to finance the Project (as defined herein) for the benefit and use of the District.

The Corporation will lease the Project to the District pursuant to the Lease With an Option to Purchase (the “Lease”) dated as of April 1, 2012 between the District and the Corporation. Under the Lease, the District is required to make lease payments semiannually, commencing August 1, 2012, in consideration of the lease of the Project (the “Lease Payments”), which Lease Payments equal principal and interest on the Bonds. The Corporation will assign its interest in the Lease, the Lease Payments, and the Project to the Trustee for the benefit of the Bondholders pursuant to a Deed of Trust, Security Agreement, and Assignment of Rents and Leases, and Financing Statement dated as of the date of delivery of the Bonds (the “Deed of Trust”), by and between the Corporation and the Trustee. The Corporation will also grant a first priority purchase money security interest in the personal property portion of the Project pursuant to the Deed of Trust. (See “USE OF BOND PROCEEDS.”)

Purchasers of the Bonds should carefully review the information under “INVESTOR CONSIDERATIONS.”

#### **Bond Validation Lawsuit**

On December 10, 2010, an election contest related to the annexation election for the Hays Consolidated Independent School District was filed in the 207th Judicial District Court in Hays County, Texas against the District and its trustees challenging the election in the Hays Consolidated Independent School District. In response, the District and the Corporation filed a bond validation lawsuit on December 22, 2010 in the 250th Judicial District Court of Travis County, Texas, styled Cause No. D-1-GN-10-004441, *Ex Parte Austin Community College District Public Facility Corporation and Austin Community College District*, to consolidate the lawsuits and to validate the annexation of Hays Consolidated Independent School District and the issuance of the Bonds. By order dated January 11, 2011, the Travis County District Court consolidated the election contest into the bond validation suit. On February 3, 2011, the District Court dismissed the plaintiff in the election contest (the “Plaintiff”) from the consolidated suit for failure to post the required security bond. On February 22, 2011, the District Court entered judgment in favor of the District and Corporation and granted all requested relief. The Plaintiff appealed the consolidation of the election contest and bond validation lawsuits. The Third Court of Appeals dismissed the Plaintiff’s appeal for want of jurisdiction on July 27, 2011 and denied the Plaintiff’s motion for rehearing and motion for en banc reconsideration on September 15, 2011. The Texas Supreme Court denied the Plaintiff’s petition for review on January 13, 2012. There are no further rights to appeal and the judgment of the District Court in favor of the District and Corporation is final. Accordingly, the Bonds will carry the statement of validation prescribed by Chapter 1205, Texas Government Code.

### **REDEMPTION PROVISIONS**

#### **Optional Redemption**

The Bonds maturing on or after August 1, 2023, shall be subject to redemption prior to their scheduled maturities at the option of the Corporation, in whole or in part, on August 1, 2022, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date set for redemption.

#### **Optional Redemption—Upon District’s Exercise of Purchase Option**

The Bonds shall be subject to redemption in whole or in part, prior to their stated maturity on August 1, 2022, or on any date thereafter upon the exercise by the District of its option to purchase the Project pursuant to Article XI of the Lease only after receipt by the Trustee of the Purchase Option Price for deposit in the Redemption Account and payment of the Trustee’s reasonable fees and expenses. Bonds redeemed pursuant to this paragraph shall be redeemed at a redemption price equal to 100% of the Outstanding principal amount thereof, plus accrued interest to the redemption date.

#### **Optional Redemption—Termination of the Lease**

The Bonds shall be subject to redemption prior to their stated maturity on any Bond Payment Date, at the option of the Trustee, in whole only, in accordance with the Master Trust Indenture; provided, however, that with respect to a prepayment of Lease Payments by the Corporation pursuant to Section 11.2 of the Lease, no such redemption shall occur prior to August 1, 2022.

#### **Mandatory Redemption—Casualty Loss or Condemnation**

The Bonds are also subject to mandatory redemption on any date, at the option of the District, in whole or in part, upon the District’s payment of the Purchase Option Price to the Trustee for the Project following damage, destruction or condemnation thereof, at a redemption price equal to the principal amount of the Bonds being redeemed, plus accrued interest to the redemption date.

#### **Mandatory Sinking Fund Redemption**

The Bonds maturing on August 1, in the years 2031 and 2036 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity in part at random, by lot or other customary method selected by the Trustee, at par plus accrued interest to the redemption date, in amounts sufficient to redeem the Term Bonds on August 1 in the years and principal amounts shown on the following schedule:



\$10,385,000 Term Bonds due August 1, 2031

<u>Redemption Date (August 1)</u>	<u>Principal Amount</u>
2028	\$ 2,170,000
2029	2,440,000
2030	2,730,000
2031*	3,045,000

Final Maturity\*

\$8,730,000 Term Bonds due August 1, 2036

<u>Redemption Date (August 1)</u>	<u>Principal Amount</u>
2032	\$ 1,225,000
2033	1,510,000
2034	1,715,000
2035	1,890,000
2036*	2,390,000

Final Maturity\*

\$44,430,000 Term Bonds due August 1, 2036

<u>Redemption Date (August 1)</u>	<u>Principal Amount</u>
2032	\$ 2,100,000
2033	2,595,000
2034	2,945,000
2035	3,250,000
2036*	4,110,000

Final Maturity\*

At least forty-five (45) days before August 1 in each of the years specified above that the Term Bonds are to be mandatorily redeemed, the Trustee shall select by lot the numbers of the Term Bonds within the applicable maturity to be redeemed on the next following August 1 from moneys set aside for that purpose in the Interest and Sinking Fund. Any Term Bonds not selected for prior redemption shall be paid on the date of their stated maturity.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the Corporation, by the principal amount of the Term Bonds of the same maturity which at least fifty (50) days prior to a mandatory redemption date (i) shall have been acquired by the Corporation at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase and delivered to the Trustee for cancellation or (ii) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

#### **Notice of Redemption**

If any of the Bonds are called for redemption, the Trustee will give written notice by first class (postage prepaid) mail not less than 30 days prior to the date fixed for redemption, in the name of the Corporation, of the redemption of such Bonds to the registered owner of each Bond to be redeemed in whole or in part at the address shown on the registration books at the close of business on a day not later than the fifth (5th) day preceding the date of mailing. Any notice so mailed will be conclusively presumed to have been duly given, whether or not the owner of such Bonds actually receives the notice. Failure to give such notice by mail to any registered owner, or any defect therein, will not affect the validity of any proceedings for the redemption of other Bonds.

#### **Partial Redemption**

If less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be in amounts equal to \$5,000 or an integral multiple thereof and shall be selected by the Trustee ratably among each stated maturity of the Bonds and by lot within each stated maturity in such manner as the Trustee shall determine. In selecting Bonds for redemption, the Trustee shall select Bonds to be redeemed in such a manner that all remaining Bondholders own only authorized denominations of Bonds after such redemption. Upon surrender of any Bond for redemption in part, the Corporation shall execute and the Trustee shall authenticate and deliver to the owner thereof a new Bond or Bonds of the same series, interest rate,

and maturity and of authorized denominations in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

### **Effect of Redemption**

Notice of redemption having been given as provided above, the Bonds or portions thereof designated for redemption will become and be due and payable on the date fixed for redemption at the redemption price provided for herein, provided funds for their redemption are on deposit at the place of payment at that time, and, unless the Corporation defaults in the payment of the principal thereof, such Bonds or portions thereof will cease to bear interest from and after the date fixed for redemption, whether or not such Bonds are presented and surrendered for payment on such date. Thereafter, the owners of such Bonds will no longer be entitled to any security or benefit under the Trust Indenture except to receive payment of the redemption price. If any Bond or portion thereof called for redemption is not so paid upon presentation and surrender thereof for redemption, such Bond or portion thereof will continue to bear interest at the rate set forth therein until paid or until due provision is made for the payment of the same.

## **THE CORPORATION**

The Corporation is a nonprofit public facility corporation and instrumentality formed by the District pursuant to the Public Facility Corporation Act and a resolution of the Board of Trustees of the District. The Corporation was formed for the purpose of financing or providing for the acquisition, construction, rehabilitation, renovation, repair and equipment of public facilities for the benefit of the District.

Pursuant to the articles of incorporation and the bylaws of the Corporation, the Corporation is governed by a nine-member Board of Directors, composed entirely by those persons who are members of the Board of Trustees of the District and whose terms of office are fixed and run coterminously with their respective terms of office as members of the Board of Trustees of the District; provided, however, that any director may be removed from office at any time, for cause or at will, by the Board of Trustees of the District. Directors serve without compensation except for the reimbursement of expenses.

The Corporation's obligation with respect to the payment of the principal of, premium, if any, and interest on the Bonds is a special, limited, and non-recourse obligation payable solely from the Lease Payments payable by the District pursuant to the Lease, and from proceeds from the sale or other lease of the Project. The Corporation has no authority to levy taxes. The Bonds do not constitute an obligation, either special, general, or moral, of the District, the State of Texas, or any other political subdivision thereof.

The obligation of the District to make Lease Payments is a current expense, payable solely from funds annually appropriated by the District for such use. Remedies available upon a failure of the District to appropriate or pay Lease Payments are limited to termination of the District's leasehold interest, the right to take possession and control of the Project, and the right to sell or lease the Project upon foreclosure under the Deed of Trust. The Lease and the obligations of the District thereunder do not constitute a pledge, a liability, or a charge upon the funds of the District and do not constitute a debt or general obligation of the State of Texas, the Corporation, the District, or any other political subdivision of the State of Texas. Neither the faith and credit nor the taxing power of the State of Texas, the District, or any other political subdivision of the State of Texas has been pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Corporation has no taxing authority.

## **THE DISTRICT**

### **Introduction**

The District is a public junior college district designated as a community college pursuant to Texas law. The District began operations in the Fall of 1973 in the old Anderson High School, renamed Ridgeview Campus, which the District purchased from the Austin Independent School District ("AISD"). The District was then governed by a seven-member board with the same membership as AISD. In 1978 the District became a public two-year community college fully accredited by the Southern Association of Colleges and Schools. By the Fall of 1981 the District had grown over 700%. On March 1, 1982, the Board of Trustees of AISD passed a resolution divesting itself of the management, control and operation of the District and creating and appointing the nine-member Board. Board members serve without pay and are elected by District voters for six-year terms with three members elected every other year. The present members of the Board of Trustees are shown on page iii of this Official Statement. The administration of the District is delegated to the administrative officers named on page iii hereof. The District offers four types of training: (i) academic and pre-professional courses for students who plan to transfer to senior colleges and universities to continue baccalaureate degree programs; (ii) general vocational and technical education for students who do not plan to continue their formal education beyond two years of college; (iii) continuing education for adults who want to increase their vocational competence or develop an intellectual interest; and (iv) adult basic education for students who desire to achieve a level of high school equivalency. The District awards the following degrees and certificates:

1. Associate of Arts degree for those students completing a two-year program preparatory to seeking a Bachelor of Arts degree.
2. Associate of Science degree for those students completing a two-year program preparatory to seeking a Bachelor of Science degree.
3. Associate of Applied Science degree for those students completing a two-year program of technical vocational work.
4. Certificate of Completion for those students completing a specified course or program.

### **Background Information**

The District was established by the voters of the District on December 9, 1972, with the purpose of expanding access to post-secondary education to all persons in the District and surrounding areas. Subsequently, in 1985, by petition followed by a referendum approved by 80% of the voters, the area constituting Leander Independent School District in Williamson County, Texas, was annexed into the District. In 1998, by petition followed by a referendum approved by the voters, the area constituting the Manor Independent School District in Travis County was annexed into the District. In 2004, by petition followed by a referendum approved by the voters, the area constituting the Del Valle Independent School District in Travis County was annexed into the District. On May 7, 2005, the voters of the portion of the City of Austin that had not previously been in the District voted to join with 60% approval. In May 2008, by petition followed by a referendum approved by nearly 64% of the voters, the area constituting Round Rock Independent School District in Williamson County, Texas, was annexed into the District.

On August 20, 2010, the District officially called for annexation elections in five school districts (Bastrop Independent School District, Elgin Independent School District, McDade Independent School District, Hays Consolidated Independent School District, and San Marcos Consolidated Independent School District, pursuant to citizen petitions from each of these districts). The annexation elections were held on November 2, 2010, and added the Elgin Independent School District and the Hays Consolidated Independent School District to the Austin Community College District taxing jurisdiction. The voters in the Bastrop Independent School District, McDade Independent School District, and San Marcos Independent School District voted against annexation. In response to an election contest related to the annexation election for Hays Consolidated Independent School District, the District obtained judicial validation of the annexation and the boundaries of the District. For more information on these proceedings see “THE BONDS — Bond Validation Lawsuit.”

The annexation of the Elgin Independent School District and the Hays Consolidated Independent School District adds over \$4,492,873,218 in taxable value to the District’s tax base. These new tax revenues will be used to support a new campus in each of those areas. Currently, the District includes property primarily in Travis, Hays, Bastrop and Williamson Counties and its boundaries are coterminous with the Austin Independent School District, the Leander Independent School District, the Manor Independent School District, the Del Valle Independent School District, the Round Rock Independent School District, the Elgin Independent School District, the Hays Consolidated Independent School District and the City of Austin. The total area of the District covers approximately 1,250 square miles and includes the cities of Austin, Cedar Park, Elgin, Kyle, Leander, Manor, Jonestown and Round Rock.

The District’s revenues are principally derived from State appropriations, student tuition charges, fees, and local property taxes. On March 15, 1986, the voters of the District approved and authorized a maintenance and operations ad valorem tax to be levied and collected on all taxable property within the District at a maximum rate of \$0.05 per \$100 assessed valuation. On May 3, 2003, District voters authorized an increase in the operations and maintenance tax rate from the previously authorized \$0.05 per \$100 assessed valuation. The rate increased to \$0.07 per \$100 assessed valuation in fiscal year 2003-04, to \$0.08 in fiscal year 2004-05, and to \$0.09 in fiscal year 2005-06, where it has remained. Currently, the District levies a \$0.09 per \$100 assessed valuation maintenance and operations ad valorem tax. The District also levies an ad valorem tax, within the limitations imposed by law, in support of its voter-authorized, ad valorem tax-secured indebtedness. The District currently levies a debt service tax in the amount of \$0.0051 per \$100 assessed valuation. No portion of any of these ad valorem taxes is available to pay debt service on the Bonds.

The District maintains an open admissions policy, requiring no entrance examination (except for admission to the Health Sciences Programs), and offers freshman and sophomore university-parallel courses, occupational programs in a variety of areas, vocational and vocational continuing education courses, and adult basic education courses. The District draws the vast majority of its students from Travis County and its six contiguous counties, which have been designated as its service area by the Texas Higher Education Coordinating Board (the “Coordinating Board”).

Students attending the District are attracted to it for a variety of reasons, including its location in Austin, Texas, which has a large post-secondary student population centered around The University of Texas at Austin and its relevant curriculum and programs. The District’s programs have helped identify it as a working person’s college. The District’s curriculum is specifically designed in conjunction with the labor needs of the area’s rapidly growing industries, which include electronics, data processing, health professions and other technical areas. The District’s education programs are structured to allow students to attend classes both

during the day and at night in locations throughout the area in addition to its main campus. This variety of locations and times when courses are offered permits employed individuals to structure their program of study to fit their own work schedules.

### **Existing District Campus Facilities**

The District currently administers and operates education programs at approximately 80 locations. Many of the small locations are leased or shared with public schools, businesses, and other organizations in the private sector. The total gross area of buildings owned by the District is approximately 1,572,532 square feet, including portable buildings. Major campus locations include Round Rock, Cypress Creek, Eastview, Northridge, Pinnacle, Rio Grande, Riverside and South Austin.

The District currently leases 21 facilities. One of the eight full-time campuses, the Rio Grande Campus, was leased from AISD under a 30-year lease, and is a former high school facility. The District purchased the Rio Grande Campus in 2004 from AISD. The leased facilities have lease terms ranging from one to two years, most of which contain yearly renewal options.

### **Riverside, Northridge, Pinnacle and Cypress Creek Campus Facilities**

The Riverside Campus opened one new building during fiscal year 1994, a Health/Science facility, Building “G,” comprised of 62,056 gross square feet; in Fiscal Year 1995, it opened the Horticulture Center, comprised of 2,700 square feet; and in fiscal year 1996, it opened another new building, the Semi-Conductor Training Facility, comprised of 16,200 square feet. The total square footage at the Riverside Campus is 232,600 square feet.

The Northridge Campus has four buildings with a total of 154,817 square feet.

In 1991, the District purchased a ten-story building (108,105 square feet) and its surrounding 18 acres in southwest Austin, which is known as the Pinnacle Campus.

In 1988, the District purchased 20 acres in Williamson County and in 1991 completed construction of a 39,660 square foot facility there known as the Cypress Creek Campus. In January 2007, the District opened a second building at the Cypress Creek Campus, adding 73,942 gross square feet of space. In September 2007, a complete renovation of the original building was completed. And, a second expansion of the parking lots at the campus was completed in the summer of 2008.

### **Eastview Campus**

The Eastview Campus, located in East Austin, was originally comprised of two properties totaling 29 acres and approximately 75,916 gross square feet. The campus opened for the Spring 1999 semester in January 1999. Health Sciences facility expansions opened in 2003 and 2004. These buildings added 94,556 and 70,847 gross square feet to the campus, respectively.

### **South Austin Campus**

The District completed the South Austin Campus in 2006, adding 86,930 gross square feet of space. The original construction included a parking garage of 3½ levels. In the summer of 2007, the District expanded the garage to five full levels in anticipation of increasing demand.

### **Round Rock Campus**

The Round Rock Campus Phase I was completed in August 2010. It is located on more than 85 acres adjacent to County Road 112 in Round Rock, Texas. The Round Rock Campus is adjacent to planned residential developments to the west, commercial developments to the north and south, and the new Texas State University Round Rock campus to the east. Its proximity to Seton Medical Center Williamson and Scott & White Hospital makes the site ideal for the health sciences curriculum. The initial phase included five new buildings: 1) Student Services, Campus Administration and Library Building, 2) General Studies Building, 3) Health Sciences Building, 4) Applied Technology Building, and 5) Central Utility Plant. The total size of the buildings is approximately 250,000 gross square feet, with 1,260 parking spaces, and accommodates over 5,000 students.

### **Elgin Campus**

The new campus in Elgin (the “Elgin Campus”) is currently in the design phase of construction. The District has contracted with an architect and a construction manager to facilitate the design and pre-construction elements of the Elgin Campus. The District expects to begin site preparation and preliminary construction on the Elgin Campus toward the end of this calendar year. The District is on schedule and anticipates that the Elgin Campus will be open and operational for the Fall of 2013.

## **Highland Instructional Facility**

In 2011, the District acquired the Highland Mall property and certain adjacent properties. The District plans to renovate and improve the 600,000 square feet of space and use it to provide instructional facilities, a continuing education center, a convocation center, a conference center and professional development center. The work on this property will commence in the summer of 2012.

## **Administration**

In 1992, the District purchased a six-story office building, which was being partially leased by the District at the time, for use as the District Administrative Offices. This building, known as the Highland Business Center, contains administrative offices and serves as the District's business and training center. The facility is comprised of 113,424 square feet and is located in the Highland Mall area of Austin, Texas. In 2001, the District constructed an administrative Service Center on seven acres of land in northeast Austin. This 55,000 square foot facility houses approximately 50 percent of the District's administrative departments. Construction of this building facilitates the renovation of the Highland Business Center to create additional classrooms for its business programs.

## **Master Plan**

The District relies on master planning to manage growth and change through comprehensive strategic planning processes, which are closely aligned with the institution's purpose and mission. The District updates its master plan (the "Master Plan") annually with attention to the next three years. In 2007, the District also adopted a facilities master plan (the "Facilities Master Plan") and incorporated it into the Master Plan. This Facilities Master Plan included recommendations on strategies to accommodate the growth in enrollment, on space standards for the District's campuses, and purchasing sites for new campuses, and how to apportion the growth in enrollment between new and existing campuses.

More recently, the District has focused on the creation of campus master plans ("Campus Master Plan") which assess the work projects needed to accommodate the recommended space standards and the projected growth in enrollment at existing campuses. The District created Campus Advisory Committees (CAC) to pull together community representatives, faculty, staff and students to participate in this planning process. A draft of the Campus Master Plan has been developed and will be finalized this year. The District views the Campus Master Plan as an additional way to improve the quality of the space for the benefit of the students, faculty and staff at the campuses, and to thoughtfully guide the expansion of the District.

## **Attendance Costs**

The cost of attending the District is competitive with other Texas colleges and universities, including other area colleges and universities. Effective the Spring 2012 semester, tuition for residents of the State of Texas residing in the District is \$57 per semester credit hour. For Texas residents residing outside the District, tuition is \$199 per semester credit hour (\$57 per semester hour plus an additional Out-of-District fee of \$142 per semester credit hour. Out-of-District tuition rates will increase by 8% annually until such time as parity with In-District ad valorem taxes is reached. Legal residents of other states and nonresident aliens are charged a rate of \$303 per semester credit hour. (See "TABLE 3 - Tuition Rates and Fees" herein.)

Presently all tuition-paying students are also charged a General Fee of \$13 per semester credit hour for the use and availability of the District's facilities. Additional fees are charged for special courses and laboratory usage.

## **Accreditation**

The District is accredited by the Southern Association of Colleges and Schools ("SACS"), the Board of Nurse Examiners, the Board of Vocational Nurse Examiners, the National League of Nursing, the Committee on Allied Health Education and Accreditation, the Joint Review Committee on Education in Radiologic Technology, the Clinical Laboratory Sciences, the Texas Department of Health, the American Association of Medical Assistants Curriculum Review Board, the American Medical Record Association, the Joint Review Committee on Education to Diagnostic Medical Stenography, and the American Association of Occupational Therapy. The District is approved by the Texas Education Agency and has complied with the standards, rules, and regulations as prescribed by the Texas Higher Education Coordinating Board. The District is currently undergoing its ten year reaccreditation process.

On December 15, 2011, the District was placed on "warning" for six months by SACS following a review of violations regarding the implementation of internal procedures for reporting substantive changes. In June, 2012, the Board of Trustees of SACS will consider the accreditation status of the District following review of a "monitoring report." The Board will have the option to: (1) remove the District from "warning" with or without an additional report; (2) continue the "warning" and request an additional report; (3) continue the "warning" or place the District on probation, authorize a Special Committee, and request an additional report; or (4) remove the District from membership with SACS. Although staff of the SACS will not speculate on what decision

might be made by the Board, management of the District has been cooperative with the inquiry by the SACS and expects that the inquiry will conclude with no material adverse impact on the District.

### **Other Area Colleges and Universities**

There are six other major colleges and universities located in the seven-county area from which the District draws the majority of its students. These institutions include four academic colleges: Concordia University, Huston-Tillotson College, and St. Edward's University, all located in Austin, and Southwestern University, located in Georgetown, some 34 miles north of Austin. Two major public institutions in the area are The University of Texas at Austin, located in Austin, and Texas State University, located in San Marcos, 30 miles south of Austin. The District is the only area post-secondary institution offering occupational training programs, a comprehensive evening program, and an open-door admissions policy.

*Source: The Austin Chamber of Commerce.*

### **Industry Support**

The District's strong commitment to meeting the training needs of private and public sector employers has resulted in an aggressive reputation for implementing innovative training programs to provide a skilled, flexible workforce. The District is also committed to meeting the needs of small business and has forged a joint venture with seven business organizations such as the Greater Austin and Hispanic Chambers of Commerce, and the Entrepreneur's Association to offer small business development programs. The District has established technical advisory committees composed of employer representatives to provide information on labor market demands and program design to meet the current and future training needs of employers.

### **College President**

The District's President, Dr. Richard M. Rhodes, was appointed the new President/CEO of the District on May 2, 2011.

Dr. Rhodes began his tenure with the District on September 1, 2011. Dr. Rhodes joined the District as President/CEO immediately after serving as President of El Paso Community College ("EPCC") for 10 years. Prior to being named President of EPCC, Dr. Rhodes served as the Vice President of Business Services at Salt Lake Community College in Salt Lake City, Utah since 1994. He also served with EPCC from 1983 -1994 in the role of Vice President of Financial and Administrative Services and Interim President. Dr. Rhodes served as Comptroller and Accountant at New Mexico State University from 1975-1983.

A native of Alamogordo, New Mexico, Dr. Rhodes received his Bachelor of Business Administration in Accounting and a Master of Arts in Educational Management and Development (Higher Education) from New Mexico State University. He earned his Ph.D. in the Community College Leadership Program at the University of Texas at Austin. Dr. Rhodes is a Certified Public Accountant, certified in both Texas and New Mexico.

Dr. Rhodes was active in the El Paso community while President of EPCC, serving on the Executive Board of the Greater El Paso Chamber of Commerce; the Executive Board of the El Paso Hispanic Chamber of Commerce; the Board of Directors for the FEMAP Foundation; the Executive Board of the Boy Scouts of America, Yucca Council; member of the Upper Rio Grande Workforce Development Board; member of the University of Texas at El Paso Centennial Commission; and Past-Chair and current Trustee of the Las Palmas - Del Sol Hospital Board of Trustees. He is also founding member of the Paso del Norte Group. In addition to the local commitments, Dr. Rhodes also served as the Chair of the Texas Association of Community Colleges and is Past-Chair of the Texas Association of Community College Trustees and Administrators. Also, Dr. Rhodes serves on the Formula Funding Advisory Committee for the Texas Higher Education Coordinating Board; the Governor's Commission for a College Ready Texas; the Board of Directors of the Texas Education Reform Foundation; and the American Association of Community Colleges President's Academy. He was appointed by Governor Rick Perry to serve on the Texas Guaranteed Student Loan Corporation Board of Directors, and he was recently appointed to serve as a Board Member of the Carnegie Foundation.

Dr. Rhodes has received the Distinguished Graduate Award from the Community College Leadership Program at the University of Texas at Austin; the Minority Small Business Advocate of the Year B Services Award from the U. S. Small Business Administration; the "Vision of Excellence" award from the El Paso Hispanic Chamber of Commerce; and the Citizen of the Year Award from the Military Order of the World Wars - El Paso Chapter. He is a member of the El Paso Business Hall of Fame, and he was recently awarded the Rotary Club of El Paso Distinguished Service Award.

## **THE PROJECT**

Proceeds from the sale of the Bonds will be used for the acquisition, construction and equipping of a new building to be used by the District for a new campus in the Hays Consolidated Independent School District on an approximately 96 acre tract of land in the City of Kyle (the "Project"). The acquisition of the site for the Project was paid for from proceeds from the District's Combined Fee Subordinate Lien Revenue Building Bonds, Series 2011B (the "Series 2011B Bonds") which were purchased by

JPMorgan Chase Bank, National Association. A portion of the Bond proceeds will be used to provide funds to the District to repay the Series 2011B Bonds. The District has entered the design development phase of construction, an estimated three-month process during which the mechanical, electrical, plumbing, data cabling, security, fire alarm, and emergency power infrastructure systems of the building will be developed. Upon completion of the Project, the new campus will serve approximately 2,000 students. The total cost of the Project is approximately \$35 million and completion is estimated in 2014.

### **PLAN OF FINANCING**

The Project is being financed pursuant to Section 271.001 et seq., Texas Local Government Code, as amended (the “Public Property Finance Act”), and the Public Facility Corporation Act, Chapter 303, Texas Local Government Code, as amended.

Section 271.004 of the Public Property Finance Act authorizes a school district (which is defined in the Public Property Finance Act to include junior college districts) to acquire real property and improvements by entering into a lease purchase contract provided that a notice of intent to enter into such contract is published at least 60 days prior to the date set to approve execution of the contract. A notice of intention to enter into a lease purchase agreement pursuant to the Public Property Finance Act was published on February 10, 2011. The Public Property Finance Act imposes a duty upon the District to obtain the approval of its electorate, if a valid petition containing the signatures of at least five percent of the registered voters of the District is filed with the Board of Trustees of the District within sixty (60) days of the date of publication of the notice of intent.

The Public Facility Corporation Act authorizes the creation and utilization by a special district (which includes junior college districts) (the “Sponsor”) of a public facility corporation to finance or to provide for the acquisition, construction, rehabilitation, renovation, repair, equipping, furnishing, and placing in service of public facilities of its Sponsor. The Public Facility Corporation Act further authorizes the Sponsor to incur obligations in favor of the public facility corporation to serve as security for the bonds to be issued by such corporation. The Corporation was formed pursuant to the Public Facility Corporation Act to issue bonds and to enter into leases, as lessor, with the District, as lessee, in order to finance the acquisition and construction of public facilities for the benefit of the District.

The District’s sources of income or funds that will be used for making Lease Payments under the Lease, which will in turn be used to make payments of principal and interest on the Bonds, will include the District’s allocations from the Legislature, tuition and fee proceeds, investment income, sales and services of educational activities, auxiliary income, maintenance and operation taxes, and any available surplus funds. For more information on sources of funds, see “FINANCIAL AND OPERATING INFORMATION OF THE DISTRICT.”

To provide funds for the acquisition, construction and equipment of the Project, the District and the Corporation will enter into the Lease whereby the Corporation will agree to lease the Project to the District, and the District will agree to pay semiannual Lease Payments sufficient to pay principal, interest, and redemption premium, if any, on the Bonds when due. The District may terminate the Lease by failing to appropriate money in any fiscal year for this purpose (see “INVESTOR CONSIDERATIONS — Nonappropriation”). For a summary of certain provisions of the Lease, see “APPENDIX A — Selected Provisions of the Financing Documents — Selected Provisions from the Lease with an Option to Purchase.”

The Bonds are being issued pursuant to the Resolution, the Master Trust Indenture and the Second Supplemental Trust Indenture to finance the costs of the Project. See “THE PROJECT.” A portion of the proceeds of the Bonds will also be used to pay the costs of issuing the Bonds. For a summary of certain provisions of the Master Trust Indenture and the Supplemental Trust Indenture, see “APPENDIX A — Selected Provisions of the Financing Documents — Selected Provisions from the Trust Indenture.”

To secure its obligations under the Trust Indenture, the Corporation will grant a first mortgage lien on and first deed of trust lien to the real property portion of the Project and will assign and pledge the Corporation’s interest in the leases, rents, issues, profits, revenues, income, receipts, money, rights, and benefits of and from the Project for the use and benefit of the Trustee, on behalf of the registered owners of the Bonds, pursuant to the Deed of Trust. The Corporation will also grant to the Trustee a first priority security interest in the machinery, equipment, furnishings, or other personal property acquired by the Corporation, and at any time installed or located at the Project site, and in the accounts, documents, chattel paper, instruments, and general tangibles arising in any manner from the Corporation’s ownership and operation of the Project pursuant to the Deed of Trust.

The Master Trust Indenture, Second Supplemental Trust Indenture, the Lease, the Mortgage and the Security Agreement are collectively referred to herein as the “Financing Documents.” (See “INVESTOR CONSIDERATIONS” below.)

## **INVESTOR CONSIDERATIONS**

### **General**

The following is intended only as a summary of certain investor considerations attendant to an investment in the Bonds. In order to allow potential investors to identify investor considerations and make an informed investment decision, a potential investor should be thoroughly familiar with the entire Official Statement and the appendices hereto and should have accessed whatever additional financial and other information it has deemed necessary to make its decision to invest in the Bonds.

Each prospective investor in the Bonds should read this Official Statement in its entirety including its Appendices. Particular attention should be given to the considerations described below which, among others, could affect the payment of debt service on the Bonds, and which could also affect the marketability of the Bonds to an extent that cannot be determined. (See “OTHER MATTERS — Forward-Looking Statements.”)

### **Nonappropriation**

The Bonds and the interest thereon are payable solely from Lease Payments and other payments paid or payable by the District from and after the date of the Lease, and other income, charges, and funds realized from the lease, sale, transfer, or other disposition of the Project, together with all funds and investments in all accounts (except the Rebate Fund) established under the Trust Indenture, and all funds deposited with the Trustee pursuant to the Financing Documents. If available funds sufficient to pay the Lease Payments during the succeeding fiscal year are not appropriated by the District, the Lease will automatically terminate at the end of the fiscal year for which sufficient funds have been appropriated. In such event, the District must immediately, upon expiration of such fiscal year, surrender possession and control of the Project to the Trustee. No assurances may be given that the Trustee will be able to manage, lease or sell the Project such that there will be sufficient revenues to pay debt service on the Bonds.

There can be no assurance that the District will annually appropriate sufficient funds to pay the Lease Payments due in any given fiscal year. Accordingly, the likelihood that there will be sufficient funds to pay the principal of, premium, if any, and interest on the Bonds is dependent upon certain facts which are beyond the control of the registered owners, including (a) the continuing need of the District for the Project, (b) the demographic and economic conditions within the service area of the District, (c) the value, if any, of the Project in a sale instituted by the Trustee pursuant to the Trust Indenture and the Deed of Trust, and (d) the rental value of the Project in the event the Trustee releases the Project to a third party or to the District pursuant to an operating lease.

THE DISTRICT HAS NO OBLIGATION TO ADOPT OR MAINTAIN A BUDGET TO AVOID A TERMINATION OF THE LEASE OR TO MAKE LEASE PAYMENTS SUBSEQUENT TO THE TERMINATION OF THE LEASE UPON THE OCCURRENCE OF AN EVENT OF NON-APPROPRIATION. IF THE DISTRICT FAILS TO APPROPRIATE SUFFICIENT FUNDS TO MAKE LEASE PAYMENTS, IT IS PROBABLE THAT THERE WILL NOT BE SUFFICIENT FUNDS TO PAY THE BONDS, WHEN DUE.

### **Changes in Demographic and Economic Conditions**

Changes in student population and economic, social, or other conditions will affect demographics of the District and may reduce the District’s ability, need, or willingness to utilize the Project. In such event, the District may elect to terminate the Lease by failing to appropriate funds to make Lease Payments under the Lease. For a description of the remedies of the Trustee in such case, see “APPENDIX A — Selected Provisions of the Financing Documents — Selected Provisions from the Trust Indenture.”

### **Prepayment Risk**

On any date after August 1, 2022, during the Term of the Lease, the District has the option to purchase the Corporation’s interest in the Project for an amount equal to the Purchase Option Price on such date as provided in the Lease. In such event, the Bonds may be redeemed prior to their final maturity and Bondholders may not receive the full yield-to-maturity on their Bonds. (See “REDEMPTION PROVISIONS” herein.)

### **Completion/Construction Risks**

The construction of the Project will be subject to risks typically associated with construction and development of real estate which could have a material adverse effect on the willingness of the District to appropriate moneys for the Project. The Corporation will enter into a design/build contract wherein a Developer will procure the construction of the Project at a stipulated guaranteed maximum price. Performance under the contract and payment of obligations thereunder will be supported by payment and performance bonds.



### **Damage or Destruction Risk**

In the event of damage, destruction, or condemnation of all or a portion of the Project, the District is required to promptly repair, restore, or replace the Project, but solely from Appropriated Funds (hereinafter defined) in addition to Net Proceeds of any insurance or condemnation award for such purposes. Regardless of the sufficiency or insufficiency of the Net Proceeds for such purposes, the District is obligated to continue to pay the Lease Payments from Appropriated Funds. If the Net Proceeds are insufficient to pay in full the cost of any repair, restoration, or replacement of the Project, the District, in lieu of making the repairs, restorations, or replacements, has the option to terminate the Lease and all of the Corporation's interest in the Project, by exercising its option to purchase on the next succeeding Bond Payment Date for which it is possible to give notice of intent to exercise its option to purchase in accordance with the Lease.

There can be no assurance that the Net Proceeds of an insurance or condemnation award will be sufficient to repair or restore the Project or that, if such Net Proceeds are insufficient for such purpose, the District will appropriate sufficient funds for the repair, replacement, or restoration of the Project, or for the payment of the principal of, premium, if any, and interest on the Bonds necessary in order to exercise its option to purchase under the Lease. (See "REDEMPTION PROVISIONS-Mandatory Redemption-Casualty Loss or Condemnation" herein.)

### **District's Power of Eminent Domain**

Pursuant to State law, the District has the power to exercise its right under the doctrine of eminent domain to condemn and take ownership of property for public use. There is no assurance that the District will not exercise its power of eminent domain in order to take possession of the Project and to terminate its obligations under the Lease. Under the eminent domain process, a State judge appoints a three-member panel of commissioners to arrive at a fair price for the District to purchase the property. Any condemnation proceeds would be distributed to the registered owners in accordance with the provisions of the Trust Indenture.

There is no precedential law in the State to indicate whether or not the courts would prevent the District's condemnation of the Project as an equitable abuse of its eminent domain power in the event that the District determines to exercise its power of eminent domain to acquire title to the Project.

### **Remedies**

Remedies provided for in the Financing Documents may be unenforceable as a result of the application of principles of equity or of state and federal laws relating to bankruptcy, other forms of debtor relief, and creditors' rights generally. The enforcement of certain remedies may be subject to applicable principles of public policy which may require that the District be given sufficient time to vacate the Project before the foreclosure remedy may be enforced.

### **Ability to Sell or Lease Project**

An Event of Default provides the Trustee with a number of remedies including the right to sell, lease or sublease or dispose of the Project. The Trustee may acquire title to the Project only with approval of Bondholders owning not less than 51% of the Bonds. (See "APPENDIX A — Selected Provisions of the Financing Documents — Selected Provisions from the Lease with an Option to Purchase.")

***There is no assurance that the Trustee will be able to sell or lease the Project after a termination of the Lease for an amount equal to the aggregate principal amount of the Bonds then outstanding plus accrued interest thereon. If the Project is sold or leased by the Trustee for an amount less than the aggregate principal amount of and accrued interest on the Bonds, such partial payment would be the only remedy of the registered owners of the Bonds; upon such a partial payment, no registered owner will have any further claim for payment upon the Corporation, the Trustee, or the District.***

### **Constitutionality of the Lease Obligation**

In *City Council Solid Waste Control Board v. Capital City Leasing*, 813 S.W.2d 705 (TEX. CIV. APP. 1991, writ den.), a Texas appellate court ruled that an equipment lease which required a governmental unit to pursue annual appropriations creates an unconstitutional debt, thus rendering the lease void and unenforceable. The Texas Supreme Court declined, without comment, to hear the case on appeal. Although the Lease and the Trust Indenture acknowledge that the Lease Payments and certain other financial obligations of the District and the Corporation are payable from funds that must be appropriated by the District, there is no explicit covenant in the Lease requiring the District to seek an appropriation. Accordingly, Bond Counsel believes the facts of such case are distinguishable from the language contained in the Lease. However, there can be no guarantee that another court would not apply reasoning similar to that of the appellate court in the *Capital City Leasing* case to the Lease.

### **Other Obligations of the District**

The obligation of the District to make Lease Payments will be satisfied from the funds of the District which are appropriated for such use. To the extent surplus maintenance tax revenues are used by the District to make Lease Payments, the District may enter into other obligations which may constitute additional charges against such maintenance tax revenues. To the extent additional obligations are incurred by the District, such maintenance tax revenues available to appropriate for Lease Payments may be decreased.

### **Transferability of Bonds Upon a Termination Event**

Bond Counsel has rendered no opinion with respect to the applicability or inapplicability of the registration requirements of the Securities Act of 1933, as amended, to any Bond subsequent to a termination of the Lease by reason of an Event of Default, or an Event of Nonappropriation thereunder or due to an Event of Default under the Trust Indenture. If the Lease is terminated by reason of an Event of Default or an Event of Nonappropriation, there is no assurance that the Bonds may be transferred by a holder thereof without compliance with the registration provisions of the Securities Act of 1933, as amended, or the availability of an exemption therefrom.

### **Noncompliance With Arbitrage Provisions: Occurrence of Taxability**

The Lease and the Trust Indenture obligate the District and the Corporation to comply with requirements of federal law regarding rebate of certain investment proceeds to the federal government. If the District or the Corporation fails to comply with those requirements, the Bonds would become "arbitrage bonds," and the interest portion of the Bond Payments could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Such a failure by the Corporation or the District to comply with the covenants, conditions, or agreements on their part to be observed or performed by them under the Lease or the Trust Indenture, if not cured within 20 days of written notice thereof, will constitute an Event of Default under the Lease or the Trust Indenture, as applicable. Thereafter, the Trustee will have the right to exercise one or more of the remedies set forth in the Trust Indenture or the Lease, which may or may not include the acceleration of the principal of and accrued but unpaid interest on the Bonds. In no event, however, would the registered owners of the Bonds be entitled to an increase in the interest rate on the Bonds and, accordingly, the after-tax yield to the registered owners would be materially decreased.

### **Non-Recourse Obligation**

The payment of principal, premium, if any, and interest on the Bonds is without recourse to the Corporation and the ability of the Corporation to pay debt service on the Bonds is completely dependent upon the receipt of Lease Payments from the District. The only obligation of the Corporation is to provide the District with continued quiet enjoyment of the Project, provided the District is not in default under the Lease. The District's ability to perform its obligations under the Lease and its capability to appropriate money for the Lease may be adversely affected by the financial condition of the District. (See "FINANCIAL AND OPERATING INFORMATION OF THE DISTRICT.")

### **Environmental Risks**

The District obtained, on behalf of the Corporation, an environmental site assessment completed in October 28, 2010, for the property which it has purchased for the new campus site in Kyle, Texas.

### **Trustee**

The Corporation has appointed U.S. Bank, National Association, a national banking association organized under the laws of the United States, to serve as Trustee. The Trustee is to carry out those duties assignable to it under the Trust Indenture and Financing Documents. Except for the contents of this section, the Trustee has not reviewed or participated in the preparation of this Official Statement and assumes no responsibility for the contents, accuracy, fairness or completeness of the information set forth in this Official Statement or for the recitals contained in the Trust Indenture or the Bonds, or for the validity, sufficiency, or legal effect of any of such documents.

Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application by the Corporation of any of the Bonds authenticated or delivered pursuant to the Trust Indenture or for the use or application of the proceeds of such Bonds by the Corporation or District. The Trustee has not evaluated the risks, benefits, or propriety of any investment in the Bonds and makes no representation, and has reached no conclusions, regarding the value or condition of any assets or revenues pledged or assigned as security for the Bonds, the technical or financial feasibility of the Project, or the investment quality of the Bonds, about all of which the Trustee expresses no opinion and expressly disclaims the expertise to evaluate.

Additional information about the Trustee may be found at its website at <http://www.usbank.com/corporatetrust>. Neither the information on the Trustee's website, nor any links from that website, is a part of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Bonds.

### USE OF BOND PROCEEDS

The Bonds are being issued to finance the costs of acquisition, construction and equipment of the Project, and to pay the costs of issuance related to the Bonds under the authority of and in full conformity with the laws of the State of Texas, particularly the provisions of the Public Facility Corporation Act and the Trust Indenture. The proceeds will be applied approximately as follows:

#### Sources of Funds

Par Amount of the Bonds	\$44,430,000.00
Net Premium	2,055,517.20
<b>Total Sources</b>	<b><u>\$46,485,517.20</u></b>

#### Uses of Funds

Construction Fund	\$35,000,000.00
Reimbursement to District	10,069,698.00
Capitalized Interest Fund	492,684.38
Underwriters' Discount	349,011.40
Costs of Issuance	573,200.00
Debt Service Fund Deposit	923.42
<b>Total Uses</b>	<b><u>\$46,485,517.20</u></b>

### CORPORATION DEBT SERVICE REQUIREMENTS

#### Debt Service Requirements for the Bonds

The following table sets forth the debt service payments for the Bonds:

The Bonds					
<b>Year Ending 8/31</b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Debt Service</u></b>	<b><u>Capitalized Interest</u></b>	<b><u>Total Net Debt Service</u></b>
2012	-	\$ 492,684	\$ 492,684	\$492,684	0
2013	-	1,970,738	1,970,738		\$ 1,970,738
2014	-	1,970,738	1,970,738		1,970,738
2015	-	1,970,738	1,970,738		1,970,738
2016	-	1,970,738	1,970,738		1,970,738
2017	\$ 190,000	1,970,738	2,160,738		2,160,738
2018	300,000	1,966,938	2,266,938		2,266,938
2019	425,000	1,957,938	2,382,938		2,382,938
2020	555,000	1,945,188	2,500,188		2,500,188
2021	700,000	1,925,763	2,625,763		2,625,763
2022	860,000	1,897,763	2,757,763		2,757,763
2023	1,030,000	1,863,363	2,893,363		2,893,363
2024	1,225,000	1,811,863	3,036,863		3,036,863
2025	1,440,000	1,750,613	3,190,613		3,190,613
2026	1,670,000	1,678,613	3,348,613		3,348,613
2027	1,920,000	1,595,113	3,515,113		3,515,113
2028	2,170,000	1,525,513	3,695,513		3,695,513
2029	2,440,000	1,438,713	3,878,713		3,878,713
2030	2,730,000	1,341,113	4,071,113		4,071,113
2031	3,045,000	1,231,913	4,276,913		4,276,913
2032	3,325,000	1,110,113	4,435,113		4,435,113
2033	4,105,000	954,581	5,059,581		5,059,581
2034	4,660,000	762,544	5,422,544		5,422,544
2035	5,140,000	544,550	5,684,550		5,684,550
2036	6,500,000	304,088	6,804,088		6,804,088
<b>Total</b>	\$44,430,000	\$37,952,647	\$82,382,647	\$492,684	\$81,889,963

## **Outstanding Bonds**

In August 2008, the Corporation issued its \$118,980,000 Lease Revenue Bonds (Educational Facility Project - Round Rock Campus), Series 2008 (the "Series 2008 Bonds") to finance the acquisition of a site and the construction of five multi-story buildings of approximately 250,000 gross square feet of space and surface parking comprising the Round Rock Campus (the "Round Rock Project"). The Round Rock Project was built in phases with the initial phase accommodating over 5,000 students, and expanding to accommodate 12,000 students. (See THE DISTRICT - Existing District Campus Facilities" herein.) The Series 2008 Bonds were issued pursuant to a resolution adopted by the Board of Directors of the Corporation and a Trust Indenture Relating to the Austin Community College District Educational Facility Project (Round Rock Campus), dated as of August 1, 2008 (the "2008 Trust Indenture"), by and between the Corporation and the Trustee named therein, to finance the costs of acquisition, construction and equipment of the Round Rock Project for the use and benefit of the District. A portion of the proceeds of the Series 2008 Bonds was used to fund a debt service reserve fund and to pay the costs of issuing the Series 2008 Bonds. The Corporation leased (the "2008 Lease") the Round Rock Project to the District for a period coterminous with the final maturity of the Series 2008 Bonds. Payments made by the District to the Corporation under the Lease (the "2008 Lease Payments") are pledged by the Corporation as security for and the source of repayment of the Series 2008 Bonds; upon expiration of the Lease, fee simple title to the Round Rock Project will be conveyed to the District. The obligation of the District to make the 2008 Lease Payments is a current expense of the District, payable solely from funds annually appropriated by the District for such use. Remedies available upon a failure of the District to appropriate or pay the 2008 Lease Payments are limited to termination of the District's leasehold interest, the right to take possession and control of the Round Rock Project, and the right to sell or lease the Round Rock Project upon foreclosure under the 2008 Mortgage and Security Agreement. The 2008 Lease and the obligations of the District thereunder do not constitute a pledge, a liability, or a charge upon the funds of the District and do not constitute a debt or general obligation of the State of Texas, the District, or any other political subdivision of the State of Texas. Neither the faith and credit nor the taxing power of the State of Texas, the District, or any other political subdivision of the State of Texas has been pledged to the payment of the principal of, premium, if any, or interest on the Series 2008 Bonds.

In December 2010, the Corporation issued its \$33,470,000 Lease Revenue Bonds (New Campuses Project) Taxable Series 2010A (Build America Bonds - Direct Payment) (the "2010 Corporation Bonds"). The 2010 Corporation Bonds were issued pursuant to a resolution adopted by the Board of Directors of the Corporation under the authority of and in full conformity with the laws of the State of Texas, the Master Trust Indenture, and a First Supplemental Trust Indenture Relating to the Austin Community College District (New Campuses Project) dated as of December 1, 2010 (the "Supplemental Trust Indenture" and together with the Master Trust Indenture, the "2010 Trust Indenture"), by and between the Corporation and the Trustee named therein, to finance the costs of acquisition, construction and equipment of a new campus in Elgin, Texas for the use and benefit of the District. The new campus project in the City of Elgin is in the preliminary stages of development. The District will construct the new campus on approximately 98 acres in the City of Elgin (the "Elgin Project"). Upon completion, the Elgin Project will serve approximately 1,200 students. (See "THE DISTRICT - Existing District Campus Facilities" for information on development of the Elgin Campus.)

The Corporation leases the Elgin Project to the District pursuant to the Lease With an Option to Purchase dated as of December 1, 2010 (the "2010 Lease") between the District and the Corporation. Under the 2010 Lease, the District is required to make lease payments semiannually in consideration of the lease of the Elgin Project (the "2010 Lease Payments"), which 2010 Lease Payments equal principal and interest on the 2010 Corporation Bonds. The Corporation assigned its interest in the 2010 Lease, the 2010 Lease Payments, and the Elgin Project to the Trustee for the benefit of the 2010 Corporation Bondholders pursuant to a Deed of Trust, Security Agreement, and Assignment of Rents and Leases, and Financing Statement dated December 14, 2010 on the date of delivery of the 2010 Corporation Bonds (the "2010 Deed of Trust"), by and between the Corporation and the Trustee. The Corporation also grants a first priority purchase money security interest in the personal property portion of the Elgin Project pursuant to the 2010 Deed of Trust.

Remedies available upon a failure of the District to appropriate or pay the 2010 Lease Payments are limited to termination of the District's leasehold interest, the right to take possession and control of the Elgin Project, and the right to sell or lease the Elgin Project upon foreclosure under the 2010 Deed of Trust. The 2010 Lease and the obligations of the District thereunder do not constitute a pledge, a liability, or a charge upon the funds of the District and do not constitute a debt or general obligation of the State of Texas, the District, or any other political subdivision of the State of Texas. Neither the faith and credit nor the taxing power of the State of Texas, the District, or any other political subdivision of the State of Texas has been pledged to the payment of the principal of, premium, if any, or interest on the 2010 Corporation Bonds.

The outstanding amount of Series 2008 Bonds and 2010 Corporation Bonds is \$150,345,000.

## **SECURITY FOR THE BONDS**

Payments of principal and interest with respect to the Bonds are payable from the Lease Payments to be paid by the District under the Lease, from certain money held by the Trustee under the Trust Indenture, and from amounts received by the Trustee from the

sale or other transfer of the Corporation's interest in the Project after termination of the Lease following an Event of Default or Event of Nonappropriation by the District. (See "APPENDIX A - Selected Provisions of the Financing Documents.")

### **Trust Estate**

All payments to be made by the Trustee under the Trust Indenture to the registered owners may be made only from the income and proceeds from the Trust Estate and only to the extent that the Trustee has received income or proceeds from the Trust Estate. The "Trust Estate" consists of all right, title, and interest of the Corporation (i) in and to the Project, (ii) in and under the Lease and the other Financing Documents, (iii) in and to all Lease Payments and other payments paid or payable by the District from and after the date of the Trust Indenture, (iv) other income, charges, and funds realized from the lease, sale, transfer or other disposition of the Project, (v) all funds and investments in all accounts established under the Trust Indenture, and (vi) all funds deposited with the Trustee pursuant to the Financing Documents.

### **Lease Payments**

The District is required to pay to the Trustee, for the account of the Corporation, the Lease Payments from Available Funds on July 25, 2012, and each July 25 and January 25 thereafter according to the terms of the Lease for so long as the Lease is in effect. The amount of each Lease Payment required under the Lease is equal to an amount of money which, when added to the amount then on deposit in the Payment Account, will equal (i) the amount of interest to become due on the Bonds on the next Bond Payment Date, (ii) the amount of principal to become due on the Bonds, whether by maturity or by mandatory sinking fund redemption on the next Bond Payment Date, (iii) the amount of any interest on overdue principal and interest required pursuant to the Trust Indenture, and (iv) the amount due for one-half of the annual administration fee of the Trustee. **THE OBLIGATIONS OF THE DISTRICT UNDER THE LEASE, INCLUDING ITS OBLIGATION TO PAY THE LEASE PAYMENTS, CONSTITUTE A CURRENT EXPENSE OF THE DISTRICT IN EACH FISCAL YEAR, AND DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT WITHIN THE MEANING OF THE LAWS OF THE STATE. NOTHING IN THE LEASE IS TO CONSTITUTE A PLEDGE BY THE DISTRICT OF ANY TAXES OR OTHER MONEY, OTHER THAN AVAILABLE FUNDS FOR THE CURRENT FISCAL YEAR, TO THE PAYMENT OF LEASE PAYMENTS DUE THEREUNDER.**

### **Deed of Trust and Security Agreement**

To secure its obligations under the Trust Indenture, the Corporation will grant a first mortgage lien on and first deed of trust title to the real property portion of the Project and will assign and pledge the Corporation's interest in the leases, rents, issues, profits, revenues, income, receipts, money, rights, and benefits of and from the Project for the use and benefit of the Trustee on behalf of the registered owners of the Bonds, pursuant to the Deed of Trust. Additionally, the Corporation will grant to the Trustee a first priority purchase money security interest in the machinery, equipment, furnishings, or other personal property acquired by the Corporation with proceeds of the Bonds, and at any time installed or located on the Project site, and substitutions or replacements therefor, in any inventory of the Corporation now or hereafter located at the Project, and in the accounts, documents, chattel paper, instruments, and general intangibles arising in any manner from the Corporation's ownership and operation of the Project pursuant to the Security Agreement.

### **Repair and Replacement Account**

A Repair and Replacement Account will be funded from available funds in 60 equal installments until it is fully funded at \$1,000,000. Amounts on deposit in the Repair and Replacement Account may be withdrawn by the Corporation upon certifying to the Trustee in writing that amounts withdrawn will be used to pay costs of repairs, replacements and capital improvements to the Project. (See "APPENDIX A - Selected Provisions of the Financing Documents.")

### **Remedies**

**REMEDIES AVAILABLE UPON A FAILURE OF THE DISTRICT TO APPROPRIATE OR PAY LEASE PAYMENTS ARE LIMITED TO TERMINATION OF THE DISTRICT'S LEASEHOLD INTEREST, THE RIGHT TO TAKE POSSESSION AND CONTROL OF THE PROJECT, AND THE RIGHT TO SELL OR LEASE THE PROJECT UPON FORECLOSURE UNDER THE DEED OF TRUST. (SEE "APPENDIX A — SELECTED PROVISIONS OF THE FINANCING DOCUMENTS.")**

The enforcement by the Trustee of the remedies provided in the Financing Documents is subject to the application of principles of equity and state and federal laws relating to bankruptcy, moratorium, reorganization, and creditors' rights generally, and such remedies may require the expenditure of money and considerable time to enforce.

### **Additional Parity Bonds**

The Corporation has reserved the right to issue additional bonds which are secured by a lien on the Trust Estate and rank equally and on a parity with the Bonds (“Additional Parity Bonds”); provided, however, that no such Additional Parity Bonds may be issued unless and until the following conditions will have all been met:

- (a) No Event of Default under the Trust Indenture is in existence at the time of issuance of the Additional Parity Bonds;
- (b) The issuance of the Additional Parity Bonds is permitted by the laws of the State effective at the time of the authorization of such Additional Parity Bonds; and
- (c) The Lease Payments required to be made by the District pursuant to the Lease shall have been increased to a level sufficient to provide for all Bond Payments with respect to any such Additional Parity Bonds or the Corporation and the District shall execute a new lease providing for lease payments sufficient to provide for all Bond Payments with respect to any such Additional Parity Bonds.

### **BOOK-ENTRY-ONLY SYSTEM**

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York (“DTC”), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Corporation, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

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

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

Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or Trustee, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The Corporation may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC.

#### **Use of Certain Terms in Other Sections of this Official Statement**

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

#### **Effect of Termination of Book-Entry-Only System**

In the event that the Book-Entry-Only System is discontinued by DTC or the Corporation, the following provisions will be applicable to the Bonds. Bonds may be exchanged for an equal aggregate principal amount of Bonds in authorized denominations and of the same maturity upon surrender thereof at the principal office for payment of the Trustee. The transfer of any Bond may be registered on the books maintained by the Trustee for such purpose only upon the surrender of such Bond to the Trustee with a duly executed assignment in form satisfactory to the Trustee. For every exchange or transfer or registration of Bonds, the Trustee and the Corporation may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer. The Corporation shall pay the fee, if any, charged by the Trustee for the transfer or exchange. The Trustee will not be required to transfer or exchange any Bond or portion thereof (i)

during the period commencing with the close of business on any record date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date. The Corporation and the Trustee may treat the person in whose name a Bond is registered as the absolute owner thereof for all purposes, whether such Bond is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond.

## **FINANCIAL AND OPERATING INFORMATION OF THE DISTRICT**

The District's only obligation with respect to the payment of the Bonds is its indirect obligation to pay the Lease Payments to the Trustee pursuant to the Lease from money to be appropriated annually for the payment thereof. The District has no authority to levy taxes specifically for the payment of the Lease Payments. The Lease is a special, limited, and non-recourse obligation of the District payable solely from the funds specified above during each fiscal year and in no way constitutes an obligation, either special, general, or moral, of the State of Texas or any other political subdivision thereof. (See "SECURITY FOR THE BONDS - Lease Payments.")

### **Authority to Levy Taxes**

The District is authorized to levy an annual ad valorem tax, within the limitations prescribed by law, on all taxable property within the District in an amount sufficient to pay the principal of and interest on obligations of the District payable from such taxes. Under Texas law, the District also levies and collects an annual ad valorem tax for the operation and maintenance of the District and its facilities and for the payment of certain contractual obligations.

### **Tax Rate Limitations**

On May 3, 2003, the voters of the District approved an increase of the District's \$0.05 per \$100 valuation tax rate to \$0.09 per \$100 valuation for maintenance and operations; such rate was phased in over a period of years. The District currently levies at the \$0.09 limit for operations and maintenance. In addition, the District can levy up to \$0.50 on the \$100 valuation for debt service for obligations payable from ad valorem taxes. (See "Table 7 - Assessed Tax Valuation" and "Table 8 - Tax Data.")

### **Table 1 — Bond Fund Balances**

At August 31, 2011, the unaudited balances in the Funds applicable to the Outstanding Parity Bonds were as follows:

#### **Revenue Bonds**

Debt Service Reserve Fund	\$ 7,287,244
Interest and Sinking Fund	<u>1,948,617</u>
Total	\$ 9,235,861

#### **Round Rock Public Facility Corporation Bonds**

Debt Service Reserve Fund	\$ 9,533,297
Interest and Sinking Fund	<u>-0-</u>
Total	\$ 9,533,297

Source: The District

### **Table 2 — Historical Enrollment**

Headcount enrollment for students enrolled in semester-length programs of the District for the past ten years is shown below:

#### **Headcount Enrollments - Semester-Length Programs**

<b>Fiscal Year</b>	<b>Fall Semester</b>	<b>Spring Semester</b>	<b>Summer Semester</b>	<b>Total</b>
2002	27,577	26,902	28,891	83,370
2003	29,156	28,233	29,115	86,504
2004	28,890	31,818	25,972	86,680
2005	29,034	32,343	26,361	87,738
2006	32,291	30,140	22,310	84,741
2007	33,039	31,900	23,314	88,253
2008	33,508	32,369	24,407	90,284
2009	36,397	37,061	27,871	101,329
2010	40,870	41,229	30,509	112,608
2011	44,505	45,249	30,406	120,160



Headcount enrollment for students enrolled in quarter-length programs of the District for the past ten years is shown below:

Headcount Enrollments - Quarter-Length Programs\*

<b>Fiscal Year</b>	<b>Fall Quarter</b>	<b>Winter Quarter</b>	<b>Spring Quarter</b>	<b>Summer Quarter</b>
2002	5,722	4,276	3,318	4,008
2003	4,218	3,180	2,577	4,225
2004	3,329	3,042	2,380	3,878
2005	3,882	3,096	2,428	3,048
2006	3,762	2,925	2,514	2,737
2007	3,773	3,282	2,821	3,160
2008	7,626	5,145	6,174	4,339
2009	7,031	7,184	5,369	6,605
2010	6,188	N/A	6,174	4,856

Headcount Enrollments - Quarter-Length Programs\*(1)

<b>Fiscal Year</b>	<b>Fall Semester</b>	<b>Spring Semester</b>	<b>Summer Semester</b>	<b>Total</b>
2011	5,645	5,921	4,713	16,279

Source: The District

\* These enrollment figures represent students in addition to those enrolled in the semester-length programs.

(1) Now shown by semester

Annual Total Semester Credit Hours\*

Actual Fiscal Years 1992-2011

<b>Fiscal Year</b>	<b>Credit Hours</b>	<b>Fiscal Year</b>	<b>Credit Hours</b>
1992	451,520	2002	556,492
1993	467,269	2003	577,345
1994	473,352	2004	583,105
1995	490,280	2005	587,123
1996	491,431	2006	609,545
1997	489,405	2007	638,290
1998	502,003	2008	648,292
1999	506,460	2009	723,238
2000	505,583	2010	813,327
2001	521,942	2011	864,884

Source: The District

\* Based on semester-length programs only.

### Tuition Rates

Tuition is based on residency determined by the Admissions Office. Tuition and building fees are charged by credit hour. Tuition and fees are subject to change without notice by the Board of Trustees of the District.

**Table 3 — Tuition Rates and Fees**

<b>Charge</b>	<b>In District</b>	<b>Out of District<sup>(1)</sup></b>	<b>Out of State/ International</b>
Tuition (per hour) <sup>(2)</sup>	\$57	\$57	\$303
Out-of-District Fee	-	142	-
General Fee	13	13	13
Student Service Fee	2	2	2
Sustainability Fee	1	1	1

<sup>(1)</sup> Increases by 8% per year until a parity relationship with in-district ad valorem taxes is achieved.

<sup>(2)</sup> The District approved an increase in tuition that will be implemented in \$5 increments over three semesters for a total increase of \$15 beginning with the Summer 2011 semester.

Source: The District

## **Employee Organizational Activity**

Administrators and professional personnel may belong to two professional organizations, Texas Junior College Teachers' Association and United Faculty/American Federation of Teachers, which are currently active in Texas. State law prohibits collective bargaining by public employees.

## **Retirement Plan**

The Teacher Retirement System of Texas ("TRS"), a Public Employee Retirement System ("PERS") is a multiple-employer defined benefit pension plan. It is a cost-sharing PERS with one exception: all risks and costs are not shared by the employer but are the liability of the State. By statute, the State contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of all members of the retirement system during that fiscal year. For members of the retirement system entitled to the minimum salary for certain school personnel under Section 16.056, Texas Education Code, the employing district shall pay the State's contribution on the portion of the member's salary that exceeds the statutory minimum. The percentages of participant salaries currently contributed by the State and by each participant are 6.0% and 6.4%, respectively, of annual contribution.

The State has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program is in lieu of participation in the TRS. The optional retirement program provides for the purchase of annuity contracts. The percentages of participant salaries in 2012 contributed by the State and each participant are 6.0% and 6.65%, respectively. The District contributes an additional 2.5% for employees hired on or before August 31, 1992. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program. (See also "Pension Fund Liability.")

## **Pension Fund Liability**

The TRS is charged with the responsibility of administering pension funds for all public educational institutions in Texas, including the District. Since the State and the individual employees participate in the retirement system on a joint basis, and the local district makes no contribution for the employee, the District has no liability or responsibility in funding of a retirement program. Effective January 1, 1992, the District adopted a defined contribution retirement plan sponsored by Teachers Insurance and Annuity Association – College Retirement Equities Fund ("TIAA-CREF") ("Part-Time Employee Plan") in which substantially all part-time employees of the District participate. The Part-Time Employee Plan was adopted as required by the Omnibus Budget Reconciliation Act of 1990 ("OBRA"). OBRA stipulates that part-time employees of state and local governmental agencies shall be included in a retirement plan which provides benefits comparable to Social Security. Participants in the Part-Time Employee Plan are 100% vested from the date of enrollment and vested benefits are fully funded. (See also "Retirement Plan.")

## **Postemployment Benefits Other than Pensions**

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

ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained from ERS via their website at <http://www.ers.state.tx.us/.Funding Policy>. Section 1551.055 of Chapter 1551, Texas Insurance Code provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. Plan members or beneficiaries receiving benefits pay any premium over and above the employer contribution.

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS Board of Trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*.

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 District's contributions to SRHP for the years ended August 31, 2011, 2010, and 2009, were \$1,217,188, \$1,182,778, and \$1,042,227, respectively.

### **Authorized Investments**

The Board of Trustees of the District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act (Texas Government Code, Section 2256.001, as amended). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than "A" by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

### **Compensated Absences**

Full-time employees earn annual leave from 10 to 13.34 hours per month depending on the number of years employed with the District. The District's policy is that classified, professional-technical or administrative employees may accrue up to 240 hours of annual leave. All remaining accrued annual leave is paid out to an employee when he retires or otherwise terminates employment.

Sick leave, which is limited to a maximum of 1,200 hours, is earned at the rate of eight (8) hours per month. The maximum sick leave that may be paid to an employee when he retires or otherwise terminates employment is one-half of the employee's accumulated entitlement in excess of 960 hours.

For the fiscal years ended August 31, 2011 and 2010 the District recognized \$4,850,291 and \$4,592,191, respectively, as an accrued liability for the unpaid annual and sick leave. The District's reporting of accrued liabilities for compensable absences is in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The total amount accrued at August 31, 2011, of \$4,850,291 is allocated \$957,812 to sick leave and \$3,892,479 to annual leave. The total amount accrued at August 31, 2010, of \$4,592,191 is allocated \$903,501 to sick leave and \$3,688,690 to annual leave.

[The remainder of this page intentionally left blank.]

**Table 4 - Statement of Revenues, Expenses and Changes in Net Assets**

<b>Fiscal Year Ended:</b>	<b>8/31/2008</b>	<b>8/31/2009</b>	<b>8/31/2010</b>	<b>8/31/2011</b>
<b>REVENUES</b>				
<b>Operating Revenues</b>				
Tuition and Fees (Net of Discounts \$20,623,395 – 2010; \$13,280,626–2009)	\$45,751,313	\$47,763,327	\$50,540,086	\$52,739,591
Federal Grants and Contracts	4,752,767	4,339,662	7,243,206	7,850,298
State Grants and Contracts	2,054,927	1,831,993	3,499,335	4,214,920
Local Grants and Contracts	289,871	298,930	382,575	336,749
Non-Governmental Grants and Contracts	1,695,874	1,472,755	1,027,534	1,047,028
Sales and Services of Educational Activities	2,983,119	3,512,504	4,370,390	4,394,812
Auxiliary Enterprises	952,872	1,018,198	1,147,105	1,243,305
Other Operating Revenues	<u>2,302,314</u>	<u>2,111,550</u>	<u>3,220,214</u>	<u>3,441,312</u>
<b>Total Operating Revenues</b>	<b>\$60,783,057</b>	<b>\$62,348,919</b>	<b>\$71,430,445</b>	<b>\$75,268,015</b>
<b>EXPENSES</b>				
<b>Operating Expenses</b>				
Instruction	\$87,363,423	\$96,582,979	\$107,781,517	\$116,846,968
Public Service	4,015,163	4,656,123	5,164,981	5,445,969
Academic Support	20,335,313	21,704,682	23,052,422	24,572,271
Student Services	17,225,267	20,070,202	21,871,008	24,033,999
Institutional Support	30,968,874	31,459,693	35,052,239	35,079,981
Operation and Maintenance of Plant	17,761,350	19,037,069	31,883,327	24,335,986
Scholarships	12,482,655	18,398,629	30,784,822	34,550,434
Auxiliary Enterprises	324,652	379,319	331,265	938,515
Depreciation	<u>5,268,703</u>	<u>5,778,360</u>	<u>6,531,221</u>	<u>9,749,746</u>
<b>Total Operating Expenses</b>	<b>\$195,745,400</b>	<b>\$218,067,056</b>	<b>\$262,452,802</b>	<b>\$275,553,869</b>
<b>Operating Income (Loss)</b>	<b><u>(134,962,343)</u></b>	<b><u>(155,718,137)</u></b>	<b><u>(191,022,357)</u></b>	<b><u>(200,285,854)</u></b>
<b>Non-Operating Revenues/(Expenses)</b>				
State Appropriations	\$55,451,405	\$55,950,127	\$59,133,878	59,097,142
Maintenance Ad Valorem Taxes	80,567,865	88,900,100	104,503,979	100,785,060
Federal Revenue, Non Operating	17,221,814	22,798,670	40,321,844	48,823,118
Gifts	36,657	130,321	23,331	2,559
Investment Income (Net of Investment Expenses)	3,870,442	522,702	1,277,285	406,506
Interest on Capital-Related Debt	(7,517,175)	(6,592,025)	(6,986,512)	(13,942,317)
Loss on Disposal of Fixed Assets	<u>(7,266)</u>	<u>(8,651)</u>	<u>1,524</u>	<u>(87,890)</u>
Other Non-Operating Revenues/(Expenses)				
<b>Total Non-Operating Revenues</b>	<b>\$149,623,742</b>	<b>\$161,701,244</b>	<b>\$198,275,329</b>	<b>\$195,084,178</b>
<b>Increase/(Decrease) in Net Assets</b>	<b>14,661,399</b>	<b>5,983,107</b>	<b>7,252,972</b>	<b>(5,201,676)</b>
<b>Beginning Net Assets</b>	<b><u>69,307,005</u></b>	<b><u>83,968,404</u></b>	<b><u>89,951,511</u></b>	<b><u>97,204,483</u></b>
<b>Net Assets – End of Year</b>	<b><u>\$83,968,404</u></b>	<b><u>\$89,951,511</u></b>	<b><u>\$97,204,483</u></b>	<b><u>\$92,002,807</u></b>

**Table 5 — Statement of Net Assets**

The following table should be read in conjunction with the audited financial statements included in APPENDIX B, including the accompanying footnotes contained therein.

<b>Fiscal Year Ended 8/31:</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$37,084,562	\$44,373,329	\$30,235,305	\$29,947,121
Restricted Cash and Cash Equivalents	8,102,767	15,775,689	19,022,663	10,946,442
Investments	17,174,202	5,765,541	25,008,986	12,501,266
Accounts Receivable	11,611,557	16,869,741	19,268,601	22,330,224
Deferred Charges	5,121,695	8,818,929	10,558,726	9,148,578
Prepaid Expenses	469,612	249,615	531,963	822,066
Restricted Investments	<u>6,062,445</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Current Assets</b>	<b>\$85,626,840</b>	<b>\$91,852,844</b>	<b>\$104,626,244</b>	<b>\$85,695,697</b>
<b>Noncurrent Assets</b>				
Restricted Cash and Cash Equivalents	2,278,553	3,444,078	15,861,635	11,089,742
Investments	-0-	-0-	-0-	12,508,253
Restricted Investments	136,611,070	91,828,578	13,813,200	40,153,426
Deferred Charges	4,648,578	3,955,763	3,914,686	4,840,620
Capital Assets	<u>172,032,969</u>	<u>231,133,414</u>	<u>325,421,841</u>	<u>376,526,172</u>
<b>Total Noncurrent Assets</b>	<b>\$315,571,170</b>	<b>\$330,361,833</b>	<b>\$359,011,362</b>	<b>\$445,118,213</b>
<b>Total Assets</b>	<b>\$401,198,010</b>	<b>\$422,214,677</b>	<b>\$463,637,606</b>	<b>\$530,813,910</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts Payable	6,591,661	14,199,378	15,967,116	5,735,299
Accrued Liabilities	5,576,542	8,652,439	10,045,072	7,219,147
Accrued Compensable Absences – Current	2,215,654	2,266,950	2,693,286	2,683,420
Funds Held for Others	1,041,230	1,681,373	491,831	2,149,246
Deferred Revenues	27,848,358	35,222,750	40,478,249	44,362,483
Other Liabilities – Current Portion	484,390	498,716	516,190	534,295
Long-Term Debt – Current Portion	<u>3,758,941</u>	<u>5,014,093</u>	<u>5,942,986</u>	<u>6,763,391</u>
<b>Total Current Liabilities</b>	<b>\$47,516,776</b>	<b>\$67,535,699</b>	<b>\$76,134,730</b>	<b>\$68,205,676</b>
<b>Noncurrent Liabilities</b>				
Accrued Compensable Absences	1,303,022	1,925,467	1,898,905	2,166,871
OPEB Payable	-0-	-0-	860,798	1,241,605
Deferred Revenues	894,583	799,583	704,583	609,583
Capital Lease Payable	1,549,201	1,050,485	534,295	-0-
Bonds Payable	<u>265,966,024</u>	<u>260,951,932</u>	<u>287,160,610</u>	<u>366,587,368</u>
<b>Total Noncurrent Liabilities</b>	<b>\$269,712,830</b>	<b>\$264,727,467</b>	<b>\$290,298,393</b>	<b>\$370,605,427</b>
<b>Total Liabilities</b>	<b>\$317,229,606</b>	<b>\$332,263,166</b>	<b>\$366,433,123</b>	<b>\$438,811,103</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	\$44,737,323	\$54,104,007	\$53,589,343	49,330,529
<b>Restricted</b>	-0-	-0-	-0-	-0-
<b>Expendable</b>	-0-	-0-	-0-	-0-
Scholarships	287,716	366,382	386,060	353,801
Departmental Activities	162,255	106,553	82,350	111,363
Loans	27,557	27,609	27,609	27,609
Debt Service	12,441,937	14,652,097	16,975,024	17,777,580
Other	-0-	-0-	-0-	-0-
<b>Nonexpendable</b>	-0-	-0-	-0-	-0-
Unrestricted	<u>26,311,616</u>	<u>20,694,863</u>	<u>26,144,097</u>	<u>24,401,925</u>
<b>Total Net Assets</b>	<b>\$ 83,968,404</b>	<b>\$ 89,951,511</b>	<b>\$ 97,204,483</b>	<b>\$ 92,002,807</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$401,198,010</b>	<b>\$422,214,677</b>	<b>\$463,637,606</b>	<b>\$530,813,910</b>

Source: The District's Audited Financial Records

## **Discussion of Fiscal Year 2011 and Fiscal Year 2012 Budgets**

The District has completed its audit for the fiscal year ending 2011. The District ended the 2011 fiscal year with a decrease in unrestricted net assets of approximately \$1.7 million and a decrease in total net assets of approximately \$5.2 million. The decrease is attributable to a \$3.2 million increase in depreciation, a mid-year reduction in State appropriations of \$2.1 million and a \$1.7 million reduction in tuition revenue due to the successful annexation of Elgin ISD and Hays CISD. The increase in depreciation expense is attributed to the completion and opening of the Round Rock Campus. This campus is by far the District's largest and most costly to date, and therefore it had a significant impact on depreciation expense. While the District's original budget included capital purchases that would have offset the impact of depreciation on net assets, the mid-year cuts in State appropriations forced the District to delay most of the capital expenditures included in the operating budget. Delaying the capital expenditures allowed the District to preserve cash and therefore maintain liquidity levels. Preserving cash was a priority for the District, but the reduction to the capital budget prevented the District from investing enough in new capital assets to offset the impact of depreciation on those assets, thus resulting in a decrease in net assets. While these annexations are very positive for the District and will generate positive cash flows in the future, there is a timing difference between the reduction in tuition revenue and the increase in property tax revenue. Since the annexation occurred mid-year 2011, the residents of those territories became eligible for the reduced in-district tuition rate immediately which was for the Spring 2011 semester. However, because property taxes are paid in arrears, the tax collections will not begin until the District's fiscal year 2012. This timing difference resulted in a loss of tuition revenue of about \$1.7 million during the current year. Since the future tax revenues will exceed the reduced tuition revenues, this impact will be reversed in 2012 and all future years thereafter.

The District took all necessary actions in the 2012 Budget to address the issues. Actions included increases to tuition and fees and several cost saving measures, which altogether created a structural budget surplus for FY2012. This structural surplus will position the District to respond to any future State reductions. The audit will be made available for review through the District's website as well as through the EMMA system (defined herein).

## **Discussion of State Appropriations and Impact to District**

The State Legislature opened its 82nd Legislative Session (the "Session") on January 11, 2011 with a reported budget shortfall of approximately \$27 billion. The State Legislature approved a State budget during the Session, which reduced the appropriations to the District by approximately fifteen percent (15%). State appropriations to the District currently represent about twenty-three percent (23%) of its overall budget and revenues. The District anticipated and prepared for the expected State reductions by developing a surplus operating budget. Accordingly, the District expects that all of its campuses will continue to operate at full capacity and that student services will not be affected by any reduction in State appropriations in this Session.

The District has addressed and will continue to address reductions in State appropriations through the consideration of different options including the implementation of cost cutting measures and tuition and/or fee increases. The District recently approved and implemented tuition and fee increases. (See "TABLE 3 - Tuition Rates and Fees," herein).

## **Other Financial Matters**

*Financial Administration:* The District is a political subdivision governed by applicable laws of the State. Pursuant to State law, the nine member Board of Trustees adopts policies, sets directions for curriculum, employs the College President and staff and oversees the operations of the Corporation. The College President and the District's staff assist the Board of Trustees in budget preparation, financial record keeping and auditing. The Board of Trustees is responsible for setting the tax rate, setting salary schedules, adopting and amending the annual budget, approving tuition and fee schedules and authorizing the issuance of District revenue and tax debt and Corporation lease revenue debt.

*Budget Procedures:* The District's fiscal year begins September 1 and ends August 31. The annual budget is initially prepared under the direction of the District's Budget Office. The Board of Trustees reviews the budget in June and final preparation is completed around July 1. The Board of Trustees generally approves the final budget in early July and sets the District's tax rate in early September of each year.

*Cash Management:* The District's deposits and investments are required by law either to be insured by federal depository insurance or collateralized. The District invests its money pursuant to the authority of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended).

*Insurance:* The District's property damage and general liability insurance is provided through a private insurance carrier, and the property insurance provides for replacement value coverage for District properties. The District provides hospital/medical and life insurance for its full-time employees through the Texas Employees Uniform Group Insurance Program.

*Other Debt Obligations:* The District may incur financial obligations from time to time, payable from various sources, including voted ad valorem tax-supported bonds, maintenance tax notes payable from its collection of maintenance taxes, public property

finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

*Lease Purchase Agreements:*

The District entered into several capital leases to finance the purchase of various classes of property. Such property is capitalized at the present value of future minimum lease payments. The following is a schedule of the future minimum lease purchase payments and the present value of the net minimum lease payments at March 1, 2012:

	<u>Year Ending</u>	
	2013	\$ 300,072.74
	2014	300,072.74
	2014	300,072.74
	2016	<u>300,072.74</u>
Total		\$1,158,937.52
Less: Interest		<u>(\$41,353.44)</u>
Present Value of Net Minimum Lease Payments		\$1,117,584.08

**Table 6 — Authorized but Unissued Ad Valorem Debt and Other Indebtedness**

The District has no authorized but unissued debt.

	<u>Other Indebtedness</u> (as of 8/31/2011)		
Series Name	Outstanding Bonds	Average Debt Service	Final Maturity
Combined Fee Revenue Building & Refunding Bonds, Series 2002	\$4,584,516	\$1,024,166	2023
Combined Fee Revenue Refunding Bonds, Series 2005	21,525,000	3,031,431	2021
Combined Fee Revenue Building Bonds, Series 2009A	31,180,000	2,987,967	2029
Combined Fee Revenue Refunding Bonds, Series 2009B	7,920,000	908,862	2021
Combined Fee Revenue Refunding Bonds, Series 2010	3,860,000	438,558	2022
Combined Fee Revenue Building Bonds, Taxable Series 2011	22,225,000	3,263,126	2020
Combined Fee Revenue Building Bonds, Taxable Series 2011A	20,275,000	1,579,164	2036
Combined Fee Subordinate Lien Revenue Building Bonds, Series 2011B	\$10,050,000	5,192,198	2013
Limited Tax Bonds, Series 2003	44,820,000	3,815,053	2033
Limited Tax Bonds, Series 2004	2,110,000	661,550	2025
Limited Tax Refunding Bonds, Series 2006	17,799,384	1,478,006	2034

Source: The District

[Remainder of page intentionally left blank.]

**Table 7 — Assessed Tax Valuation**

2011 Actual Value of Taxable Property		\$135,788,176,309
Less Exemptions:		
Agriculture	\$ 3,071,263,077	
Historical	2,304,799	
10% Cap Loss	481,250,788	
Homestead	1,179,659,376	
Over 65	4,717,387,851	
Disabled Vet	239,889,647	
Disabled Persons	410,443,406	
Exempt	10,955,884,897	
Solar	594,002	
Pollution	66,679,903	
House Bill 366	324,569	
Freeport	4,306,651	
Prorated Exempt	8,014,721	
Productivity Market	221,444	
Community Housing Dev - 2004	3,114,634	
Low Income Housing	<u>15,398,239</u>	
Total Exemptions		\$ 21,156,738,004
Less Projected Loss in Protest		<u>2,386,845,572</u>
2011 Assessed Valuation (100% of Actual)		\$112,244,592,733
AD VALOREM DEBT		
Outstanding Bonds as of August 31, 2011		\$93,163,659
TOTAL GROSS AD VALOREM DEBT		
Ratio of Ad Valorem Debt to 2011 Actual Value		.0696%
Ratio of Ad Valorem Debt to 2011 Assessed Valuation		.0830%

**Table 8 — Tax Data**

Taxes are due from October 1 of the year in which levied until January 31 of the following year without interest and penalty. Split payments are allowed with the first half due by December 30, and the second half of the taxes due by June 30. Unless the split payment option is exercised by the taxpayer, taxes become delinquent after January 31 of the following year. On February 1, the unpaid taxes have a penalty and interest charge of seven percent (7%). Taxes delinquent from March 1 through June 30 have an additional penalty and interest charge of two percent (2%) per month. Taxes delinquent on July 1 have a total penalty and interest charge of eighteen percent (18%). Unpaid taxes after July 31 accrue an additional interest charge of one percent (1%) per month until paid. All percentages of collections set forth below exclude penalties and interest.

<u>Tax Year</u>	<u>Taxable Assessed Valuation</u>	<u>Tax Rate</u>	<u>% Current Collections</u>	<u>%Total Collections</u>	<u>Fiscal Year Ended</u>
2000	\$ 40,872,457,872	0.0500	98.79	95.70	8/31/2001
2001	46,597,932,777	0.0500	98.93	100.50	8/31/2002
2002	49,628,140,514	0.0500	98.11	99.54	8/31/2003
2003	48,405,492,131	0.0771	98.33	99.13	8/31/2004
2004	49,272,088,288	0.0900	98.24	99.43	8/31/2005
2005	53,869,912,919	0.0991	98.41	98.41	8/31/2006
2006	71,122,215,575	0.0965	98.97	98.97	8/31/2007
2007	83,379,231,893	0.0958	98.90	98.90	8/31/2008
2008	92,978,483,468	0.0954	98.86	98.86	8/31/2009
2009	109,030,979,747	0.0946	98.93	98.93	8/31/2010
2010	104,869,631,782	0.0951	99.08	99.08	8/31/2011
2011	112,244,592,733	0.0948		(in collection process)	8/31/2012

<sup>(1)</sup> In process of collection.



**Table 9 — Tax Rate Distribution**

<u>Tax Year</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operations	\$0.0900	\$0.0900	\$0.0900	\$0.0900	\$0.0900	\$0.0900
I&S	0.0065	0.0058	0.0054	0.0046	0.0051	0.0048
<b>Total</b>	<b>\$0.0965</b>	<b>\$0.0958</b>	<b>\$0.0954</b>	<b>0.0946</b>	<b>0.0951</b>	<b>\$0.0948</b>

**Table 10 — Principal Taxpayers**

<u>Name</u>	<u>2011 Taxable Assessed Valuation</u>
Samsung Austin Semiconductor	\$1,000,506,000
TPG 300 W. 6 <sup>th</sup> Street LLC	470,972,000
Freescale Semiconductor	337,666,000
Applied Materials	284,469,000
Advanced Micro Devices, Inc.	257,777,000
Columbia/St. Edwards HealthCare	253,067,000
IBM Corporation	233,764,000
Spansion LLC	216,490,000
Dell Inc.	215,894,000
Shopping Center at Gateway LP	202,486,000
<b>Total</b>	<b>\$3,473,091,000</b>

(3.09% of 2011 Total Taxable Assessed Valuation of \$112,244,592,733)

Source: Travis and Williamson County Tax Assessor/Collector.

**Table 11 — Taxable Assessed Valuation for Tax Years 2006-2011**

<u>Tax Year</u>	<u>Taxable Assessed Valuation</u>	<u>Amount Change from Preceding Year</u>	<u>Percent Change from Preceding Year</u>
2006	\$71,122,215,575	17,252,303,384 <sup>(1)</sup>	32.03
2007	83,379,231,893	12,257,016,318	17.23
2008	92,978,483,468	9,599,251,575	11.51
2009	109,030,979,747	16,052,496,279 <sup>(1)</sup>	17.26
2010	104,869,631,782	(6,183,670,963)	-5.89
2011	112,244,592,733	7,374,960,951 <sup>(2)</sup>	7.03

<sup>1</sup> The Austin area economy is influenced by developments in the high-tech industry. Some of the reduction in taxable assessed valuation resulted from a downturn in that industry.

<sup>2</sup> A component of growth in assessed valuation resulted from the annexation of property.

**Table 11A — Taxable Assessed Valuation for Annexed Hays Consolidated Independent School District**

<u>Hays ISD Tax Year</u>	<u>Net AV</u>	<u>M&amp;O</u>	<u>I&amp;S</u>	<u>Total Tax Rate</u>
2007	\$2,911,022,745	\$1.04	\$0.4213	\$1.4613
2008	3,401,651,203	1.04	0.4213	1.4613
2009	3,620,543,198	1.04	0.4213	1.4613
2010	3,701,916,940	1.04	0.4213	1.4613
2011	3,721,409,550	1.04	0.4213	1.4613

**Table 12 — Estimated Direct and Overlapping Debt Statement**

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas, and other sources. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such

information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated overlapping Tax Debt.

<u>Taxing Body</u>	<u>Net Debt Amount</u>	<u>As Of</u>	<u>% Overlapping</u>	<u>Amount Overlapping</u>
Austin ISD	787,398,364	5/31/2011	100.00	\$ 787,398,364
Austin, City of	879,944,730	9/30/2010	99.17	872,641,189
Avery Ranch Rd Dist # 1	13,110,000 *	9/30/2011	100.00	13,110,000
Bastrop County	40,730,000 *	9/30/2011	16.54	6,736,742
Bella Vista MUD	5,860,000 *	9/30/2011	100.00	5,860,000
Block House MUD	18,025,830	8/25/2010	100.00	18,025,830
Brushy Creek MUD - Sendero Springs	39,910,380	9/30/2010	100.00	39,910,380
Brushy Creek MUD	5,490,400	5/31/2011	100.00	5,490,400
Buda, City of	10,635,970	9/30/2010	100.00	10,635,970
Caldwell County	8,800,000 *	9/30/2011	1.41	124,080
Cedar Park, City of	96,519,722	4/30/2011	100.00	96,519,722
Cottonwood Creek MUD #1	2,265,000 *	9/30/2011	100.00	2,265,000
Del Valle ISD	165,525,000 *	9/30/2011	100.00	165,525,000
Dripping Springs ISD	136,944,023	8/31/2010	**	-
Eanes ISD	155,600,000 *	9/30/2011	29.89	46,508,840
Elgin ISD	75,737,694 *	9/30/2011	100.00	75,737,694
Elgin, City of	9,204,320	9/30/2010	100.00	9,204,320
Fern Bluff MUD	8,413,801	2/28/2011	100.00	8,413,801
Greenhawe WC&ID #2	5,802,136	12/31/2010	100.00	5,802,136
Hays CISD	298,495,869 *	9/30/2011	100.00	298,495,869
Hays County	275,117,613	4/30/2011	32.53	89,495,760
Kyle, City of	50,906,171	4/30/2011	100.00	50,906,171
Leander ISD	926,009,233	5/25/2011	100.00	926,009,233
Leander, City of	55,045,922	7/1/2010	100.00	55,045,922
Lee County	8,925,000 *	9/30/2011	0.47	41,948
Manor ISD	185,943,327	8/31/2010	100.00	185,943,327
Manor, City of	10,520,000 *	9/30/2011	100.00	10,520,000
N Austin MUD #1	3,365,000 *	9/30/2011	100.00	3,365,000
North Hays Co MUD #1	7,627,638	11/16/2009	100.00	7,627,638
Northtown MUD	23,515,000 *	9/30/2011	30.52	7,176,778
NW Travis Rd Dist #3	1,730,000 *	9/30/2011	100.00	1,730,000
Paloma Lake MUD #1	2,250,000 *	9/30/2011	100.00	2,250,000
Paloma Lake MUD #2	1,775,000 *	9/30/2011	100.00	1,775,000
Parkside at Mayfield Ranch	4,000,000 *	9/30/2011	100.00	4,000,000
Pflugerville ISD	346,240,000 *	9/30/2011	38.48	133,233,152
Ranch at Cypress Creek MUD	6,850,286	7/21/2010	100.00	6,850,286
River Place MUD	5,965,000 *	9/30/2011	100.00	5,965,000
Round Rock ISD	735,302,720	8/31/2010	100.00	735,302,720
Round Rock, City of	118,945,000 *	9/30/2011	99.99	118,933,106
Senna Hills MUD	11,861,131	9/30/2009	0.09	10,675
Shady Hollow MUD	2,486,872	4/30/2011	100.00	2,486,872
Sunfield MUD # 1	2,800,000 *	9/30/2011	100.00	2,800,000
The Meadows At Chandler Creek MUD	6,200,000 *	9/30/2011	100.00	6,200,000
Travis County	578,650,243	3/8/2011	80.77	467,375,801
Travis Co ESD #1 - N. Lake Travis Fire & Rescue	1,765,000 *	9/30/2011	25.33	447,075
Travis Co ESD # 2	1,820,000 *	9/30/2011	16.10	293,020
Travis Co ESD # 3	3,555,000 *	9/30/2011	98.60	3,505,230
Travis Co ESD # 6	5,805,000 *	9/30/2011	1.06	61,533
Travis Co ESD # 9	1,350,000 *	9/30/2011	0.10	1,350
Travis Co Healthcare District	16,000,000 *	9/30/2011	80.77	12,923,200
Travis Co MUD #2	8,065,000 *	9/30/2011	100.00	8,065,000
Travis Co MUD #3	8,275,000 *	9/30/2011	100.00	8,275,000
Travis Co MUD #4	1,455,000 *	9/30/2011	100.00	1,455,000
Travis Co MUD #5	4,380,000 *	9/30/2011	100.00	4,380,000
Travis Co MUD #6	1,360,000 *	9/30/2011	100.00	1,360,000
Travis Co MUD #8	855,000 *	9/30/2011	100.00	855,000
Travis Co MUD #14	7,388,525	9/30/2010	100.00	7,388,525
Travis Co WC&ID #17 - Flintrock Ranch Estates	17,182,571	9/30/2010	100.00	17,182,571
Travis Co WC&ID #17 - Steiner Ranch	84,271,391	9/30/2010	100.00	84,271,391
Travis Co WC&ID #18	1,550,000 *	9/30/2011	0.08	1,240

Travis Co WC&ID #20	3,678,654	3/31/2011	**	-
Vista Oaks MUD	7,145,000 *	9/30/2011	100.00	7,145,000
Walsh Ranch MUD	5,030,713	9/30/2009	100.00	5,030,713
Wells Branch MUD	1,615,000 *	9/30/2011	0.94	15,181
Williamson County	639,429,853	2/28/2011	63.96	408,979,334
Williamson Co MUD #11	18,709,498	4/12/2011	100.00	18,709,498
Williamson Co MUD #13	9,369,273	9/30/2010	100.00	9,369,273
Williamson Co MUD #10	18,647,487	9/30/2010	100.00	18,647,487
Williamson Co W&S Irrigation District #3	22,360,000 *	9/30/2011	32.73	7,318,428
Williamson-Travis WC&ID #1-G	15,271,322	5/3/2011	100.00	15,271,322
Williamson-Travis MUD #1	6,802,111	7/31/2011	100.00	6,802,111
Williamson-Travis WC&ID #1	13,910,000 *	9/30/2011	100.00	<u>13,910,000</u>
Total Net Overlapping Debt:				\$ 5,955,113,208
Austin CCD	158,812,971	8/31/2011		<u>158,812,971</u>
Total Direct and Overlapping Debt:				\$ 6,113,926,179
Total Direct and Overlapping Debt % of AV:				.54%
Total Direct and Overlapping Debt per Capita:				\$5,969

\* Gross Debt

## District Information

Area of the District - Approximately 1,250 Square Miles  
Student Enrollment, Fall, 2011 – 45,254  
Population: 1990 – 410,537; 2000 – 619,616  
2010 Population (MSA) – 1,712,647 U.S. Census Bureau  
Per Capita 2011 Assessed Valuation – \$65,538.66  
Per Capita Taxable Bonded Debt – \$92.73

## NO LITIGATION

On the date of delivery of the Bonds to the Underwriters, the Corporation and the District will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner questions the validity of the Bonds.

Neither the Corporation nor the District is a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency, or other administrative body (either state or federal) which, if decided adversely to the Corporation or the District, would have a material adverse effect on the financial condition of the Corporation or the District, respectively. (See “THE BONDS - Bond Validation Lawsuit” herein.)

## AD VALOREM TAXATION

The Texas Tax Code (the “Tax Code”) contains provisions relating to property subject to taxation; property exempt from taxation and other exemptions granted and allowed, if claimed; the appraisal of property for purposes of taxation and the procedures to be followed and limitations applicable to the levy and collection of ad valorem taxes. Among other features, the Tax Code, as amended, provides as follows with respect to the District:

1. The Travis, Williamson, Hays, Bastrop, Lee and Caldwell County Appraisal Districts (the “Appraisal Districts”) are responsible for appraising property in the District, as well as in the other taxing units within Travis, Williamson, Hays, Bastrop, Lee and Caldwell Counties. Each Appraisal District is governed by a separate board of directors appointed by the governing bodies of the various governmental units within the county.
2. All property in the District is assessed at 100% of its appraised value and assessment of property for taxation on the basis of a percentage of its appraised value is prohibited.
3. By the later of September 30th or the 60th day after the date the certified appraisal rolls are received by the District, the District is required to adopt a tax rate for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service. If the tax rate exceeds the rollback rate, 10% of the qualified voters of the District may petition for an election to determine whether to reduce the tax rate the District may adopt to the rollback tax rate. The rollback tax is generally equal to 1.08 times the effective tax rate for the current year, excluding tax rates for bonds, contractual obligations and other debt obligations of the District and adjusted for new improvements, lost property and exemptions.

4. An increase in the District's tax rate above the lower of the rollback tax rate (as defined by the Tax Code) or 103% of the effective tax rate will require a public hearing.
5. Penalties for delinquent taxes are as follows:
  - a. 6% - First month  
1% - Additional penalty each month through June  
12% - All delinquencies on July 1 regardless of delinquency period;
  - b. The District, as permitted, has adopted an additional penalty for all delinquencies as of July 1 of 15%, the maximum allowed under State law, of taxes, penalty and interest due in order to defray costs of collection.
6. Interest charges on delinquent taxes are:
  - a. 1% - First month; and
  - b. An additional 1% increase each month thereafter.
7. Property within the Appraisal Districts must be reappraised at least once every three years.
8. Uniform discovery and appraisal procedures are provided for all types of business inventories without regard to the nature of the property comprising the inventory.
9. Local governments have the option of granting homestead exemptions of up to 20% of market value. The minimum exemption for junior college districts is \$5,000. Taxes may continue to be levied against the value of the homestead exempted where ad valorem taxes have been previously pledged for the payment of debt, if cessation of the levy would impair the obligation of the contract by which the debt was created. The District does not levy its debt service against the value of residence homesteads exempted from ad valorem taxes as permitted on a local option basis by the "Tax Relief Amendments." The District has not voted to grant an additional exemption.
10. Article VIII, Section 1-j of the Texas Constitution exempts from taxation goods, wares, merchandise, other tangible personal property, and ores (other than oil, natural gas, and other petroleum products) acquired or imported by a person for assembling, storing, manufacturing, processing or fabricating by the person that acquired or imported the property while such property is being detained in the State of Texas, and such property is transported outside the State of Texas within 175 days after the date of its acquisition or importation by such person. Notwithstanding such exemption, counties, school districts, junior college districts and municipalities (including home-rule cities) may continue to tax such tangible personal property provided official action to tax was taken before January 1, 1990. The official action to tax such property can subsequently be rescinded and, if rescinded, such property shall thereafter be exempt from taxation. The District took official action before January 1, 1990, to exempt Article VIII, Section 1-j exempt property.
11. Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.
12. State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000.
13. Article VIII, Section 1-n of the Texas Constitution, provides for an exemption from taxation for "goods-in-transit", which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motors, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. The District has taken action to tax goods-in-transit.
14. The District and the other taxing bodies within Travis and Williamson Counties may jointly agree to the creation of a tax increment financing zone, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. The District also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The District in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to ten years. To date, the District has not joined in the creation of a tax increment financing zone, has not entered into any abatement agreements and has not adopted criteria therefore, which is a prerequisite to the execution of abatement agreements.

## **TAX MATTERS**

### **Tax Exemption**

In the opinion of Bickerstaff Heath Delgado Acosta LLP, Bond Counsel to the Corporation, assuming continuing compliance by the Corporation and the District with the tax covenants described below, under existing law, interest on the Bonds is excludable for federal income tax purposes from the gross income of the owners thereof pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code"), and will not constitute a specific item of tax preference under Section 57 of the Code for purposes of calculating the alternative minimum tax imposed on individuals or corporations pursuant to Section 55 of the Code.

The adjustment for “adjusted current earnings” set forth in Section 56(g) of the Code is required in determining a corporation’s alternative minimum taxable income. Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess, if any, of the “adjusted current earnings” of a corporation over the alternative minimum taxable income (determined without regard to this adjustment or the alternative tax net operating loss deduction). Interest on tax-exempt obligations, including the Bonds, would generally be included in computing a corporation’s “adjusted current earnings.” Accordingly, a portion of any interest on the Bonds received or accrued by a corporation that owns the Bonds will be included in computing such corporation’s alternative minimum taxable income for such year.

In rendering its opinion, Bond Counsel has relied on the Corporation’s covenants contained in the Trust Indenture, the District’s covenants in the Lease and the Corporation’s and the District’s respective covenants contained in the Federal Tax Certificate, that each will comply with the applicable requirements of the Code, relating to, *inter alia*, the use and operation of the project and the use and investment of proceeds of the Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the Corporation or the District to comply with such covenants could result in the interest on the Bonds being subject to federal income tax from the date of issue of the Bonds. Bond Counsel has not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date of issuance of the Bonds that may affect the tax-exempt status of the interest.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the “Service”); rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Corporation as the taxpayer and the owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

### **Collateral Tax Consequences**

Prospective purchasers of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers including, without limitation, holders who may be deemed to have incurred or continued indebtedness to acquire or carry tax-exempt obligations, holders of certain interests in a financial asset securitization investment trust (“FASIT”), controlled foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits and individuals who otherwise qualify for the earned income credit. The Code denies the earned income credit to an individual who is otherwise eligible if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds certain limits set forth in Sections 32(i) and (j) of the Code. Interest on the Bonds will constitute disqualified income for this purpose. The Code also provides that the earned income credit is phased out if the modified adjusted gross income of the taxpayer exceeds certain amounts. Interest on the Bonds will be included in determining the modified adjusted gross income of the taxpayer. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Section 884 of the Code imposes on certain foreign corporations a branch profits tax equal to thirty percent (30%) of the “dividend equivalent amount” for the taxable year. Interest on the Bonds received or accrued by a foreign corporation subject to the branch profits tax may be included in computing the “dividend equivalent amount” of such corporation.

In addition, passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for any S corporation that has Subchapter C earnings and profits at the close of the taxable year, if more than twenty-five percent (25%) of the gross receipts of such S corporation is passive investment income.

In addition, attention is called to the fact that Section 265(b)(1) of the Code eliminates the interest deduction otherwise allowable with respect to indebtedness deemed incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations acquired after August 7, 1986 other than designated “qualified tax-exempt obligations” as defined in Section 265(b)(3) of the Code.

The Corporation has not designated the Bonds as “qualified tax-exempt obligations” for the purposes of Section 265(b)(1) of the Code.

### **Tax Accounting Treatment of Discount and Premium on Certain Bonds**

The initial public offering price of certain Bonds (the “Discount Bonds”) may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year. However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation’s alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with “subchapter C” earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income. Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the “Premium Bonds”) may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. Purchaser of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

### **State, Local and Foreign Taxes**

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

### **Changes in Federal and State Tax Law**

From time to time, there are legislative proposals in the United States Congress and in the states that, if enacted, could alter or amend the Federal and State tax matters referred to above or adversely affect the market value or marketability of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value or marketability of the Bonds.

On September 12, 2011, the President of the United States announced a legislative proposal entitled the American Jobs Act of 2011 (“Jobs Act”) which, if enacted as proposed, could result in additional income tax being imposed on certain owners of tax-

exempt obligations, including the Bonds, for tax years beginning on or after January 1, 2013. This legislation was introduced in the United States Senate on September 13, 2011 as S.1549. As proposed, the Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The introduction or enactment of the Jobs Act or other legislation impacting the excludability of interest on tax-exempt obligations, including the Bonds, could also affect the market value or marketability of the Bonds. The Jobs Act has not yet passed either the United States House of Representatives or the Senate. Bond Counsel does not predict the likelihood of the Jobs Act being enacted or whether the currently proposed terms of the Jobs Act will be altered or removed during the legislative process.

Prospective purchasers of the Bonds should consult with their own tax advisors regarding the Jobs Act and any other federal income tax legislation, whether currently pending or proposed, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

The Bonds have not been registered under the federal Securities Act of 1933, as amended, in reliance upon an exemption contained therein; the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; and the Bonds have not been qualified under the securities acts of any other jurisdiction. The Trust Indenture has not been qualified under the federal Trust Indenture Act of 1939, as amended, in reliance upon an exemption therefrom.

The Corporation and the District assume no responsibility for the qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### **THE BONDS AS LEGAL INVESTMENTS IN TEXAS**

Texas Government Code, Chapter 1201, provides that the Bonds are legal and authorized investments for insurance companies, fiduciaries and trustees and sinking funds of municipalities and other political subdivisions and public agencies of the State. The Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such Bonds are eligible investments for sinking funds and other public funds. (See "RATINGS" herein.)

The Corporation and the District have made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The Corporation and the District have made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

### **LEGAL MATTERS**

Legal matters incident to the authorization, issuance, and sale of the Bonds are subject to the unqualified approving opinion of the Attorney General of the State of Texas and the opinion of Bickerstaff Heath Delgado Acosta LLP, Bond Counsel. In its capacity as Bond Counsel, Bickerstaff Heath Delgado Acosta LLP has reviewed the information in this Official Statement under the captions "THE BONDS," "TAX MATTERS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "THE BONDS AS LEGAL INVESTMENTS IN TEXAS," and "CONTINUING DISCLOSURE OF INFORMATION," (other than the section "Compliance with Prior Agreements") and is of the opinion that the information relating to the Bonds contained under such captions is a fair and accurate summary of the information purported to be shown therein and is correct as to matters of law. The legal fees to be paid to Bond Counsel in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their Co-Counsel, Andrews Kurth LLP, Austin, Texas, and Shelton & Valadez, P.C., San Antonio, Texas.

Neither the Attorney General, Bond Counsel, nor Underwriters' Co-Counsel has been engaged to investigate or verify, and accordingly will not express any opinion concerning the financial condition or capabilities of the Corporation or the sufficiency of the security for or the value or marketability of the Bonds. The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **FINANCIAL ADVISOR**

Coastal Securities, Inc. (the “Financial Advisor”) is employed by the Corporation in connection with the issuance of the Bonds and, in such capacity, has assisted the Corporation in the preparation of documents, including this Official Statement. The Financial Advisor’s fees for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds.

Although the Financial Advisor has read and compiled certain data relating to the Bonds, it has not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the Corporation’s and District’s records and from other sources which are believed to be reliable. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Financial Advisor as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

## **RATINGS**

The Bonds are rated “AA” by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”), and “Aa2” by Moody’s Investors Service, Inc. (“Moody’s”). The ratings on the Bonds reflect only the respective views of the rating agencies at the time any such rating is given, and the Corporation makes no representations as to the appropriateness of any such rating. There is no assurance that any such rating will continue for any given period of time, or that any such rating will not be revised downward or withdrawn entirely if, in the judgment of either such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

## **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the Corporation at a price of \$46,136,505.80 (representing the par amount of the Bonds of \$44,430,000.00, plus a net premium on the Bonds of \$2,055,517.20 less an Underwriters’ discount of \$349,011.40). The Underwriters’ obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

## **OTHER MATTERS**

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

### **Forward-Looking Statements**

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control



of the Corporation or the District. Any such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

### **CONTINUING DISCLOSURE OF INFORMATION**

In accordance with the SEC Rule 15c2-12 (the “Rule”), the “obligated person” under the Rule, will agree under the Lease to provide certain information for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as the Lease remains in effect. Under the agreement, the District will be obligated to provide certain updated financial information and operating data relating to the District annually, and timely notice of specified events relating to the District to the MSRB through its EMMA System. This information will be available to securities brokers and others who subscribe to receive the information from the MSRB.

In accordance with the Rule, the Corporation agrees, under the Resolution, to provide certain information for the benefit of the holders and beneficial owners of the Bonds. Under the agreement, the Corporation will be obligated to provide certain updated financial information and operating data relating to the Corporation annually, and timely notice of specified events relating to the Corporation to the MSRB through the EMMA System. This information will be available to securities brokers and others who subscribe to receive the information from the MSRB.

The District and the Corporation are collectively referred to as the “Obligated Party” in this section.

#### **Annual Reports**

Under Texas law, including, but not limited to, Chapter 61, Texas Education Code, as amended, the District must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified or permitted public accountant and must file each audit report with the Coordinating Board within 120 days after the close of the District’s fiscal year. Copies of each audit report must also be filed in the office of the District and with the Secretary of the Board of Trustees. The District’s fiscal records and audit reports are available for public inspection during the regular business hours of the District’s President. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Open Records Act, Texas Government Code, Chapter 552, as amended. Therefore, any person may obtain copies of these documents upon submission of a written request to the Executive Vice President, Finance & Administration at Austin Community College District, 9101 Tuscany Way, Austin, Texas 78754 and upon paying the reasonable copying, handling, and delivery charges for providing this information.

The District will provide certain updated financial information and operating data to the MSRB annually via the EMMA System. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type disclosed in Tables 1 through 11A herein, and in APPENDIX B. The District will update and provide this information within six months after the end of each fiscal year ending in and after 2012.

The Corporation will provide certain updated financial information and operating data to the MSRB annually via the EMMA System. The information to be updated includes financial information and operating data with respect to the Corporation of the general type disclosed herein and that is customarily prepared by the Corporation and publicly available. The Corporation will update and provide this information within six months after the end of each fiscal year ending in or after 2012.

The Obligated Party may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include annual audited financial statements for the Obligated Party, if the Obligated Party commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Obligated Party will provide unaudited statements and audited financial statements when and if such audited financial statements become available. Any such financial statements of the Obligated Party will be prepared in accordance with the accounting principles described in APPENDIX B hereof or such other accounting principles as the Obligated Party may be required to employ from time to time pursuant to state law or regulation.

The District’s and the Corporation’s current fiscal year end is August 31. Accordingly, the District and the Corporation must provide updated information by the last day of February, in each year, unless they change their respective fiscal years. If the District or the Corporation changes its fiscal year, it will notify the MSRB.

#### **Event Notices**

The Obligated Party shall notify the MSRB through the EMMA System, in a timely manner not in excess of ten business days after the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final

determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event; (13) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. Neither the Bonds nor the Resolution make any provision for credit enhancement or liquidity enhancement. The Obligated Party will provide each notice described in this paragraph to the MSRB as described herein.

In addition, the Obligated Party will provide timely notice of any failure by the Obligated Party to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports”.

### **Availability of Information**

The Obligated Party has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

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

The Obligated Party may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Obligated Party, if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Obligated Party (such as nationally-recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The Obligated Party may also repeal or amend the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Obligated Party also may amend these provisions in its discretion in any *other manner or circumstance*, but in either case, only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Obligated Party amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

The Obligated Party will provide the updated information for any filing required pursuant to this agreement to the MSRB.

### **Compliance with Prior Agreements**

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

## **MISCELLANEOUS**

The description of the Bonds contained in this Official Statement does not purport to be complete. All references to the Bonds are qualified by reference to the Resolution and to the complete form of each of the Bonds. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects. So far as any statements made in this document involve budgeted amounts or other estimates or projections, whether or not so expressly stated, they should not be considered statements of fact or representations that the budgeted amount, estimate or projection will approximate actual results.

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

This Official Statement has been approved by the Board for distribution in accordance with the provisions of the Rule.

/s/ Dr. Barbara P. Mink  
President, Board of Directors

/s/ John-Michael V. Cortez  
Secretary, Board of Directors

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

**APPENDIX A**  
**SELECTED PROVISIONS OF THE FINANCING DOCUMENTS**

## SELECTED PROVISIONS OF THE FINANCING DOCUMENTS

*The following are selected provisions of certain of the financing documents relating to the Bonds. These excerpts should be qualified by reference to other portions of such financing documents referred to elsewhere in this Official Statement, and all references and summaries pertaining to such financing documents in this Official Statement are, separately and in whole, qualified by reference to the exact terms of such financing documents, copies of which may be obtained from the District or the Corporation. Section and article references contained in the following excerpts are to sections and articles, as appropriate, contained in the respective financing document excerpted below. Provisions included herein are in substantially final form, but may change prior to closing and may thereafter be amended in accordance with the respective terms of the financing documents.*

\*\*\*\*

### Selected Provisions from the Lease With An Option to Purchase

## ARTICLE I

### DEFINITIONS AND RULES OF CONSTRUCTION

**Section 1.1 Definitions.** Unless the context otherwise requires, the terms defined in this Lease shall, for all purposes of this Lease, have the meanings herein specified. A capitalized term used herein without being defined herein shall, for the purposes of this Lease, have the meanings assigned it in the Trust Indenture unless the context requires otherwise.

*Acceptance Certificate* - shall mean the certificate of the District in the form of Exhibit C delivered as described in Section 6.1.

*Appropriate, Appropriated or Appropriation* - shall mean the adoption by the District Board of a budget or amendments to the budget for a Fiscal Year which includes the Rental Payments and other payments required or elected, if any, to be made by the District under this Lease during the respective Fiscal Year.

*Architect* — means any one or all of the architects licensed under the laws of the State, or firms of licensed architects, who have prepared the Plans and Specifications.

*Available Funds* – shall mean money Appropriated by the District from any tuition, fees, State funds not designated for a specific purpose (such as funds pledged for debt service payments for combined fee revenue bonds), other local sources and unintended surplus maintenance taxes of the District at the end of each Fiscal Year after payment of all maintenance and operating expenses of the District for that Fiscal Year that may lawfully be used with respect to any payment obligated or permitted under the Lease. Available Funds shall also include any other funds Appropriated by the District that are determined to be available for the payment of Rental Payments as a result of a final, nonappealable judgment of a court of competent jurisdiction, legislation enacted or other change in State law effective subsequent to the date of adoption of the Master Indenture.

*Campus* – the campus of the Austin Community College District located in the Hays Consolidated Independent School District.

*Claims* - shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought (whether by way of direct action, counter claim, cross action or impleader) against any Indemnified Party, even if groundless, false, or fraudulent, so long as the claim, lawsuit, cause of action or other legal action or proceeding is alleged or determined, directly or indirectly, to arise out of, to result from, to relate to or to be based upon, in whole or in part: (a) the issuance of the Bonds or (b) the duties, activities, acts or omissions of any person in connection with the issuance of the Bonds, or the obligations

of the various parties arising under the Financing Documents, (c) the disposition of the proceeds of the Bonds, or (d) the duties, activities, acts or omissions of any person in connection with the design, construction, installation, operation, use, occupancy, maintenance or ownership of the Project or any part thereof.

*Code* - shall mean the United States Internal Revenue Code of 1986, as amended.

*Complete* - shall mean that the Project has been developed, constructed, and designed in accordance with the Plans and Specifications, subject only to minor punch list items that do not prevent the lawful occupancy of the Project for its intended purposes.

*Completion Date* - shall mean the date upon which the Project is Complete, as evidenced by the District's execution and delivery to the Corporation and the Trustee of an Acceptance Certificate.

*Construction Administrator* — shall mean an architect licensed under the laws of the State, or a firm of licensed architects (which may include the Architect); a professional engineer registered as such under the laws of the State, or firm of such registered professional engineers; or such other construction professional or a firm of construction professionals engaged or employed by the District or the Trustee to inspect the Project for conformity with the Plans and Specifications, to approve periodic draws described in Section 10.2 hereof and to approve any change orders and requests for payment of Project Costs.

*Contractor* - shall mean any person or entity who contracts with the Corporation pursuant to Article V hereof to construct, acquire and install the Project or any part thereof.

*Corporation* - shall mean the Austin Community College District Public Facility Corporation, a Texas public facility corporation created under the Corporation Act, and its permitted successors and assigns.

*Corporation Board* - shall mean the Board of Directors of the Corporation.

*Corporation Representative* - shall mean the President or any Vice President of the Corporation, the President of the District, the Executive Vice President, Finance and Administration of the District, or any other officer or employee of the Corporation or the District who is designated in writing by resolution of the Corporation Board as a Corporation Representative for the purposes of this Lease, such designation to remain effective until the Corporation files with the Trustee a resolution designating a different or alternative representative.

*Deed of Trust* - shall mean that certain Deed of Trust, Security Agreement, Assignment of Rents and Leases and Financing Statement, dated as of April 1, 2012, and executed by the Corporation to Israel Lugo, as Mortgage Trustee, for the benefit of the Trustee under the Second Supplemental Trust Indenture.

*District* - shall mean the Austin Community College District, and its successors and permitted assigns.

*District Board* - shall mean the Board of Trustees of the District.

*District Representative* - shall mean the Chair or Vice Chair of the District Board, the President, Executive Vice President, Finance and Administration, or any other officer or employee of the District who is designated in writing by resolution of the Board of Trustees of the District as a District Representative for the purposes of this Lease, such designation to remain effective until the District files with the Trustee a resolution designating a different or alternative representative.

*Event of Default* - shall mean the occurrence of any of the following events:

- (a) the District's failure to make a Rental Payment within 10 days after the due date thereof other than by reason of an Event of Nonappropriation;

- (b) failure by the Corporation to provide the Project in accordance with the terms and conditions hereof, and such failure is not cured within ninety (90) days after written notice thereof is provided to the Corporation by the District or the Trustee; provided, that if such failure cannot be cured within such ninety (90) day period, such failure shall not be an Event of Default if the Corporation has commenced to cure such failure within such ninety (90) day period and diligently prosecutes the cure of such failure to completion;
- (c) failure by the District to observe and perform any covenant, condition, or agreement, on its part to be observed or performed by it hereunder, other than as referred to in (a) above, and such failure is not cured within ninety (90) days after written notice thereof is provided to the District by the Corporation or the Trustee; provided, that if such failure cannot be cured within such ninety (90) day period, such failure shall not be an Event of Default if the District has commenced to cure such failure within such ninety (90) day period and diligently prosecutes the cure of such failure to completion;
- (d) any material statement, representation, or warranty made by the District in this Lease or in any writing ever delivered by the District, pursuant to or in connection with this Lease or the Bonds, is false or misleading in any material respect;
- (e) the filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment, or attachment of such consequence as would impair the ability of the District to carry on its operations at the Project, or adjudication of the District as bankrupt or assignment or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar Federal or State Laws which may hereafter be enacted; or
- (f) a final, nonappealable judgment against the District for an amount in excess of \$20,000,000 shall be outstanding for any period of sixty (60) days or more from the date of its entry and shall not have been discharged in full or stayed pending appeal, and, as a result thereof, a lien shall be placed on the Project or the District's interest in the Project.

*Event of Nonappropriation* - shall mean any one of the following events:

- (a) The failure of the District Board to appropriate from Available Funds sufficient funds to pay the Rental Payments to be made hereunder during the upcoming Fiscal Year (net of any funds then on deposit in the Series 2012 Payment Subaccount or anticipated to be deposited therein prior to the Rental Payment Dates during such Fiscal Year); or
- (b) The reduction of any Appropriation to an amount that is insufficient to permit the District to pay the Rental Payments (net of any funds then on deposit in the Series 2012 Payment Subaccount or anticipated to be deposited therein prior to the Rental Payment Date during such Fiscal Year).

*Financing Documents* - shall mean, collectively, the Trust Indenture, this Lease, the Deed of Trust, and any and all other documents executed in connection with the issuance of the Bonds.

*Fiscal Year* - shall mean a 12-month fiscal period of the District commencing on September 1 and ending on August 31 of the following year, or such other annual accounting period as the District may hereafter adopt.

*Hays Campus* – the Campus to be located in the Hays Consolidated Independent School District in the City of Kyle, Texas.

*Hazardous Materials* - shall mean any substances, including without limitation, asbestos or any substance containing asbestos, deemed hazardous under any Hazardous Materials Laws, including the group of organic compounds known as polychlorinated biphenyls, flammable explosives, radioactive materials,



petroleum, petroleum fractions, petroleum distillates, chemicals known to cause cancer or reproductive toxicity, pollutants, effluents, contaminants, emissions or related materials and any items included in the definitions of “hazardous waste,” “hazardous materials,” “hazardous substances,” “toxic waste,” “toxic materials” or “toxic substances” under any Hazardous Materials Law.

*Hazardous Materials Laws* - shall mean any law relating to environmental conditions or industrial hygiene, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (“CERCLA”), 42 U.S.C. § 9601, *et seq.*; Resource, Conservation and Recovery Act (“RCRA”), 42 U.S.C. § 6901, *et seq.*, as amended by the Superfund Amendments and Reauthorization Act of 1986 (“SARA”); Pub. L. 99-499, 100 Stat. 1613; the Toxic Substances Control Act, 15 U.S.C. § 2601, *et seq.*; Emergency Planning and Community Right to Know Act of 1986; 42 U.S.C. § 1101, *et seq.*; Clean Water Act (“CWA”), 33 U.S.C. § 1251, *et seq.*; Clean Air Act (“CAA”), 42 U.S.C. § 7401, *et seq.*; Federal Water Pollution Control Act (“FWPCA”), 33 U.S.C. § 1251, *et seq.*, and any corresponding state laws or ordinances including but not limited to the Texas Water Code (“TWC”) § 26.001, *et seq.*, Texas Health & Safety Code (“THSC”) § 361.001, *et seq.*, Texas Solid Waste Disposal Act (formerly TEX. REV. CIV. STAT. ANN. art. 4477-7); and regulations, rules, guidelines, or standards promulgated pursuant to such laws, statutes and regulations, as such statutes, regulations, rules, guidelines, and standards are amended from time to time.

*Improvements* - shall mean all improvements hereafter constructed and/or installed on the Land, including the buildings and appurtenant facilities (but excluding equipment purchased by the District with funds other than Bond proceeds) comprising the campus to be located in in the Hays Consolidated Independent School District in the City of Kyle, Texas constituting the Project.

*Indemnified Party or Indemnified Parties* - shall mean one or more of the Corporation, the Corporation Board, the District Board, the Trustee, and any of their successors, officers, directors, members, employees, agents, servants and any other person acting for or on behalf of any of them, as the case may be.

*Issuance Costs* - means the costs of issuance incurred in connection with the sale of the Bonds, including, but not limited to, the Trustee’s fees and expenses, fees and expenses of bond counsel, printing and other costs, underwriter’s fees, financial advisory fees, examination fees of the Attorney General of the State of Texas, rating agency fees, bond insurance and reserve fund surety policy premiums, filing fees, title insurance premiums and fees and other miscellaneous costs and expenses.

*Land* - shall mean the real property located within the District on which the Improvements are to be developed and constructed, as more particularly described in Exhibit A attached hereto and made a part hereof.

*Laws* - shall mean all federal, state, and local laws, rules, regulations, ordinances, codes, and orders of any entity having jurisdiction over the Project.

*Lease* - shall mean this Lease dated as of April 1, 2012, by and between the District and the Corporation, and any duly authorized and executed amendment thereto.

*Losses* - shall mean losses, costs, damages, expenses, judgments, and liabilities of whatever nature (including, but not limited to, accountant’s and other professional’s fees, litigation and court costs and expenses, amounts paid in settlement and amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.

*Mortgage Trustee* - shall mean the mortgage trustee named in the Deed of Trust.

*Nationally Recognized Bond Counsel* - An attorney or firm of attorneys selected by the Corporation and reasonably acceptable to the Trustee, and listed among the Municipal Bond Attorneys in *The Bond Buyer’s Municipal Marketplace* or any successor publication thereto.

*Net Proceeds* - shall mean any insurance proceeds or condemnation awards paid with respect to the Project remaining after payment of all reasonable expenses incurred in the collection thereof.

*Outstanding* - shall mean as of the date of determination, all Bonds theretofore issued and delivered under the Trust Indenture, except:

- (a) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (b) Bonds for whose payment or redemption money in the necessary amount has been theretofore deposited in an account, other than the "Payment Account" identified in Article IV of the Master Trust Indenture, with the Trustee in trust irrevocably for the holders of such Bonds;
- (c) Bonds in exchange for or in lieu of which other Bonds have been registered and delivered pursuant to the Trust Indenture; and
- (d) Bonds alleged to have been mutilated, destroyed, lost, or stolen which have been paid as provided in the Trust Indenture.

*Permitted Assignee* - shall mean (a) the Trustee, (b) the purchaser at a foreclosure sale held pursuant to the Deed of Trust or in connection with a conveyance in lieu thereof, or (c) any other person designated by the Trustee in accordance with applicable laws to acquire the interest of the District under this Lease, including the successors and assigns of any such persons.

*Permitted Encumbrances* - shall mean the matters described in Exhibit B attached hereto and made a part hereof.

*Plans and Specifications* - shall mean architectural and engineering drawings and specifications prepared by the Architect and approved by the District describing the Improvements and any approved changes thereto, from time to time.

*Project* - shall mean the Land and all Improvements (but excluding equipment purchased by the District with funds other than Bond proceeds) to be constructed and installed on the Land pursuant to this Lease.

*Project Contract* - shall mean each contract between the Corporation and the Contractor for the construction, acquisition and installation of the Project or any ancillary documents executed in connection therewith.

*Project Costs* - shall mean all costs of, payment of, or reimbursement for design, acquisition, construction, installation and financing of the Project; architectural, legal, engineering, installation and management costs; project coordination and supervisory costs; administrative costs; capital expenditures relating to design, construction, and installation; financing payments; sales tax, if any, on the Project; costs of feasibility, environmental, appraisal, and other reports; inspection costs; permit fees; filing and recording costs; title insurance premiums; survey costs; Issuance Costs; and all other costs related to the Project or the financing thereof, authorized by the Corporation Act.

*Regulations* - shall mean any proposed, temporary, or final Income Tax Regulations issued pursuant to sections 103 and 141 through 150 of the Code, which are applicable to the Bonds. Any reference to any specific Regulations shall also mean, as appropriate, any proposed, temporary, or final Income Tax Regulation designed to supplement, amend, or replace the specific Regulation referenced.

*Rental Payment* - shall mean on each Rental Payment Date, while any Bonds are Outstanding under the Second Supplemental Trust Indenture, (i) an amount of money which, when added to the amount then on deposit in the Series 2012 Payment Subaccount, will equal the amount reflected for each such date on Exhibit E hereto, and (ii) the amount, if any, required to replenish the Series 2012 Reserve Subaccount in accordance with Section 10.6 of this Lease. Subject to the approval of the Attorney General of the State of

Texas to the extent required by law, the initial schedule of Rental Payments attached as Exhibit E hereto may be amended by agreement of the Corporation and the District from time to time.

*Rental Payment Date* - shall mean each January 25 and July 25, commencing July 25, 2012, for so long as this Lease is in effect.

*State* - shall mean the State of Texas.

*Term* - shall mean the term of this Lease as determined pursuant to Section 3.3 hereof.

**Section 1.2 General Rules of Construction.** When in this Lease the context requires, (i) a reference to the singular number shall be deemed to include the plural and vice versa; and (ii) a word denoting gender shall be deemed to include the masculine, feminine, and neuter.

**Section 1.3 Preamble.** The statements, findings and definitions in the preamble of this Lease are hereby adopted and made a part of this Lease.

## ARTICLE II

### REPRESENTATIONS, COVENANTS, AND WARRANTIES

**Section 2.1 Representations, Covenants and Warranties of District.** The District represents, covenants, and warrants as follows:

(a) the District is a duly formed and validly existing community college district and political subdivision of the State operating pursuant to Chapter 130, Texas Education Code, as amended, and governed by the laws of the State;

(b) the District has full power and authority to execute this Lease and perform its obligations hereunder;

(c) the District Board has duly authorized the execution of the Financing Documents to which it is a party and the performance of its obligations thereunder;

(d) the execution of this Lease and the performance of its obligations hereunder and compliance with the terms hereof by the District will not conflict with, or constitute a default under, any law (including administrative rule), judgment, decree, order, permit, license, agreement, mortgage, lease, or other instrument to which the District is subject or by which the District or any of its property is bound;

(e) the District is not in violation of any Law, which violation could adversely affect the performance of its obligations under this Lease;

(f) the District presently expects to have sufficient Available Funds or other lawfully available Appropriated funds, as applicable, hereunder to satisfy its obligations under this Lease, and the District will use its best efforts to manage its affairs in such a way as to maximize the amount of funds available to the District to pay Rental Payments; provided, however, the District has no obligation to Appropriate Available Funds in any Fiscal Year, regardless of the amount of funds eligible to be Available Funds or other lawfully available funds, as applicable, in its possession;

(g) this Lease is a legal, valid, and binding obligation of the District, enforceable in accordance with its terms;

(h) the District will be the sole lessee of the Project, and the District will use the Project during the term of this Lease in the same manner and for the same purposes as the District uses its other educational facilities;

(i) the District agrees to keep the Project free and clear of all liens, encumbrances, and security interests (other than the Permitted Encumbrances);

(j) the District has complied and will continue to comply with all open meeting laws, all public bidding or procurement laws and all other State and federal laws applicable to the execution, delivery, and performance of its obligations under this Lease and to the acquisition of the Project by the District;

(k) the District has published notice of intent to enter into this Lease in a form which complies with the PPF Act, not less than sixty (60) days before the date set to approve execution of this Lease, in a newspaper of general circulation within its boundaries, and the District has not received a written petition complying with the provisions of the PPF Act and is fully authorized to execute this Lease; and

(l) except for approval of the Attorney General of the State of Texas, no further approval, consent, or withholding of objections is required from any governmental authority with respect to this Lease.

**Section 2.2 Representations, Covenants and Warranties of the Corporation.** The Corporation represents, covenants, and warrants as follows:

(a) the Corporation is a validly existing public facility corporation authorized to operate under the Corporation Act;

(b) the Corporation has the full power and authority to execute the Financing Documents to which it is a party and perform its obligations thereunder;

(c) the Corporation has the full power and authority to issue, sell and deliver the Bonds and to use the proceeds thereof for the Project and the Corporation Board has duly authorized the issuance, sale and delivery of the Bonds;

(d) the Corporation Board has duly authorized the execution of the Financing Documents to which it is a party and the performance of the Corporation's obligations thereunder;

(e) the execution of the Financing Documents and the performance of its obligations thereunder and compliance with the terms thereof by the Corporation will not conflict with, or constitute a default under, any law (including administrative rule), judgment, decree, order, permit, license, agreement, mortgage, lease, or other instrument to which the Corporation is subject or by which the Corporation or any of its property is bound;

(f) the Corporation is not in violation of any Law, which violation could adversely affect the performance of its obligations under this Lease;

(g) pursuant to Section 3.3(c) hereof, upon termination of this Lease, the Corporation will deliver to the District all documents which are or may be necessary to vest all of the Corporation's right, title, and interest in and to the Project in the District and will release all liens and encumbrances in favor of the Corporation created under this Lease with respect to the Project as provided in Article XI;

(h) the Corporation agrees to keep the Project free and clear of all liens, encumbrances, and security interests (except for Permitted Encumbrances and the encumbrances created by the Financing Documents);

(i) on the Closing Date, the Corporation will hold title to the Land upon which the Project will be situated, subject to Permitted Encumbrances and the encumbrance created by this Lease and the Financing Documents and, for the period of time commencing on the date of the execution of this Lease and expiring on the termination of this Lease, will warrant and forever defend all and singular the District's

leasehold interest in such property unto the District, its successors, and assigns against every person whomsoever lawfully claiming or to claim the same, or any part thereof. Subject to compliance by the District with the provisions of this Lease, the Corporation hereby covenants to provide the District during the term of this Lease with the quiet use and enjoyment of such property, subject to the Permitted Encumbrances, the Financing Documents and the terms of this Lease, and the District shall be entitled to peaceably and quietly have and hold and enjoy such property, without suit, trouble, or hindrance from the Corporation;

(j) except for the approval of the Attorney General of the State of Texas, no further approval, consent, or withholding of objections is required from any governmental authority with respect to the execution, delivery and performance of this Lease;

(k) the Project, when completed, will comply with all applicable laws pertaining to the operation of community college districts and will be suitable for the District's purposes;

(l) the Financing Documents to which the Corporation is a party are legal, valid and binding obligations of the Corporation, enforceable in accordance with their terms; and

(m) the Corporation has complied and will comply with all open meetings, all public contract procurement laws and all other state and federal laws applicable to the District and/or the Corporation relating to the approval and construction of the Project, and the payment of Project Costs.

### **Section 2.3 Continuing Disclosure Undertaking.**

(a) **Definitions.**

As used in this Section, the following terms have the meanings ascribed to such terms below:

“*MSRB*” - means the Municipal Securities Rulemaking Board.

“*Rule*” - means SEC Rule 15c2-12, as amended from time to time.

“*SEC*” - means the United States Securities and Exchange Commission.

(b) **Annual Reports.**

Not later than 180 days after the end of each Fiscal Year while any of the Bonds are Outstanding, the District shall provide to the Trustee and the MSRB financial information and operating data with respect to the District of the general type included in the Official Statement in the Tables described in Schedule I hereto and the District's audited financial statements for such Fiscal Year.

(c) **Event Notices.**

The District shall notify the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of holders of the Bonds, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;

Rating changes;

Bankruptcy, insolvency, receivership or similar event;

13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(d) Limitations, Disclaimers and Advertisements.

The District shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the District remains an “obligated person” with respect to the Bonds within the meaning of the Rule, except that the District in any event will give the notice required by paragraph (c) of any Bond call or defeasance that causes the District to no longer be such an “obligated person.”

The provisions of this Section are for the sole benefit of the Bondholders and the beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The District undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the financial results, condition, or prospects of the District or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The District does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell the Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE DISTRICT BE LIABLE TO BONDHOLDERS OR THE BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION 2.3, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the District in observing or performing its obligations under this Section shall constitute a breach of or default under this Lease for purposes of any other provision of this Lease.

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

The provisions of this Section may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (i) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances; and (ii) either (A) a majority in aggregate principal amount (or any greater amount required by any other provision of the Trust Indenture that authorizes such an amendment) of the Bondholders' consent to such amendment or (B) a Person that is unaffiliated with the District (such as Nationally Recognized Bond Counsel) determines that such amendment will not materially impair the interests of the Bondholders and the beneficial owners of the Bonds. The provisions of this Section may also be amended from time to time or repealed by the District if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, or at the discretion of the District in any other circumstance, but in either case only if and to the extent that reservation of the District's right to do so would not prevent underwriters of the initial public offering of the Bonds from lawfully purchasing or selling Bonds in such offering, giving effect to (x) such provisions as so amended and (y) any amendments or interpretations of the Rule. If the District so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with paragraph (b) of this Section an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

### ARTICLE III

#### LEASE OF PROJECT AND TERM

**Section 3.1 Lease of Project.** In consideration of the rents, covenants, agreements and conditions herein set forth which the District agrees to pay, keep and perform, but subject to Sections 14.3 and 14.4, the Corporation does hereby let, demise and rent unto the District, and the District agrees to rent and lease from the Corporation, the Project.

**Section 3.2 Title Matters.** During the Term of this Lease, legal title to the Project and any and all repairs, replacements, substitutions and modifications to the Project shall be in the Corporation. Except to the extent of sale and partial defeasance pursuant to Article XI, the District shall not permit any lien or encumbrance of any kind to exist against the title to the Project, other than the Permitted Encumbrances or the Financing Documents. Upon termination of this Lease under Section 3.3(c) or the sale and partial defeasance pursuant to Article XI, full and unencumbered legal title to the Project, to the Campus or the portion of the Land being conveyed to the District with the exception of the Permitted Encumbrances, shall immediately be conveyed by the Corporation to the District, and the Corporation and the Trustee shall execute and deliver to the District such documents as the District may reasonably request to evidence the conveyance of such title to the District and the termination of the Corporation's and the Trustee's interest in the Project.

**Section 3.3 Term.** This Lease shall be and remain in effect with respect to the Project for a lease term (the "Term") commencing on the Closing Date and continuing until terminated, to the extent required by State law, upon the occurrence of the first of the following events:

- (a) the last day of the Fiscal Year in which an Event of Nonappropriation occurs;
- (b) the effective date of termination of this Lease by the Corporation or Trustee pursuant to the exercise of the rights of the Corporation to terminate this Lease upon the occurrence of an Event of Default pursuant to Article XIV;
- (c) the date on which the District pays all Rental Payments and other amounts required to be paid by the District pursuant to the terms of this Lease; or
- (d) twenty-five years from the dated date of the Lease,

but in all events upon and subject to the covenants, agreements, terms, provisions and limitations hereinafter set forth.

## **ARTICLE IV**

### **USE OF LEASED PREMISES AND COMPLIANCE WITH LAW**

**Section 4.1 Use.** The District shall occupy, operate and maintain the Project for District purposes provided in no event may the Project be used for a purpose which may adversely affect the treatment of the Series 2012 Bonds as obligations described in section 103 of the Code, for which the interest on which would be excludable from “gross income” of the holders thereof for purposes of federal income taxation.

**Section 4.2 Compliance With Laws.**

(a) The District shall comply with all Laws now existing or enacted or promulgated in the future, which affect the Project and the use and occupancy thereof. The District shall obtain all permits and licenses necessary for the operation, possession and use of the Project. The District shall make, at the District’s own cost and expense from Available Funds, any and all repairs, additions and alterations (whether the same constitute a capital improvement or expenditure) to the Project, that are required by Law or as may be ordered or required by any governmental authority, whether (i) in order to meet the special needs of the District, or by reason of the occupancy of the District, or otherwise, and (ii) regardless of whether such Laws, and the cost of implementing same, are imposed upon the District or the Corporation. In making any such alterations and improvements, the District shall comply with Sections 5.3 and 5.6 below.

(b) The District may, by appropriate proceedings conducted promptly in the District’s name and at the District’s expense, contest the validity or enforcement of any such Laws, and the District may defer compliance with same during such contest, provided the District diligently prosecutes such contest to a final determination by the authority having jurisdiction thereof and the delay in complying therewith does not create a lien or encumbrance on the Project or subject the Corporation or the Project to any liability for damages, fines, or penalties.

## **ARTICLE V**

### **DEVELOPMENT AND CONSTRUCTION OF THE PROJECT**

**Section 5.1 Local Conditions.** The Corporation declares that it is familiar with local conditions with respect to the development of the Project and construction of the Improvements.

**Section 5.2 Agreement to Design, Develop and Construct the Improvements.**

(a) The Corporation agrees to design, develop, and construct the Improvements on the Land in accordance with the terms hereof. In this respect, the Corporation shall furnish all supervision, tools, implements, machinery, labor, materials, and accessories such as are necessary and proper for the construction of the Improvements, shall pay all permit and license fees and shall construct, build, and complete in a good and workmanlike manner, the structures, work and Improvements herein described to be constructed by the Corporation at its expense upon the Land, all in accordance with this Lease, the Plans and Specifications, and all documents executed in connection with this Lease.

(b) The District shall obtain the services of the Architect, engineers, and other design professionals who shall have the obligation to develop the plans and specifications for the Project, which, subject to the reasonable review and approval by the Corporation and the District, shall be the Plans and Specifications. The Plans and Specifications must comply in all respects with all applicable Laws.

(c) As a condition to the effectiveness of this Lease and the assignments, the Corporation shall enter into one or more Project Contracts with the Contractor for the construction, acquisition, or installation of the Project. The rights and benefits (but not the obligations) under each such Project Contract shall be assigned to the Trustee on the Closing Date.



(d) The District agrees to cooperate with the Corporation in obtaining all city, state, or federal approvals necessary for the construction and development contemplated herein.

(e) The District agrees that it will pay out of lawfully available Appropriated Funds all fees, royalties, or license charges on all patented, registered or copyrighted machines, materials, methods or processes used in the construction of said work and supplied as a part of the Project.

### **Section 5.3 Project Contract Requirements.**

(a) All Project Contracts must: (i) be awarded in compliance with applicable Laws relating to procurement and competitive bidding of contracts with community college districts; (ii) require the Contractor to obtain all required approvals from governmental entities for the work to be performed thereunder; (iii) require the Contractor to obtain statutory payment bonds and performance bonds, as required by applicable law, each of which shall name the Trustee as a co-obligee with the Corporation and each of which shall be in such amounts as to meet statutory requirements, but in no event less than the amount of the Project Contract, and in all events be in form and issued by surety companies satisfactory to the Corporation and the District; (iv) require that all materials furnished be of good and serviceable quality and all labor performed be good and workmanlike and in conformity with the Plans and Specifications; (v) require the Contractor and its subcontractors to obtain at a minimum the insurance set out in Section 5.6 below; (vi) require that all Project Contracts and any warranties contained therein can be assigned to and directly enforced by the District, the Trustee or a Permitted Assignee; and (vii) contain the limitations on change orders set out in Section 5.4 below.

(b) Each Project Contract (i) must be assignable to the Trustee; (ii) allow termination by the Corporation upon prior written notice; and (iii) be collaterally assigned to the Trustee as part of the Financing Documents.

**Section 5.4 Change Orders.** Change orders with respect to the Project may only be made with the prior approval of the Corporation and the District. No change order shall be approved which would: (i) either separately, or in the aggregate, cause Project Costs to be paid from the Series 2012 Project Acquisition Subaccount, in the aggregate, to exceed \$35,000,000, unless there shall be on deposit in the appropriate Project Acquisition Subaccount sufficient funds to pay the amount of the increase or the District deposits with the Trustee funds sufficient to pay the amount of the increase; (ii) materially reduce the gross square feet to be contained in the Project, materially alter the design of the Project, or provide for materials to be furnished that are not at least of the same quality and grade as that for which such materials are substituted; or (iii) reduce the fair market value of the Project to less than the fair market value of the Project without the modification; provided, however, no change order may be made which would cause the aggregate cost of the Project to exceed \$45,000,000 (including the fair market value of the land equal to \$10,465,000).

**Section 5.5 Ownership of Project.** All materials and other property incorporated into the Project shall become a permanent part of the construction of the Project for the purposes of this Lease.

**Section 5.6 Insurance Required of Contractors.** During the construction of the Improvements and during any major renovation or restoration involving an aggregate expenditure of more than \$100,000, all Contractors shall be required to obtain the insurance coverage set out in Exhibit D attached hereto and incorporated by reference herein for all purposes.

## **ARTICLE VI**

### **ACCEPTANCE AND CONDITION OF PREMISES**

#### **Section 6.1 District's Inspection and Acceptance.**

(a) Once the Project is complete, the District will cause a District Representative to execute and deliver to the Corporation and the Trustee the Acceptance Certificate. Upon receipt of the Acceptance Certificate,

the Corporation and the Trustee shall be deemed to have assigned to the District all of their rights and obligations under the Project Contracts and all other documents relating to the Project.

(b) The Corporation will give the District the opportunity to fully inspect the Project during construction. The District's execution of this Lease and the execution of the Acceptance Certificate by a District Representative shall be conclusive evidence of the District's acceptance of the Project in, and that the Project is suitable for its intended purposes. Acceptance by the District shall not be deemed to inure to the benefit of any other party claiming or defending against the District or the Corporation as to the condition or the design and construction of the Project.

**Section 6.2 No Representations.** The District agrees that the Corporation has made no representations or warranties respecting the condition of the Land or the Project, other than those included in the Financing Documents and documents incorporated by reference therein and attached thereto, and no promises to alter or improve the Land have been made by the Corporation or its agents other than those specifically contained herein or incorporated herein by specific reference.

## **ARTICLE VII**

### **ALTERATIONS AND IMPROVEMENTS**

#### **Section 7.1 District's Right to Alter.**

(a) Subject to, from, and only to the extent of Available Funds in excess of the Rental Payments, and provided the conditions of this Section are met, the District shall have the right to make alterations, additions and improvements to the Project. All alterations, improvements, and additions shall thereafter comprise part of the Project and shall be owned by the Corporation subject to the terms of this Lease and the Deed of Trust.

(b) Following completion of the Project, the District shall have the right to make alterations and improvements conditioned on the following: (i) no alteration, modification or addition shall be made to the Project which would reduce the fair market value of the Project immediately prior to such proposed alteration, modification or improvements; (ii) no structural alteration or improvement shall be made which would adversely affect the structural integrity of the Improvements, and in this respect, if an alteration removes a load bearing wall or affects a building foundation, the District must supply the Corporation and the Trustee with a certification of a licensed engineer that such alteration will leave the Project, as altered, in a structurally sound condition; (iii) no alteration or improvement may be made which might adversely affect the excludability of the interest on the Series 2012 Bonds from "gross income" of the holders thereof for federal income tax purposes, and in this respect, the District must furnish to the Trustee an opinion of Nationally Recognized Bond Counsel to the effect that such proposed alteration or improvement will not so effect the Bonds.

(c) All alterations and improvements must: (i) be performed in a good and workmanlike manner; and (ii) be performed pursuant to written contracts meeting the requirements of Sections 5.3 and 5.6 above.

## **ARTICLE VIII**

### **OPERATION OF THE PROJECT**

#### **Section 8.1 Maintenance.**

(a) During the Term, the District shall, from Available Funds, maintain, preserve and keep the Project in good repair, working order, and condition, and from time to time make or cause to be made all repairs, replacements, and improvements (regardless of whether the same includes capital expenditures) necessary to keep the Project in such condition. The District agrees to pay the expenses of such maintenance from lawfully available Appropriated funds. Neither the Corporation nor the Trustee shall have any obligation or responsibility to maintain the Project.

(b) The District shall have the right to enter into contracts with respect to the operation and maintenance of the Project as necessary to keep the Project in good repair, working order, and condition; provided, however, that prior to entering into any such contract, other than a contract for services incidental to the use of the Project as college campuses and administrative offices (such as contracts for janitorial services, repair and maintenance, and similar such contracts), the District must deliver thirty (30) days' prior written notice to the Trustee, together with an opinion of Nationally Recognized Bond Counsel that the exclusion of interest on the Series 2012 Bonds for federal tax purposes will not be adversely affected by such contract; provided, however, that the District shall not be relieved of its obligation to maintain the Project by entering into a contract with a third party to perform such duties.

**Section 8.2 Access.** The Corporation and the District agree that the District, any District Representative, the Corporation, any Corporation Representative, the Trustee, and any Permitted Assignee shall have the right at all reasonable times to enter and inspect the Project. The District agrees that the Corporation, a Corporation Representative and the Trustee, without incurring any responsibility or obligation, shall have such rights of access to the Project as may be necessary or desirable to: (i) cause the maintenance of the Project in the event of failure by the District to perform its obligations hereunder; (ii) permit the Corporation or Trustee to exercise its rights or to carry out its obligations under this Lease; or (iii) determine whether the District is in compliance with its obligations under this Lease.

**Section 8.3 Utilities.** During the Term of this Lease, the District shall pay from lawfully available Appropriated funds, directly to vendors and suppliers, all deposits, charges, fees, and costs incurred for all utility equipment and services in connection with the use and occupancy of the Project by the District, including, but not limited to, water, sewer, refuse removal, electricity, gas, telephone, and cable television. The District shall pay the costs of any janitorial and related services in connection with the operation of the Project.

**Section 8.4 Taxes.** To the extent applicable, the District shall pay from lawfully available Appropriated funds any sales, property (real or personal), use, license, or other taxes with respect to the Project or any part thereof, or the ownership or use of the Project, that may be imposed, assessed, levied or become due and payable on or after the effective date of this Lease, together with any fines, penalties, or interest thereon. The Corporation shall promptly forward to the District any tax statements received by the Corporation for payment by the District prior to delinquency. The District shall furnish the Corporation with copies of paid receipts reflecting the timely payment of such taxes or impositions, and shall furnish the Corporation annually with a certificate that all taxes or impositions have been paid. The District, after notifying the Corporation and at its own expense, may contest, by appropriate administrative and thereafter legal proceedings, the assessed value, entitlement to any claimed exemption from taxation, validity of levy, amount of tax or imposition, or applicability of any such tax or imposition. The District's right to contest such taxes or impositions shall be conditioned on the District's compliance with any tender requirements of any laws governing protest of taxes and furnishing to the Corporation an indemnity bond or cash deposit or other security acceptable to the Corporation, with a surety acceptable to Corporation, in the amount of the tax or imposition being contested by the District plus an additional sum sufficient to pay costs, interest, and penalties that may be imposed or incurred in connection with or during the contest.

**Section 8.5 Liens and Leasehold Mortgages Prohibited.** The District shall not, directly or indirectly, mortgage, pledge, or hypothecate the Project or its interest in this Lease. The District shall not, directly or indirectly, create, incur, assume, or suffer to exist any mortgage, lien, charge, encumbrance, or claim on or with respect to the Project other than the rights of the Corporation and the District under this Lease, the Financing Documents and the Permitted Encumbrances. The District shall promptly take such action as may be necessary to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim arising at any time during the Term of this Lease. The Corporation and Trustee shall have the right, but not the obligation, to discharge any such liens, charges, mortgages or encumbrances if the District does not do so and to be reimbursed by the District from Available Funds for any expense incurred by either of them in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

**Section 8.6 Property and Casualty Insurance or Coverage.** From the date of substantial completion of the Project until the end of the Term of this Lease the District shall maintain throughout the Term of this Lease all-risk (or its equivalent) property insurance or coverage on the Project in an amount not less than the replacement value of the Project, subject only to such exceptions and exclusions as are customarily contained in such policies.

The District shall ensure that at all times the limits of coverage are sufficient to pay for the full replacement cost of the Project at the time of the loss, without deduction for depreciation. All policies shall be issued to the District as the first named insured or term denoting a similar meaning, but shall name the Corporation and Trustee as loss payees as their interests may appear under a standard Mortgagee's endorsement. If the District shall act as its own contractor for alterations and improvements that cost more than \$250,000, it shall obtain Builder's Risk Insurance for the full completed value of the improvements. The District shall pay the premiums for such insurance from lawfully available Appropriated funds. The Net Proceeds of such insurance shall be applied as set out in Section 9.1 below. The insurance required under this Section may be provided through an "umbrella" or "blanket" policy.

**Section 8.7 Liability Insurance.** During the Term of this Lease, the District shall, from lawfully available Appropriated funds, procure and maintain continuously in effect, or cause to be procured and maintained continuously in effect, with respect to the Project, insurance against liability for injuries to or death of any person or damage to or loss of property arising out of or in any way relating to the maintenance, use or operation of the Project or any part thereof. The insurance or coverage shall include coverage for premises/operations, independent contractors, products/completed operations, personal and advertising inquiry, contractual liability and explosion, collapse and underground property damage and be in the amount of at least \$2,000,000 combined single limit. The insurance required under this Section may be provided through an "umbrella" or "blanket" policy which provides coverage as to the Project in the minimum coverage amount previously set forth in this Section. The Trustee and the Corporation shall be named as additional insureds in all policies of liability insurance relating to the Project.

**Section 8.8 Workers Compensation Insurance.** Throughout the Term of this Lease, the District shall, from lawfully available Appropriated funds, maintain Worker's Compensation Insurance in statutorily required limits covering all of its employees in, on, or about the Project. During the construction of the Project and during any modification, restoration or renovation of the Project, the District shall require any Contractor or subcontractor to obtain and maintain such coverage on its employees and to furnish certificates evidencing such coverage to the Trustee.

**Section 8.9 Insurance Policy Requirements.** All policies of insurance to be obtained in connection with this Lease shall be written by companies qualified and licensed to write insurance in the State of Texas and have A.M. Best ratings of at least A.-VIII. A program or plan qualifying under the Interlocal Cooperation Act, Chapter 791, Texas Government Code, as amended, shall be deemed to meet these requirements. All policies shall provide by endorsement that the Corporation and Trustee be given at least sixty (60) days advance written notice of a proposed cancellation or material change in coverage. The District shall furnish the Corporation with certificates of insurance evidencing the above required insurance on or prior to the Closing Date, which certificates must be in a form on which the parties can rely as evidence of binding insurance and shall furnish certificates evidencing renewals or replacements of said policies of insurance at least thirty (30) days prior to the expiration or cancellation of any such policies. Annually, the District shall furnish the Trustee with a statement signed by a District Representative that the District is in compliance with the insurance policy requirements of this Lease; provided, however, that the Trustee shall have no liability to monitor compliance by the District with such insurance policy or statement delivery requirements.

**Section 8.10 Indemnification.**

(a) **Agreements to Indemnify.** TO THE EXTENT PERMITTED BY THE LAWS OF THE STATE OF TEXAS, AND TO THE EXTENT OF LAWFULLY AVAILABLE APPROPRIATED FUNDS, THE DISTRICT AGREES THAT IT WILL AT ALL TIMES INDEMNIFY AND HOLD HARMLESS EACH OF THE INDEMNIFIED PARTIES AGAINST ANY AND ALL LOSSES; PROVIDED, HOWEVER, THE DISTRICT SHALL NOT BE OBLIGATED TO INDEMNIFY AN INDEMNIFIED PARTY AGAINST LOSSES RESULTING FROM NEGLIGENCE, FRAUD, WILLFUL MISCONDUCT, OR THEFT ON THE PART OF ANY INDEMNIFIED PARTY CLAIMING INDEMNIFICATION. TO THE EXTENT PERMITTED BY THE LAWS OF THE STATE OF TEXAS, AND TO THE EXTENT OF LAWFULLY AVAILABLE APPROPRIATED FUNDS, THE DISTRICT ALSO AGREES TO INDEMNIFY THE TRUSTEE AND ITS SUCCESSORS, OFFICERS, DIRECTORS, MEMBERS, EMPLOYEES AND AGENTS FOR, AND TO HOLD IT AND ITS SUCCESSORS, OFFICERS, DIRECTORS, MEMBERS, EMPLOYEES AND AGENTS HARMLESS AGAINST, ANY LOSS, LIABILITY, CLAIM OR EXPENSE INCURRED WITHOUT NEGLIGENCE OR BAD FAITH ON ITS PART, ARISING OUT OF OR IN CONNECTION WITH THE ACCEPTANCE OR ADMINISTRATION OF

THE TRUST CREATED UNDER THE SECOND SUPPLEMENTAL TRUST INDENTURE OR THE PERFORMANCE OF ITS DUTIES UNDER THE FINANCING DOCUMENTS, INCLUDING THE COSTS AND EXPENSES OF DEFENDING ITSELF AGAINST ANY CLAIM OR LIABILITY IN CONNECTION WITH THE EXERCISE OR PERFORMANCE OF ANY OF ITS POWERS OR DUTIES UNDER THE SECOND SUPPLEMENTAL TRUST INDENTURE. THE TRUSTEE AND ITS SUCCESSORS, OFFICERS, DIRECTORS, MEMBERS, EMPLOYEES AND AGENTS MAY ENFORCE SUCH RIGHT AS A THIRD PARTY BENEFICIARY HERETO. NOTHING CONTAINED IN THIS SECTION 8.10 IS INTENDED NOR SHALL IT BE CONSTRUED TO WAIVE ANY IMMUNITY TO WHICH THE DISTRICT IS ENTITLED UNDER LAW.

(b) Release. TO THE EXTENT PERMITTED BY THE APPLICABLE LAWS OF THE STATE OF TEXAS, NONE OF THE INDEMNIFIED PARTIES SHALL BE LIABLE TO THE DISTRICT FOR, AND THE DISTRICT HEREBY RELEASES EACH OF THEM FROM ALL LIABILITY TO THE DISTRICT FOR (I) ALL LOSSES, CLAIMS OR DAMAGES THE DISTRICT MAY HAVE AGAINST ANY INDEMNIFIED PARTY RELATED TO THE ISSUANCE OF THE BONDS OR THE ADMINISTRATION OF THE FINANCING DOCUMENTS, OR (II) ALL INJURIES, DAMAGES OR DESTRUCTION TO ALL OR ANY PART OR PARTS OF ANY PROPERTY OWNED OR CLAIMED BY THE DISTRICT THAT DIRECTLY OR INDIRECTLY RESULT FROM, ARISE OUT OF OR RELATE TO THE DESIGN, CONSTRUCTION, OPERATION, USE, OCCUPANCY, MAINTENANCE OR OWNERSHIP OF THE PROJECT OR ANY PART THEREOF, EVEN IF SUCH INJURIES, DAMAGES OR DESTRUCTION DIRECTLY OR INDIRECTLY RESULT FROM, ARISE OUT OF OR RELATE TO, IN WHOLE OR IN PART, ONE OR MORE ACTS OR OMISSIONS OF THE INDEMNIFIED PARTIES (OTHER THAN NEGLIGENCE, FRAUD, WILLFUL MISCONDUCT OR THEFT ON THE PART OF THE INDEMNIFIED PARTY CLAIMING INDEMNIFICATION) IN CONNECTION WITH THE ISSUANCE OF THE BONDS OR IN CONNECTION WITH THE PROJECT.

## ARTICLE IX

### CASUALTY AND CONDEMNATION

**Section 9.1 Casualty or Condemnation.** If (i) the Project or any part thereof is damaged by fire or other casualty, or (ii) if title to or temporary use of all or any portion of the Project or the interest therein of the Corporation, the District or the Trustee is threatened or taken pursuant to the exercise of the power of eminent domain (whether by governmental body or by any company authorized by law to exercise powers of eminent domain):

(a) the District shall give the Corporation and the Trustee prompt written notice of any notices received by the District relating to the condemnation or casualty of which it has notice;

(b) the District shall cooperate with the Corporation in filing any proof of loss on any insurance policy required hereunder and in any condemnation or negotiation for a conveyance in lieu thereof and, to the extent it may lawfully do so, permit the Corporation at its request to prosecute any administrative proceeding or litigation in connection therewith in the name of the District;

(c) all Net Proceeds shall be deposited by the Trustee into the Series 2012 Project Acquisition Subaccount in proportion to the amount of Bond proceeds deposited therein pursuant to Section 10.1 hereof, and used as provided herein;

(d) all Net Proceeds shall be used in the repair, restoration, rebuilding, modification or improvement of the Project by the District and shall be drawn by the District by means of a requisition in the form set out in Exhibit D to the Second Supplemental Trust Indenture and incorporated and made a part hereof;

(e) the District shall be obligated to meet the requirements set out in Article VII above with respect to alterations and improvements;

(f) the Trustee shall have the right, but not the obligation, to participate in: (i) any condemnation or negotiations for any sale, conveyance or lease in lieu of condemnation and (ii) the adjustment of any casualty loss; and

(g) the District shall not have the right to compromise, settle, adjust, or consent to the settlement of any private adjustment or administrative or legal proceeding related to the adjustment of an insurance claim or possible condemnation without the prior written consent of the Corporation and Trustee.

**Section 9.2 District's Options if Net Proceeds are Insufficient.** If the Net Proceeds are insufficient, in the judgment of the District, to defray the anticipated cost of restoration, repair, modification or improvement following a condemnation or casualty, the District may (but shall not be obligated to), by written notice to the Corporation given within ninety (90) days following the date of such condemnation or casualty, apply Available Funds in excess of the Rental Payments to such excess costs or terminate this Lease (and all the District's interest in the Project) on the next succeeding Rental Payment Date by depositing with the Trustee from lawfully available Appropriated funds on such Rental Payment Date an amount equal to the Purchase Option Price (as defined in Section 11.1 hereof) applicable for that Rental Payment Date together with all Rental Payments and other amounts then due or past due less the Net Proceeds and the funds held by Trustee on such date pursuant to the Trust Indenture; provided, however, that if the District shall not appropriate funds to pay such Purchase Option Price, then this Lease shall terminate and the District shall have no further obligations hereunder. After application of the Net Proceeds pursuant to the foregoing provisions of this Section 9.2, any remaining Net Proceeds shall be paid to the District.

## ARTICLE X

### USE OF BOND PROCEEDS; DISBURSEMENTS; RENTAL PAYMENTS

**Section 10.1 Project and Issuance Costs.** On the Closing Date, the Trustee shall deposit from proceeds of the Series 2012 Bonds the amount of \$35,000,000 to the Series 2012 Project Acquisition Subaccount.

**Section 10.2 Disbursement Procedures and Requirements.** The Corporation and the District agree that the Corporation shall submit the following to the Trustee in order to obtain disbursements from the Series 2012 Project Acquisition:

(a) if for Issuance Costs, a Requisition for Payment of Issuance Costs, in the form set out in Exhibit E to the Second Supplemental Trust Indenture, incorporated by reference herein as if fully set out, executed by the Corporation and the District;

(b) if for the initial disbursement of Project Costs, an executed copy of the Project Contract and an assignment to the Trustee of the Project Contract;

(c) if for any Project Costs (including the initial disbursement) other than Issuance Costs, a Requisition for Payment of Project Costs, executed by the Corporation and the District in the form set out in Exhibit D to the Second Supplemental Trust Indenture, incorporated by reference herein as if fully set out, which shall be accompanied by a certificate of the Construction Administrator in the form set out in Exhibit D to the Second Supplemental Trust Indenture, incorporated by reference herein as if fully set out; and

(d) if for a final disbursement at the time of Completion of the Project, an executed Acceptance Certificate in the form attached as Exhibit C to this Lease together with a certificate of the Construction Administrator that all labor done and material furnished has been furnished in accordance with the Plans and Specifications and that all necessary certificates, licenses, approvals, releases or waivers of mechanic's and/or materialman's liens, and permits (required to be obtained from any governmental board, agency or department so that the Project may be used and occupied for its intended purposes) have been obtained without qualification. Further, the title insurance company that issues the Lender's Policy of Title Insurance must be prepared to issue its down-date endorsement of such policy free and clear of any mechanic's and materialman's liens.

### **Section 10.3 Rental Payments.**

(a) The District shall pay to the Trustee on each Rental Payment Date the Rental Payments out of Available Funds. All Rental Payments shall be applied by the Trustee in accordance with Article IV of the Master Trust Indenture and Article IV of the Second Supplemental Trust Indenture. The District shall be entitled to a credit against the Rental Payments at the times and in the amounts set forth and determined in accordance with the Trust Indenture; provided, however, that no credit shall be taken by the District other than as specifically set forth in a written notice thereof to the District from the Trustee. All Rental Payments shall be payable to the Trustee at its address specified in the Second Supplemental Trust Indenture, or to such other person or entity and at such other address as the Trustee may designate by written notice to the District, in lawful money of the United States of America. If any Bonds are to be redeemed prior to maturity on a Rental Payment Date, the District's Rental Payment shall include an amount sufficient to pay the redemption price of Bonds to be redeemed on such date.

(b) In accordance with the Trust Indenture, in the event that the Series 2012 Reserve Subaccount contains less than the Reserve Requirement for the Series 2012 Bonds, the District, upon receipt of notice from the Corporation, shall replenish such account or accounts from Available Funds prior to the end of the then current Fiscal Year to an amount equal to the Reserve Requirement. Subsequent to each draw on any Reserve Account Surety Policy, the Corporation shall, in accordance with the financial guaranty agreements, reimburse the provider of such policy for amounts advanced under such policy and pay to the providers of the policy interest on amounts so advanced, and the District shall pay to the Corporation from Available Funds amounts sufficient to make such reimbursements and payments when due.

(c) The District also agrees to pay from lawfully available Appropriated Funds on such dates as they shall become due and owing all other amounts related to the operation and maintenance of the Project including, without limitation, the ordinary fees and expenses of the Trustee, the reasonable extraordinary fees and expenses of Trustee, utility charges, to the extent applicable, ad valorem taxes and impositions (prior to their delinquency) imposed on the Project, the premiums of insurance policies relating to the Project, and other amounts incurred by the Corporation with respect to the Project. In the event the Trustee incurs expenses or renders services in any proceedings which result from an Event of Default under Section 5.1(e) of the Master Trust Indenture, or from any default which, with the passage of time, would become an Event of Default, the expenses so incurred and compensation for services so rendered are intended to constitute expenses of administration under the United States Bankruptcy Code or equivalent law.

**Section 10.4 Current Expenses.** The District's obligations under this Lease, including its obligations to pay the Rental Payments, shall constitute a current expense of the District in the Fiscal Year during which such payments are due, and shall not constitute an indebtedness of the District within the meaning of the laws of the State of Texas. Nothing in this Lease shall constitute a pledge by the District to the Rental Payments due hereunder of any taxes or other money, other than Available Funds for the then current Fiscal Year.

### **Section 10.5 District's Obligation.**

(a) Subject to the terms of subsection (b) of this Section, (i) the obligation of the District shall be absolute and unconditional, (ii) the covenant to pay Rental Payments shall be an independent covenant, and (iii) the District shall have no right to withhold, set-off or reduce the amount of Rental Payments or the obligation to make such Rental Payments or other payments when due hereunder regardless of any claim or dispute it may have regarding this Lease except in the event of a partial defeasance and release of real property from Lease. Further, the District expressly waives any counterclaim that it may have now or in the future regarding this Lease or its occupancy thereunder. There shall be no abatement of Rental Payments for any reason whatsoever, except in accordance with Sections 14.3 and 14.4 hereof, or in the event of a partial defeasance and release of real property from Lease.

(b) The District's obligation to make Rental Payments is subject to the sufficiency of Available Funds and, in the District's sole discretion, the Appropriation thereof for the payment of Rental Payments. The District presently intends to continue this Lease for the entire Term and to pay all Rental Payments and other payments required hereunder subject to the proviso of Section 2.1(f) hereof. The District reasonably anticipates that Available

Funds in amounts sufficient to make all such Rental Payments or other payments required hereunder will be available for such purposes.

**Section 10.6 Reserve Account.** No Reserve Subaccount is required for the Series 2012 Bonds.

## ARTICLE XI

### OPTION TO PURCHASE PROJECT

**Section 11.1 Purchase Rights.** The District shall have the right to purchase (i) Project in whole, (ii) an entire Campus, or (iii) one or more portions of the Land which do not have Improvements thereon. The District shall be entitled to full title and all ownership interests in the property being acquired, the Trustee's liens and security interests therein shall be terminated as said property purchased, and the District shall be deemed to have exercised its option to purchase:

(a) Upon payment in full of all Rental Payments with respect to the Project as a whole as the same become due in accordance with Exhibit E hereto, plus One Dollar (\$1.00) and the payment in full of all other amounts due under this Agreement (including fees and expenses of the Trustee); or

(b) Upon written notice by the District delivered at least sixty (60) days in advance of any date on which a Rental Payment is due, and upon payment on such date of either (i) with respect to the purchase of the Project as a whole, an amount sufficient to pay the redemption price of all Bonds then Outstanding on the next Rental Payment Date upon which Bonds may be redeemed, or (ii) with respect to the purchase of an entire Campus or one or more portions of the Land which do not have Improvements on it, an amount determined in Section 11.22 of the Deed of Trust (the "Purchase Option Price").

**Section 11.2 Optional Prepayment.** The District shall have the right to prepay Rental Payments due hereunder in full or in part, and to cause the Corporation to redeem the corresponding Bonds, on such dates and in such amounts as are permitted by the Second Supplemental Indenture. In the event the District purchases either an entire Campus or Land which does not have improvements, the proceeds from the sale will be applied as a partial redemption of Bonds, pro rata to all Bondholders.

**Section 11.3 Conveyance of Corporation's Interest in the Project.** Upon the District's payment in full of all amounts due and owing hereunder, the District shall have no other obligations hereunder and (i) this Lease shall terminate, (ii) the Trustee shall release the Deed of Trust and all other collateral documents securing the Bonds, and (iii) the Corporation and its assigns shall take any and all actions necessary to authorize, execute and deliver to the District any and all documents necessary to vest in the District all of the Corporation's right, title and interest in and to the Project, free and clear of all liens, leasehold interests and encumbrances, including, if necessary, a release of any and all liens or interests created under or pursuant to the provisions of this Lease, the Trust Indenture and the Deed of Trust.

**Section 11.4 Sale of Portion of Land.** In the event of a sale of a portion of the Land to the District as provided in Section 11.1(b) the Trustee and the Corporation shall provide the partial releases and conveyance documents described in Section 11.3 with regard to the portion of the Land sold to the District.

**Section 11.5 Survival.** The terms of this Article shall survive the termination of this Lease.

## ARTICLE XII

### ASSIGNMENT, SUBORDINATION, SUBLEASING, MORTGAGING AND SELLING

**Section 12.1 Assignment by Corporation.** The Corporation may assign its right, title and interest in this Lease to the Trustee for the benefit of the Bondholders. The District acknowledges and consents that the Corporation will assign its right, title and interest in (but not its obligations, responsibilities, or liabilities under) this Lease to the Trustee for the benefit of the Bondholders. The District shall pay all Rental Payments and all other



amounts required to be paid to the Corporation pursuant to this Lease to or at the direction of Trustee. The Corporation and the District covenant and agree to execute, acknowledge and deliver each and every further act, deed, conveyance, transfer and assurance necessary or proper for the perfection of any and all of the security interests in the Project provided for in the Trust Indenture or the Deed of Trust whether now owned or hereafter acquired, including, but not limited to, execution and delivery of such financing statements and continuation statement as shall be necessary under applicable Law to perfect and maintain such security interests. The District and the Corporation shall notify the Trustee and any investment rating service that has issued a rating or an “if rated letter” of any proposed assignment other than the initial assignment to the Trustee. The rights of the Trustee under this Lease arise solely from the collateral assignment of the Lease to the Trustee.

**Section 12.2 Assignment by District.** During the Term of this Lease, the District shall not assign or sublease its interest in the Project or in this Lease without the prior written consent of the Corporation and the Trustee, and in consenting to any such assignment or sublease, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of Nationally Recognized Bond Counsel stating that such assignment or sublease is authorized or permitted by the Financing Documents.

**Section 12.3 District’s Right to Mortgage or Sell the Project Restricted.** During the Term of this Lease, the District shall not sell, assign, transfer, convey, mortgage, or otherwise encumber its interest in the Project subject to the Lease or any portion thereof or in this Lease without the prior written consent of the Corporation and the Trustee, and in consenting to any such sale, assignment, transfer, conveyance, mortgage or other encumbrance, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of Nationally Recognized Bond Counsel stating that such sale, assignment, transfer, conveyance, mortgage or other encumbrance is authorized or permitted by the Financing Documents.

## **ARTICLE XIII**

### **THE BONDS**

**Section 13.1 Issuance and Sale of the Bonds.** Subject to applicable terms, limitations, and procedures, the Corporation will issue and sell the Bonds to finance the Project, at such interest rates and upon the terms as approved by the Corporation Board and in accordance with applicable Law and pursuant to the terms and conditions set forth in the Trust Indenture.

**Section 13.2 Cooperation by District.** The District shall take the actions, enter into the agreements, provide the certifications contemplated by this Lease and otherwise cooperate with the Corporation and its agents to effect the lawful issuance and sale of the Bonds.

### **Section 13.3 Tax Covenants—Series 2012 Bonds.**

(a) **Definitions.** When used in this Section, the following terms have the following meanings:

“Code” means the Internal Revenue Code of 1986, as amended by all legislation, if any, enacted on or before the Issue Date.

“Computation Date” has the meaning stated in Section 1.148 1(b) of the Regulations.

“Gross Proceeds” has the meaning stated in Section 1.148 1(b) of the Regulations.

“Investment” has the meaning stated in Section 1.148 1(b) of the Regulations.

“Issue Date” for each series or sub-series of the Bonds or other obligations of the District is the respective date on which such series or sub-series of the Bonds or other obligations of the District is delivered against payment therefor.

“Net Sale Proceeds” has the meaning stated in Section 1.148 1(b) of the Regulations.

“Nonpurpose Investment” has the meaning stated in Section 1.148 1(b) of the Regulations.

“Proceeds” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Rebate Amount” has the meaning stated in Section 1.148-3 of the Regulations.

“Regulations” means the temporary or final Income Tax Regulations applicable to the Bonds issued pursuant to Sections 141 through 150 of the Code. Any reference to a section of the Regulations shall also refer to any successor provision to such section hereafter promulgated by the Internal Revenue Service pursuant to Sections 141 through 150 of the Code and applicable to the Bonds.

“Yield of”

- (i) any Investment shall be computed in accordance with Section 1.148 5 of the Regulations, and
- (ii) the Bonds shall be computed in accordance with Section 1.148-4 of the Regulations.

(b) Not to Cause Interest to Become Taxable. The District shall not use, permit the use of or omit to use Gross Proceeds of any Series 2012 Bond or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which, if made or omitted, respectively, would cause the interest on a Series 2012 Bond to become includable in the gross income, as defined in Section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the District shall have received a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the status for federal income tax purposes of the interest on any Bond, the District shall comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except as permitted by Section 141 of the Code and the Regulations and rulings thereunder, the District shall, at all times after the Issue Date of any Bond and prior to the last stated maturity of the Bonds:

- (i) exclusively own, operate, and possess all property the acquisition, construction, or improvement of which is to be financed directly or indirectly with Gross Proceeds of such Bond (including property financed with Gross Proceeds of the Refunded Bonds or notes or bonds refunded by the Refunded Bonds) and not use or permit the use of such Gross Proceeds or any property acquired, constructed, or improved with such Gross Proceeds in any activity carried on by any person or entity other than a state or local government, unless such use is solely as a member of the general public, or
- (ii) not directly or indirectly impose or accept any charge or other payment for use of Gross Proceeds of such Bond or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with such Gross Proceeds (including property financed with Gross Proceeds of the Refunded Bonds or notes or bonds refunded by the Refunded Bonds) other than taxes of general application and interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(d) No Private Loan. Except to the extent permitted by Section 141 of the Code and the Regulations and rulings thereunder, the District shall not use Gross Proceeds of such Bond to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, Gross Proceeds are considered to be “loaned” to a person or entity if (1) property acquired, constructed or improved with Gross Proceeds (including property financed with Gross Proceeds of the Refunded Bonds or notes or bonds refunded by the Refunded Bonds) is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes, (2) capacity in or service from such property is committed to such person or entity under a

take-or-pay, output, or similar contract or arrangement, or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or such property are otherwise transferred in a transaction which is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except to the extent permitted by Section 148 of the Code and the Regulations and rulings thereunder, the District shall not, at any time prior to the earlier of the final stated maturity or final payment of such Bond, directly or indirectly invest Gross Proceeds of such Bond in any Investment (or use such Gross Proceeds to replace money so invested), if as a result of such investment the Yield of all Investments allocated to such Gross Proceeds whether then held or previously disposed of, exceeds the Yield on the Bonds.

(f) Not Federally Guaranteed. Except to the extent permitted by Section 149(b) and 54AA(d)(2) of the Code and the Regulations and rulings thereunder, the District shall not take or omit to take any action which would cause the Bonds to be federally guaranteed within the meaning of Section 149(b) of the Code and the Regulations and rulings thereunder.

(g) Information Report. The District shall timely file with the Secretary of the Treasury the information required by Section 149(e) of the Code with respect to the Bonds on such forms and in such place as such Secretary may prescribe.

(h) Payment of Rebate Amount. Except to the extent otherwise provided in Section 148(f) of the Code and the Regulations and rulings thereunder, the District shall:

- (i) account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of such accounting for at least six years after the final Computation Date. The District may, however, to the extent permitted by law, commingle Gross Proceeds of the Bonds with other money of the District, provided that the District separately accounts for each receipt and expenditure of such Gross Proceeds and the obligations acquired therewith,
- (ii) calculate the Rebate Amount with respect to the Bonds not less frequently than each Computation Date, in accordance with rules set forth in Section 148(f) of the Code, Section 1.148-3 of the Regulations, and the rulings thereunder. The District shall maintain a copy of such calculations for at least six years after the final Computation Date,
- (iii) as additional consideration for the purchase of the Bonds by the initial purchaser thereof and the loan of the money represented thereby, and in order to induce such purchase by measures designed to ensure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, pay to the United States the amount described in paragraph (ii) above at the times, in the installments, to the place, in the manner and accompanied by such forms or other information as is or may be required by Section 148(f) of the Code and the Regulations and rulings thereunder, and
- (iv) exercise reasonable diligence to assure that no errors are made in the calculations required by paragraph (ii) and, if such error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including payment to the United States of any interest and any penalty required by the Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by Section 148 of the Code and the Regulations and rulings thereunder, the District shall not enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Bonds, not been relevant to either party.

(j) Not Hedge Bonds. The District will not invest more than 50 percent of the Proceeds of any series of the Series 2012 Bonds in Nonpurpose Investments having a guaranteed yield for four years or more.

(k) Continuing Obligation. Notwithstanding any other provision of this Lease, the Corporation's obligations under the covenants and provisions of this Section 13.3 shall survive the defeasance and discharge of the Series 2012 Bonds.

## ARTICLE XIV

### REMEDIES FOR DEFAULT AND NONAPPROPRIATION

**Section 14.1 Remedies on Default.** Whenever an Event of Default of the District shall have happened and be continuing, the Corporation and the Trustee each shall have the right, but not the obligation, to the extent permitted by law, to take any or all of the following actions:

(a) with or without terminating this Lease, declare all Rental Payments due or to become due during the then current Fiscal Year to be immediately due and payable by the District to the extent of Available Funds, in which event such Rental Payments, to the extent permitted by Law, shall be immediately due and payable;

(b) with or without terminating this Lease, re-enter and take possession of the Project and employ legal process to remove the District; provided that the District shall maintain its right of possession until conclusion of such legal process;

(c) terminate this Lease upon giving thirty (30) days' prior written notice to the District and the Trustee at the expiration of which the District shall immediately surrender possession and control of the Project to the Corporation;

(d) enter upon the Project with or without terminating the Lease and without being deemed liable for trespass and complete the construction of the Project, applying the amounts in the Series 2012 Project Acquisition Subaccount to the payment of Project Costs; and

(e) exercise any remedies, rights or powers it may have under this Lease, the Deed of Trust, or the Trust Indenture, or under any Law, including any suit, action, mandamus, or special proceeding at law or in equity or in bankruptcy or otherwise for the collection of all amounts due and unpaid under the Financing Documents, for specific performance of any covenant or agreement contained in the Financing Documents or for the enforcement of any applicable legal or equitable remedy deemed most effective to protect the rights aforesaid to the extent permitted by applicable Law.

**Section 14.2 No Holdover After Termination.** The District shall immediately surrender possession of the Project to the Corporation or a Permitted Assignee upon termination of this Lease or the District's right to possession of the Project under this Article. No holdover tenancy shall be permitted and the District will, upon the termination of this Lease or the District's right to possession of the Project, become a tenant at sufferance and during such tenancy the District shall be required to make rental payments equal to the Rental Payments.

**Section 14.3 Termination Upon Event of Nonappropriation.** The District shall provide the Corporation with written notice within three (3) days after the occurrence of action by the District Board which constitutes an Event of Nonappropriation. If funds sufficient to pay the Rental Payments due during the next succeeding Fiscal Year are not Appropriated (net of funds on deposit in the Series 2012 Payment Subaccount), then this Lease shall terminate effective at the end of the Fiscal Year for which sufficient funds have been Appropriated (and, in the case of a reduction of an Appropriation to an amount insufficient to pay Rental Payments (net of funds on deposit in the Series 2012 Payment Subaccount), this Lease shall terminate immediately upon the approval of such reduction, which termination shall be self-operative without notice or demand. Upon the effective date of termination under this Article, the District shall peaceably surrender possession and control of the Project to the Corporation and, subject to Section 14.4, the District shall have no further liability or obligation hereunder from and after such effective date.

**Section 14.4 Additional Remedies if Event of Nonappropriation Occurs.** If this Lease is terminated pursuant to Section 14.3 and the District fails timely to surrender possession or control of the Project to the Corporation, the District, as a tenant at sufferance, shall pay, from and to the extent of Available Funds, damages in an amount equal to the Rental Payments that accrue on a daily basis for the period from the effective date of termination to the date of delivery of possession and control of the Project.

**Section 14.5 No Waiver; Notice.**

(a) No delay or failure by either party to insist upon or take action to enforce the strict performance of any covenant, agreement, term or condition of this Lease or to exercise any right or remedy consequent upon a breach thereof, and no acceptance of full or partial Rental Payments during the continuance of any such breach, shall constitute a waiver of any such breach or of such covenant, agreement, term or condition. No covenant, agreement, term or condition of this Lease to be performed or complied with, and no breach thereof, shall be waived, altered or modified except by a written instrument. No waiver of any breach shall affect or alter this Lease, but each and every covenant, agreement, term and condition of this Lease shall continue in full force and effect with respect to any other then existing or subsequent breach thereof.

(b) In order to entitle any party to exercise any remedy reserved to it in this Lease, it shall not be necessary to give any notice, other than such notice as may be required in this Lease or the notice required under the Trust Indenture.

(c) The District shall provide written notification to the Corporation and the Trustee upon the occurrence of any Event of Default identified in subsection (d), (e), or (f) of the definition of "Event of Default."

**Section 14.6 Remedies are Cumulative.** The remedies provided by this Lease are cumulative and not exclusive and shall be in addition to every other remedy afforded by this Lease either now or hereafter existing at law or in equity, and the Corporation or Trustee may pursue one or more of such remedies without being deemed to have elected its remedies.

**Section 14.7 Trustee's Right to Cure Defaults.** The Trustee shall have the right, but not the obligation, to cure any claimed Event of Default under this Lease by the Corporation or the District.

## **ARTICLE XV**

### **HAZARDOUS MATERIALS**

**Section 15.1 District's Limited Right to Maintain Hazardous Materials.** Except for the reasonable use and storage of Hazardous Materials incident to the normal operation of Project as college campuses and administrative offices, prior to generation, manufacture, storage, use or disposal of or transport of Hazardous Materials at, to or from the Project, except those used in the ordinary operation of the campuses comprising the Project, the District shall provide the Corporation with thirty (30) days' advance written notice of that fact and obtain its consent. The Corporation shall have the right, in its reasonable discretion, to withhold its consent to such activity by notice in writing delivered to the District given within ten (10) days after receipt of the District's notice regarding activities related to Hazardous Materials. The District agrees to furnish, upon reasonable request of the Corporation, any and all information regarding Hazardous Materials existing or to be in existence at the Project including, without limitation, inventory records, manifests and material safety limitations, and material safety data sheets.

**Section 15.2 District's Obligations Regarding Hazardous Materials.** Except as provided in Section 15.1 above, the District covenants that (a) Hazardous Materials shall not hereafter be installed, used, generated, manufactured, treated, handled, refined, produced, processed, stored or disposed of, released or otherwise placed in, on or under all or any part of the Project except in the ordinary course of the operation of the campuses comprising the Project; (b) no activity shall hereafter be undertaken on all or any part of the Project which would cause (i) all or any part of the Project to become a treatment, storage or disposal facility for Hazardous Materials within the meaning of, or otherwise bring all or any part of or any interest in the Project within the ambit of any Hazardous

Materials Law, (ii) a release or threatened release of any Hazardous Materials from the Project within the meaning of, or otherwise bring all or any part of the Project within the ambit of any Hazardous Materials Law, or (iii) the discharge of Hazardous Materials into any watercourse, body of surface or subsurface water or wetland, or the discharge into the atmosphere of any Hazardous Materials which would require a permit under any Hazardous Materials Law; and (c) no activity shall be undertaken on or with respect to all or any part of the Project which would cause a violation or support a claim under any Hazardous Materials Law.

**Section 15.3 Notice of Hazardous Materials Claims.** The District shall immediately advise the Corporation in writing of (a) any governmental or regulatory actions instituted or threatened under any Hazardous Materials Law affecting all or any part of or any interest in the Project, (b) all claims made or threatened by any Fourth party against the District, the Corporation or the Project relating to damage, contribution, cost recovery, compensation, or loss or injury resulting from any Hazardous Materials, (c) the discovery of or reasonable cause to believe that any occurrence or condition on any real property adjoining or in the vicinity of the Project that could cause the Project to be classified in a manner which may support a claim under any Hazardous Materials Law, and (d) the discovery of any occurrence or condition on any part of the Project or any real property adjoining or in the vicinity of the Project which could subject the District or the Corporation or any part of the Project to any limitations or restrictions on the ownership, occupancy, transferability or use thereof. The Corporation may elect (but shall not be obligated) to join and participate in any settlements, remedial actions, legal proceedings or other actions initiated in connection with any claims or responses under any Hazardous Materials Law and to have their reasonable attorneys' fees relating to such participation paid by the District. At its sole cost and expense from lawfully available Appropriated funds, the District agrees to promptly and completely cure and remedy every existing and future violation of a Hazardous Materials Law occurring on or with respect to any part of the Project and to promptly remove all Hazardous Materials now or hereafter in, on or under all or any part of the Project and to dispose of the same as required by any Hazardous Materials Law(s).

**Section 15.4 Right to Retain Site Reviewers.** The Corporation (by its officers, employees and agents), at the expense of the District, at any time and from time to time may contract for the services of persons or entities (the "Site Reviewers") to perform environmental site assessments ("Site Assessments") on all or any part of the Project to determine the existence of any environmental condition which under any Hazardous Materials Law might result in any liability, cost or expense to the owner, occupier or operator of the Project. The Site Reviewers are authorized to enter upon all or any part of the Project to conduct Site Assessments. The Site Reviewers are further authorized to perform both above and below the ground testing for environmental damage or the presence of Hazardous Materials on the Project and such other tests on the Project as the Site Reviewers or the Corporation may deem necessary. The District agrees to supply to the Site Reviewers and the Corporation such historical and operational information regarding the Project as may be reasonably requested to facilitate the Site Assessments and will make available for meetings with the Site Reviewers appropriate personnel having knowledge of such matters. The results of Site Assessments shall be furnished to the District upon request. The cost of performing Site Assessments shall be paid by the District from lawfully available Appropriated funds.

**Section 15.5 District's Indemnity.** TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE DISTRICT SHALL INDEMNIFY, DEFEND, AND HOLD HARMLESS THE CORPORATION AND THE TRUSTEE, THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, SUCCESSORS, ATTORNEYS AND ASSIGNS FROM AND AGAINST (A) ANY LOSS, LIABILITY, DAMAGE, COST, EXPENSE OR CLAIM ARISING FROM THE IMPOSITION OR RECORDING OF A LIEN, THE INCURRING OF COSTS OF REQUIRED REPAIRS, REMEDIATION, CLEAN UP OR DETOXIFICATION AND REMOVAL UNDER ANY HAZARDOUS MATERIALS LAW WITH RESPECT TO ALL OR ANY PART OF THE PROJECT OR LIABILITY TO ANY FOURTH PARTY IN CONNECTION WITH ANY VIOLATION OF A HAZARDOUS MATERIALS LAW; (B) ANY OTHER LOSS, LIABILITY, DAMAGE, EXPENSE OR CLAIM WHICH MAY BE INCURRED BY OR ASSERTED AGAINST THE CORPORATION OR TRUSTEE, THEIR DIRECTORS, OFFICERS, EMPLOYEES, SUCCESSORS OR ASSIGNS, DIRECTLY OR INDIRECTLY, ARISING FROM THE PRESENCE ON OR UNDER, OR THE DISCHARGE, EMISSION OR RELEASE FROM THE PROJECT INTO OR UPON THE LAND, ATMOSPHERE, OR ANY WATERCOURSE, BODY OF SURFACE OR SUBSURFACE WATER OR WETLAND, ARISING FROM THE INSTALLATION, USE, GENERATION, MANUFACTURE, TREATMENT, HANDLING, REFINING, PRODUCTION, PROCESSING, STORAGE, REMOVAL, REMEDIATION CLEAN UP OR DISPOSAL OF ANY HAZARDOUS MATERIAL WHETHER OR NOT CAUSED BY THE DISTRICT; AND (C) LOSS OF VALUE OF ANY OF THE PROJECT AS A RESULT

OF ANY SUCH LIEN, REMEDIATION CLEAN UP, DETOXIFICATION, LOSS, LIABILITY, DAMAGE, EXPENSE OR CLAIM OR A FAILURE OR DEFECT IN TITLE OCCASIONED BY ANY HAZARDOUS MATERIAL OR HAZARDOUS MATERIALS LAW. SUCH INDEMNITY SHALL APPLY REGARDLESS OF ANY CLAIM THAT THE CORPORATION OR TRUSTEE WERE NEGLIGENT IN GRANTING THEIR CONSENT TO THE EXISTENCE OF HAZARDOUS MATERIALS IN, ON, OR ABOUT THE PROJECT. THE INDEMNITY SHALL INCLUDE THE COSTS OF INVESTIGATION, SETTLEMENT AND DEFENSE OF SUCH CLAIMS AND THE ATTORNEYS' FEES OF COUNSEL OF THE INDEMNIFIED PARTY'S CHOOSING. THIS INDEMNITY SHALL SURVIVE THE EXPIRATION OR EARLY TERMINATION OF THIS LEASE AND SHALL NOT MERGE INTO THE FEE TITLE TO THE PROJECT IN THE EVENT THAT THE DISTRICT PURCHASES THE PROJECT PURSUANT TO ARTICLE XI HEREOF; PROVIDED, HOWEVER, THAT THIS INDEMNIFICATION SHALL NOT APPLY TO ANY LIABILITY, DAMAGES, OR EXPENSES ARISING FROM THE NEGLIGENT OR WILLFUL CONDUCT OF THE PARTY BEING INDEMNIFIED. NOTHING CONTAINED IN THIS SECTION 15.5 IS INTENDED NOR SHALL IT BE CONSTRUED TO WAIVE ANY IMMUNITY TO WHICH THE DISTRICT IS ENTITLED UNDER LAW.

**Section 15.6 Corporation's and Trustee's Right to Take Remedial Action.** The Corporation, the Trustee or a Permitted Assignee shall have the right, but not the obligation, upon thirty (30) days' advance written notice to take any remedial action to remove any Hazardous Substance from the Project or clean up any contamination resulting from the District's violation of any of the requirements of this Article. The District shall reimburse the Corporation, the Trustee or a Permitted Assignee for the costs of such remedial action from lawfully available Appropriated funds to the extent permitted by applicable law.

**Selected Provisions from the Deed of Trust, Security Agreement, Assignment of Rents and Leases, and Financing Statement**

**ARTICLE I  
SECURED OBLIGATIONS**

**Section 1.1 Deed of Trust Secures Described Indebtedness.** This Deed of Trust is executed and delivered by the Corporation to secure the payment and performance of certain indebtedness, liabilities and obligations owing and to become owing to or in favor of Beneficiary, as follows:

(a) The indebtedness evidenced by the Bonds, being payable in the amounts, at the interest rate, and on the dates stipulated therein, maturing as provided therein, bearing interest on past due amounts as provided therein, and containing provisions for the acceleration of maturity, at the option of the holder thereof, and for the payment of attorneys' fees upon the occurrence of contingencies set forth therein;

(b) any and all amounts, liabilities, and obligations for which or for the performance of which the Corporation may become indebted or obligated under the terms of the District Lease, the Trust Indenture (but excluding any obligations not arising from or related to the Bonds or the First Supplemental Trust Indenture) or this Deed of Trust, including, but not limited to, the fees and expenses of the Beneficiary;

(c) any sum or sums constituting other indebtedness (whether now existing or hereafter arising) of the Corporation to Beneficiary related to the Project, which indebtedness may be evidenced in various manners (including, but not limited to, indebtedness evidenced by a promissory note, loan agreement, deed of trust, mortgage, security agreement, open account, overdraft, surety, guaranty, and letter of credit), whether joint or several, direct or indirect, absolute or contingent, due or to become due, primary or secondary, howsoever evidenced or acquired, it being contemplated that the Corporation may hereafter become so indebted to Beneficiary; and

(d) any and all renewals, rearrangements, and extensions of the foregoing items of indebtedness and obligations;

provided, however, that the enumeration of items of indebtedness set forth in paragraphs 1.1(c) and (d) above shall not include and there is expressly excepted therefrom any items of indebtedness owing or to become owing to the Beneficiary for which applicable law prohibits the taking of a lien upon real estate as security, including, but not limited to, items of indebtedness incurred pursuant to Chapters 343 or 346 of the Texas Finance Code.

**Section 1.2 Secured Obligations Defined.** Each and every item of indebtedness described and included in Section 1.1 above is intended to be fully secured by the liens, assignments, and security interests created under and by virtue of this Deed of Trust; and all such items so secured (now or hereafter existing) are hereinafter collectively called "Secured Obligations."

## **ARTICLE II GRANT OF MORTGAGED PROPERTIES**

**Section 2.1 Grant, Sale and Conveyance.** For the purposes and trusts hereinafter set forth, and for TEN AND NO/100 DOLLARS (\$10.00) and other good and valuable consideration paid to the Corporation, the receipt and sufficiency of which are hereby acknowledged, the Corporation has GRANTED, SOLD, and CONVEYED, and by these presents does GRANT, SELL, and CONVEY, unto the Mortgage Trustee in trust, with power of sale, all the following described property, to wit:

(a) All those certain tract(s) or parcel(s) of land (the "Land") being situated in Hays County, Texas, being more fully described as set forth on Exhibit A-1 attached hereto and hereby referred to and incorporated herein for all purposes.

(b) To the extent owned by the Corporation and purchased with proceeds of the Bonds, all improvements upon the Land and now or hereafter attached to or placed, erected, constructed, or developed thereon, and all fixtures, materials, equipment, apparatus, furniture, furnishings, building materials, supplies, and other property, real and personal, now or hereafter installed or used thereon or upon the improvements thereon, including, but not limited to, all heating, lighting, refrigerating, plumbing, ventilating, incinerating, water heating, cooling and air-conditioning equipment, fixtures and appurtenances, all engines and machinery, elevators, pumps, motors, window screens, window shades, venetian blinds, awnings, floor coverings, and shrubbery and other chattels and personal property used or furnished in connection with the operation, use, and enjoyment of such real property and the improvements thereon, and all renewals, replacements, and substitutions therefor and additions thereto, all of which said property and fixtures shall be deemed to be a part of and affixed to the above described Land (the "Improvements").

(c) All rents, revenues, profits, income, damages, awards, and proceeds from or attributable to all or any portion of the Land, the Improvements, and any other property, both real and personal, hereinabove described.

(d) To the extent owned by the Corporation and purchased with proceeds of the Bonds, all other articles of personal property, tangible or intangible (the "Personal Property") now or hereafter attached to or used in or about the Land or Improvements or that are necessary or useful for the complete and comfortable use and occupancy of the Land or Improvements for the purposes for which they are to be attached, placed, erected, constructed or developed, or which Personal Property is or may be used in or related to the planning, development, financing or operation of the Land Improvements, and all renewals of or replacements or substitutions for any of the foregoing, whether or not the same are or shall be attached to the Land or the Improvements.

(e) All building materials and equipment now or hereafter delivered to and intended to be installed in or on the Land or the Improvements.

(f) All contracts now or hereafter entered into by and between the Corporation and the Original Contractor (as such term is defined in Section 53.001, Texas Property Code, as amended) or between the Corporation and any other party, as well as all right, title and interest of the Corporation under any subcontracts, providing for the construction (original, restorative or otherwise) of any improvements to



or on any of the Land or the furnishing of any materials, supplies, equipment or labor in connection with such construction.

(g) The architect contracts and all plans, specifications and drawings of the Land Improvements (including, but not limited to, plat plans, foundation plans, floor plans, elevations, framing plans, cross-section of walls, mechanical plans, electrical plans and architectural and engineering plans, and architectural engineering studies and analysis) heretofore or hereafter prepared by any architect or any engineer, relating to any of the Land.

(h) All agreements now or hereafter entered into and with any party, including any assigned obligations relating to architectural, engineering, management, development or consulting services rendered or to be rendered relating to planning, design, inspection or supervision of the construction, management or development of any of the Land.

(i) Any completion bond, performance bond or labor and material payment bond or other bond relating to the Land or to any contract providing for construction of Improvements to the Land.

(j) The Corporation's rights (but not its obligations) under any contracts relating to the Land, the Improvements or the Personal Property;

(k) All permits, licenses, wastewater discharge capacities, franchises, certificates, and other rights and privileges obtained in connection with the Land, the Improvements and the Personal Property.

(l) All proceeds arising from or by virtue of the sale, lease or other disposition of the Land, the Improvements or the Personal Property.

(m) All proceeds (including premium refunds) of each policy of insurance relating to the Land, the Improvements or the Personal Property.

(n) All proceeds from the taking of any of the Land, the Improvements, the Personal Property or any rights appurtenant thereto by right of eminent domain or by private or other purchase in lieu thereof, including change of grade of streets, curb cuts or other rights of access, for any public or quasi-public use under any law.

(o) All right, title and interest of the Corporation in and to all streets, roads, public places, easements and rights-of-way, existing or proposed, public or private, adjacent to or used in connection with, belonging or pertaining to the Land.

(p) All rights, hereditaments and appurtenances pertaining to the foregoing.

(q) Other interests of every kind and character that the Corporation now has or at any time hereafter acquires in and to the Land, Improvements, and Personal Property described herein and all property that is used or useful in connection therewith, including rights of ingress and egress and all reversionary rights or interests of the Corporation with respect to such property.

(r) All of the accounts, documents, chattel paper, instruments, and general intangibles arising in any manner from the Corporation's ownership and operation of the Project.

(s) The proceeds in cash or otherwise, of the items described in the foregoing clauses, including, without limitation the proceeds of any sale or other disposition of such collateral.

**TO HAVE AND TO HOLD** the hereinabove described properties, together with the rights, privileges, and appurtenances thereto belonging (all of which properties, rights, privileges, and appurtenances are hereinafter collectively called the "Mortgaged Properties") unto the said Mortgage Trustee and to his substitutes or successors forever, and the Corporation does hereby bind itself, its successors, assigns, and legal representatives to warrant and forever defend all and singular the Mortgaged Properties unto the Mortgage Trustee, its successors and assigns,

against every person whomsoever lawfully claiming or to claim the same, or any part thereof, subject only to the specific matters, if any, set forth in Exhibit B attached hereto and made a part hereof (the "Permitted Encumbrances").

**Section 2.2 The Corporation's Representations and Covenants Regarding Title.** Without in any way limiting the above conveyance and the warranty herein contained, the Corporation represents itself to be the owner of all the Mortgaged Properties as hereinabove conveyed, and, should any ambiguity exist in regard to the description of said properties, reference may be had to Corporation's ownership of properties held by it in the survey(s), subdivision(s) or section described in Exhibit A-1 hereto for further description of the properties herein conveyed. The Corporation agrees that it will, upon request by the holder of the Secured Obligations, execute any further instruments, amendments, or supplements desired to more adequately describe the Mortgaged Properties which it has agreed to make subject to this Deed of Trust.

**Section 2.3 Conveyance is as a Deed of Trust.** This conveyance, however, is intended as a deed of trust and security agreement and is made upon the following trusts, terms, and conditions, to wit: In the event the Corporation shall well and truly perform and pay the Secured Obligations (including payment of all principal and all interest and attorneys' fees and other amounts, if any, owing or to become owing thereon) to the legal holder thereof when the same shall become due, then this Deed of Trust and all covenants herein contained shall be null and void and shall be released at the Corporation's cost and expense, otherwise this Deed of Trust shall continue in full force and effect; provided, however, that the Corporation's obligation to indemnify and hold harmless the Beneficiary pursuant to the provisions hereof shall survive any such payment or release.

### ARTICLE III ASSIGNMENT OF RENTS

**Section 3.1 Assignment.** The Corporation does hereby GRANT, TRANSFER, ASSIGN and SET OVER unto Beneficiary, its successors and assigns, the following:

(a) all rights, interests and estates of the Corporation in, to and under, but none of its obligations, responsibilities, or liabilities related to, the existing leases, including the District Lease, and those now or hereafter made, executed or delivered, whether written or verbal, covering all or any portion of the Land or the Improvements, together with all renewals, extensions, modifications and replacements thereof (such lease agreements, renewals, extensions, modifications and replacements thereof being hereinafter collectively called the "Leases"); and

(b) all rents, rentals, security deposits, royalties, bonuses, issues, profits, revenue, income, and other sums of money or benefits that may now or hereafter be derived from the Mortgaged Properties, but none of its obligations, responsibilities, or liabilities related to, or arising from the use or enjoyment of any portion thereof or from any lease pertaining thereto, including but not limited to, liquidated damages arising from any default under a lease, amounts that may be collected from any guarantor of a lease, any proceeds payable under any insurance policy covering loss of rents, and any and all rights that the Corporation may have against any lessee, guarantor or sublessee under such Leases (hereinafter collectively called the "Rents").

Subject to the terms of Section 3.2 below, it is the intention of the parties hereto to establish an absolute transfer and assignment of all the right, title, and interest of the Corporation in and to, but none of its obligations, responsibilities or liabilities relating to the Leases and the Rents to Beneficiary and not just to create a security interest.

\* \* \* \*

### ARTICLE IV SECURITY AGREEMENT

**Section 4.1 Grant of Security Interest.** Without limiting any of the other provisions of this Deed of Trust or the Security Agreement and cumulative of the rights granted in the Security Agreement, the Corporation, as

Debtor (referred to in this Article 4 as “Debtors,” whether one or more), expressly GRANT unto Beneficiary, as Secured Party (referred to in this Article 4 as “Secured Party,” whether one or more), a security interest in all the Mortgaged Properties (including both those now and those hereafter existing) to the full extent that the Mortgaged Properties may be subject to the Uniform Commercial Code—Secured Transactions (Chapter 9, Texas Business and Commerce Code, as amended) (hereinafter called the “Uniform Commercial Code”). The mailing address for the Secured Party is 14241 Dallas Parkway, Suite 490, Dallas, Texas 75254. The mailing address for Debtors is set forth below Debtor’s signature to this Deed of Trust.

**Section 4.2 Debtors Covenants.** Debtors covenant and agree with Secured Party as follows:

(a) In addition to any other remedies granted in this Deed of Trust to Secured Party or the Mortgage Trustee (including specifically, but not limited to, the right to proceed against all of the Mortgaged Properties in accordance with the rights and remedies in respect of those Mortgaged Properties which are real property pursuant to Section 9.604 of the Uniform Commercial Code), Secured Party may, should an Event of Default occur, proceed under the Uniform Commercial Code as to all or any part of the personal property (tangible or intangible) and fixtures included in the Mortgaged Properties (such portion of the Mortgaged Properties being referred to in this Article 4 as the “Collateral”), and shall have and may exercise with respect to the Collateral all the rights, remedies, and powers of a secured party under the Uniform Commercial Code, including, without limitation, the right and power to sell, at one or more public or private sales, or otherwise dispose of, lease, or utilize the Collateral and any part or parts thereof in any manner authorized or permitted under the Uniform Commercial Code after default by a debtor, and to apply the proceeds thereof toward payment of any costs and expenses and attorneys’ fees and legal expenses thereby incurred by Secured Party, and toward payment of the Secured Obligations in such order or manner as Secured Party may elect.

(b) Among the rights of Secured Party upon occurrence of an Event of Default and without limitation, Secured Party shall have the right, by any lawful means, to take possession of the Collateral or any part thereof and to enter, in any lawful manner, upon any premises where same may be situated for such purpose without being deemed guilty of trespass and without liability for damages thereby occasioned, and to take any lawful action deemed necessary, appropriate or desirable by Secured Party, to repair, refurbish, or otherwise prepare the Collateral for sale, lease, other use or disposition as herein authorized.

(c) To the extent permitted by law, Debtor expressly waives any notice of sale or other disposition of the Collateral and any other rights or remedies of a debtor or formalities prescribed by law relative to sale or disposition of the Collateral or exercise of any other right or remedy of Secured Party existing after default hereunder; and, to the extent any such notice is required and cannot be waived, Debtor agrees that, if such notice is mailed, postage prepaid, to Debtor at the address shown opposite Debtor’s signature hereinbelow at least five (5) days before the time of the sale or disposition, such notice shall be deemed reasonable and shall fully satisfy any requirement for giving of said notice.

(d) Upon occurrence of an Event of Default and while such remains uncured, after the expiration of any required cure period Secured Party is hereby granted the express right, at its option, to transfer to itself or to its nominee, the Collateral, or any part thereof, to notify any obligor or account debtor in the case of any Collateral to make payment directly to Secured Party, and to receive the money, income, proceeds or benefits attributable or accruing thereto and to hold the same as security for the Secured Obligations or to apply the same on the principal and interest or other amounts owing on any of the Secured Obligations, whether or not then due, in such order or manner as Secured Party may elect, subject to the Trust Indenture. With respect to the Collateral, Debtor, for itself, its heirs and assigns, hereby expressly and specifically waive all rights to a marshaling of the assets of Debtor, including the Collateral, or to a sale in inverse order of alienation.

(e) All recitals in any instrument of assignment or any other instrument executed by Secured Party or by the Mortgage Trustee incident to sale, transfer, assignment, lease, or other disposition or utilization of the Collateral or any part thereof hereunder shall be full proof of the matters stated therein, no other proof shall be requisite to establish full legal propriety of the sale or other action or of any fact, condition or thing incident thereto, and all prerequisites of such sale or other action and of any fact,

condition or thing incident thereto shall be presumed conclusively to have been performed or to have occurred.

(f) Secured Party may require Debtor to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party that is reasonably convenient to both parties. Debtor shall be fully liable for all expenses of retaking, holding, preparing for sale, lease or other use or disposition, selling, leasing or otherwise using or disposing of the Collateral which are incurred or paid by Secured Party as authorized or permitted hereunder, including also all attorneys' fees, legal expenses, and costs, all of which expenses and costs shall constitute a part of the Secured Obligations.

(g) Certain of the Collateral is or will become "fixtures" (as that term is defined in the Uniform Commercial Code) on the Land, and this Deed of Trust upon being filed for record in the real property records shall operate also as a financing statement upon such of the Collateral which is or may become fixtures. Debtor has an interest of record in the Land.

(h) Any copy of this Deed of Trust which is signed by Debtors or any carbon, photographic, or other reproduction of this Deed of Trust may also serve as a financing statement under the Uniform Commercial Code by Debtor, whose address is set opposite its signature hereinbelow, in favor of Secured Party, whose address is set out hereinabove.

(i) So long as any Secured Obligations remain outstanding, unless the prior written specific consent and approval of Secured Party shall have first been obtained, Debtor will not execute and there will not be filed in any public office any financing statement or statements affecting the Collateral other than financing statements in favor of Secured Party hereunder.

**Section 4.3 Debtor's Warranties and Representations.** Debtor warrants and represents to Secured Party that, except for the security interest granted hereby in the Collateral, Debtor is the owner and holder of the Collateral, free of any adverse claim, security interest or encumbrance (other than as disclosed in Exhibit B-1 hereto and the Lease), and Debtor agrees to defend the Collateral against all claims and demands of any person at any time claiming the same or any interest therein (subject to the matters described in Exhibit B-1 hereto). Debtor further warrants and represents with respect to the Collateral that it has not heretofore signed or authorized the filing of any financing statement and that no financing statements signed or authorized by Debtor are now on file in any public office except those statements true and correct copies of which have been delivered to Secured Party.

\* \* \* \* \*

## **ARTICLE VII DEFAULTS**

**Section 7.1 Event of Default.** Should any of the following events or conditions occur, the same shall constitute an event of default under this Deed of Trust (herein called an "Event of Default"):

(a) The Corporation shall fail or refuse to pay all or any portion of the Secured Obligations within ten (10) days after the same are due and subject to any other grace periods applicable to such payments in the documents evidencing such Secured Obligations.

(b) The Corporation, or the District on its behalf, shall fail to perform or to fulfill in a timely manner any of its covenants and obligations contained in this Deed of Trust and which failure is not otherwise described in this Section 7.1, within thirty (30) days after written notice of such failure is given by Beneficiary to the Corporation and subject to any other applicable grace periods contained in this Deed of Trust or the documents evidencing and securing the Secured Obligations. If such failure is of a nature that can be cured, but not within the thirty (30) day period despite diligent efforts, an Event of Default shall not occur if the Corporation, or the District on its behalf, commences to cure the failure within said thirty (30) day period and thereafter diligently pursues the cure of such failure to completion.

(c) Any warranty or representation of the Corporation set forth in this Deed of Trust shall prove untrue, false or misleading in any material respect.

(d) Any insurance policy required to be maintained by the District under the District Lease is not kept in full force and effect.

(e) The Corporation shall become insolvent, be the subject of an order for relief, or a custodian, receiver, or other such officer of its property be appointed, or should any liquidation, reorganization, arrangement, or other proceeding under any bankruptcy law or other law for the relief of debtors be requested by or instituted against the Corporation and not be dismissed or discharged within sixty days thereafter.

(f) There shall occur any levy or execution of any attachment, execution, or other process against any of the Mortgaged Properties, unless timely and completely stayed by appropriate proceedings.

(g) An event of default (however so denominated) shall have occurred under the Trust Indenture.

(h) An Event of Nonappropriation shall have occurred under the District Lease.

**Section 7.2 Remedies.** Upon the occurrence of an Event of Default, so long as such default remains uncured after the expiration of any required cure period, Beneficiary shall have the option and right, but not the duty, to take any one or more of the following actions to the extent permitted by applicable law: (i) without demand, presentment, notice of intent to accelerate, notice of acceleration, or other notice or demand, all of which are expressly waived by the Corporation, declare the Secured Obligations immediately due and payable; (ii) proceed to enforce the lien of this Deed of Trust; and (iii) pursue any and all other remedies available to Beneficiary whether set forth herein or otherwise available at law or in equity.

**Section 7.3 Remedies Cumulative.** Each of the rights and remedies set forth in this Deed of Trust or available at law or in equity shall be cumulative and concurrent, may be pursued jointly or severally against the Corporation or any of the Mortgaged Properties, and shall be nonexclusive. The election to pursue any such right or remedy shall not be deemed a waiver, then or thereafter, to pursue any other such right or remedy.

**Section 7.4 No Waiver.** The acceptance of payment of any portion of the Secured Obligations after its due date or after the giving of notice of an Event of Default and of election to accelerate the maturity of the Secured Obligations shall not waive any right of the Beneficiary to require prompt payment when due of all other sums constituting Secured Obligations or to declare an Event of Default for failure to pay the entire unpaid balance of the Secured Obligations, or any right of Beneficiary to proceed with foreclosure sale pursuant to any such notice and acceleration for any unpaid balance of the Secured Obligations. Waiver of a right granted to the Beneficiary as to one transaction or occurrence shall not be deemed a waiver of such right as to any subsequent transaction or occurrence.

For the avoidance of doubt, the Beneficiary shall not be required to take notice or be deemed to have notice of any Event of Default under this Deed of Trust unless the Beneficiary shall be specifically notified of such Event of Default in writing by the Corporation or the District, and in the absence of such notice the Beneficiary may conclusively assume that no Event of Default exists.

## **ARTICLE VIII CERTAIN REMEDIES; POWER OF SALE**

**Section 8.1 Beneficiary's Right to Advance.** In the event that the District or the Corporation fails or refuses to pay any taxes or assessments upon the Mortgaged Properties before the same become delinquent, fails to take out or procure or maintain such insurance as is required by the District Lease or this Deed of Trust, or fails to perform any other covenant or to pay any other obligation of the District or the Corporation set forth in the District Lease or this Deed of Trust or set forth in any other agreement or instrument evidencing or securing the Secured Obligations, then in any such case the Beneficiary, at its option and without any obligation to do so, may pay any

such taxes or assessments (without being required to examine the legality of same), take out or procure such insurance, or tender such performance or payment. All amounts advanced by the Beneficiary as aforesaid shall be due and payable upon demand, shall become a part of the Secured Obligations, shall bear interest from the date such payments are advanced until the repayment thereof at the highest nonusurious rate of interest set forth in the instruments evidencing the Secured Obligations, and shall be fully secured by the liens, assignments, and security interest of this Deed of Trust. Any amounts so paid, as well as the time of payment thereof, shall be deemed fully established by the affidavit or certificate of the Trustee or the Beneficiary. The Corporation agrees that the payment of such taxes or assessments, the procuring and maintaining of such insurance, or the tendering of any such performance or payment by the Beneficiary shall not prevent the Beneficiary from declaring the Secured Obligations to be due and payable under the provisions hereof by reason of such Event of Default and pursuing any other remedies available to the Beneficiary should the Beneficiary so elect.

**Section 8.2 Trustee to Sell Upon Request of Beneficiary.** Upon an Event of Default and so long as such remains uncured, it shall thereupon be the duty of the Mortgage Trustee, or its successors, as hereinafter provided, at the request of the Beneficiary (which request shall be presumed), to enforce this trust and to sell the Mortgaged Properties, as an entirety or in parcels, by one sale or by several sales, held at one time or at different times, all as the Mortgage Trustee acting may elect, each sale to be held at the location within the county courthouse designated for the holding of nonjudicial foreclosure sales by the Commissioners Court of any county in which a part of the real property to be sold is situated (or if no area has been so designated, then in an area within said courthouse described in the notice referred to in Section 8.3) and to be made on the first Tuesday of some month between the hours of 10 o'clock a.m. and 4 o'clock p.m. to the highest bidder for cash at public venue, after the Mortgage Trustee (or a person or persons selected by the Mortgage Trustee) and the Beneficiary shall have given notices of the proposed sale in the manner hereinafter set forth, and to make due conveyance to the purchaser or purchasers, with general warranty of title (subject to Permitted Encumbrances) to such purchaser or purchasers binding upon the Corporation, its successors and assigns. Such sale must begin at the time stated in the notice referred to in Section 8.3 or not later than three hours after that time. The Corporation, for itself, its successors and assigns, hereby expressly and specifically waives all rights to a marshaling of the assets of the Corporation, including the Mortgaged Properties, or to a sale in inverse order of alienation. The District's right to occupy and use the Land, the Improvements and the Personal Property pursuant to the District Lease shall not be affected by any sale pursuant hereto unless the District Lease has been terminated or its right to possession terminated pursuant to the applicable provisions thereof and of the Trust Indenture.

**Section 8.3 Required Notices.** The Mortgage Trustee (or a person or persons selected by the Mortgage Trustee) shall give notice of each such proposed sale by posting written notice of the time, place, and terms of sale at the courthouse door, and by filing a copy of such written notice in the office of the county clerk, of the county in which the sale is to be made for at least twenty-one (21) consecutive days preceding the date of the sale. Where real properties to be sold are situated in more than one county, one notice shall be posted at the courthouse door, and a copy of such notice shall be filed with the county clerk, of each county in which a part of the real properties to be sold is situated, and such notices shall designate the county where such real properties will be sold, which may be any county in which a part of said real properties is situated. In addition to the foregoing notice or notices to be posted and filed by the Mortgage Trustee (or a person or persons selected by the Mortgage Trustee), the Beneficiary shall, at least twenty-one (21) days preceding the date of sale, serve or cause to be served, written notice of the proposed sale by certified mail on each debtor obligated to pay such indebtedness according to the records of the Beneficiary. The service of such notice shall be completed upon deposit of the notice, enclosed in a postpaid wrapper, properly addressed to each such debtor at the most recent address (which shall be within the United States of America) as shown by the records of the Beneficiary, in a post office or official depository under the care and custody of the United States Postal Service. If the Land is used as the residence of a debtor obligated to pay the Secured Obligations, then, notwithstanding any agreement to the contrary, the Beneficiary shall serve such debtor with written notice by certified mail stating that such debtor is in default under this Deed of Trust, and such debtor must be given at least twenty days to cure the default before the entire Secured Obligations are due and notice of sale pursuant to this Section 8.3 is given. The affidavit of any person having knowledge of the facts to the effect that such service was completed shall be prima facie evidence of the fact of service. In this respect and to the full extent it may legally do so, the Corporation also expressly covenants, stipulates, and agrees that: (i) the address of the Corporation set out herein shall be deemed and considered conclusively to be and remain at all times the most recent address of all debtors obligated to pay such indebtedness as shown by the records of the Beneficiary, provided such address may be changed to some other address within the United States of America from time to time only by

express written notice of change thereof signed by all debtors obligated to pay such indebtedness and actually delivered to and received by Beneficiary and setting forth a new address which shall be within the United States of America and which shall be deemed and considered conclusively to be and remain at all times thereafter the most recent address of all debtors obligated to pay such indebtedness as shown by the records of the Beneficiary until changed in the manner herein provided; (ii) the records of the Beneficiary shall not be deemed to reflect any change in the name or identity of the debtors obligated to pay the indebtedness (to whom notice of a proposed sale shall be required to be mailed as provided for above) unless and until express written notice of such change signed by all debtors obligated to pay such indebtedness shall have been actually delivered to and received by the Beneficiary; and (iii) no notice of such sale or sales other than the notices hereinabove provided shall be required to be given to the Corporation or any other persons, and any other notice is expressly waived.

**Section 8.4 Compliance with Texas Property Code Requirements.** The provisions of Section 8.3 with respect to posting, serving, filing, and giving notices of sale are intended to comply with the provisions of Section 51.002 of the Texas Property Code, as amended (in this Section 8.4 such Section 51.002 being called the “Subject Statute”). In the event the requirement for any notice, or the posting, serving, filing, or giving thereof, under the Subject Statute shall be eliminated or the prescribed manner of posting, serving, filing, or giving same is modified by future amendment to the Subject Statute, the requirement for such particular notice shall be stricken from, or the manner of posting, serving, filing, or giving any notice hereunder modified in, this Deed of Trust in conformity with such amendment. The manner herein prescribed for posting, serving, filing, or giving any notice, other than that to be posted and filed or caused to be posted and filed by the Mortgage Trustee, shall not be deemed exclusive, but such notice or notices may be posted, served, filed, or given in any other manner which may be permitted by applicable law. Further, in relation to this Deed of Trust and the exercise of any power of sale by the Mortgage Trustee hereunder, if the Subject Statute shall be amended or modified to require any other notice or the posting, filing, serving, or giving thereof or any statute hereafter enacted shall require any other notice or the posting, filing, serving, or giving thereof, the Mortgage Trustee or the person selected by him is hereby authorized and empowered by the Corporation to give such notice or make such posting, filing, serving, or giving thereof.

**Section 8.5 Credit Bid, Right to Purchase by Beneficiary and Application of Proceeds.** At any sale conducted under this Deed of Trust, credit upon all or any part of the Secured Obligations shall be deemed cash paid for the purpose of Section 8.2, and the holder of all or any part of the Secured Obligations may purchase at any such sale. With the proceeds arising from such sale or sales, the Mortgage Trustee shall apply the proceeds in the following order:

- (a) first, to payment of all expenses of advertising, sale and conveyance, including the reasonable fees and expenses (including reasonable attorney fees) of the Mortgage Trustee acting; and
- (b) next, to the payment of all principal, interest and costs legally due and secured hereby, in such order and priority as set forth in Article V of the Trust Indenture.

**Section 8.6 Installment Foreclosure.** Without limiting any of the powers or remedies provided elsewhere, the Corporation agrees that, in the event the Secured Obligations are payable in installments or include, at any time, items of matured as well as unmatured indebtedness, the holder of the matured installments or items of indebtedness, as the case may be, shall have the right to have the Mortgaged Properties sold, subject to the part of the Secured Obligations which is unmatured at the time the Mortgage Trustee is requested to make such sale, at Mortgage Trustee’s sale to satisfy the lien and security interest hereof securing then matured portion of said indebtedness, and the Mortgage Trustee is expressly authorized and empowered to conduct such sale which is called in this Section 8.6 “Installment Foreclosure.” Any Installment Foreclosure made under this Section 8.6 shall not affect the liens, assignments, and security interest of this Deed of Trust existing to secure that portion of the Secured Obligations to which the sale is to be made subject. No Installment Foreclosure shall exhaust the power of the Mortgage Trustee to conduct future Installment Foreclosures nor in anywise limit the powers of sale provided elsewhere in this Deed of Trust. The provisions elsewhere in this Deed of Trust relating to manner of conducting Mortgage Trustee’s sales, including the posting, filing, and giving of notices thereof, shall also apply to any Installment Foreclosure, and the same presumptions shall be applicable to any Mortgage Trustee’s deed or recital therein contained in connection with an Installment Foreclosure and to any other affidavit as hereinabove provided.

**Section 8.7 Appointment of a Substitute Mortgage Trustee.** In the case of the absence of the Mortgage Trustee from the state, or of his death, refusal, or failure to act, or in the event the Beneficiary should elect at any time (with or without cause) to remove the Mortgage Trustee then acting, a successor or substitute may be named, constituted, and appointed (herein called a “Successor or Substitute Mortgage Trustee”) without further formality than an appointment and designation in writing, which appointment and designation shall be full evidence of the right and authority to make the same and of all facts therein recited; and this conveyance shall vest in the Successor or Substitute Mortgage Trustee the title, powers, and duties conferred on the Mortgage Trustee named herein, and the conveyance by the Successor or Substitute Mortgage Trustee to the purchaser at any sale made pursuant hereto shall be valid and effective as fully as hereinabove provided in the case of a conveyance by the Mortgage Trustee. Such right to appoint a Successor or Substitute Mortgage Trustee shall exist as often as and whenever the Mortgage Trustee, original, successor, or substitute, cannot or will not act or has been removed.

**Section 8.8 Recitals Conclusive.** The Corporation specifically covenants and stipulates that: the recitals in the conveyance made to the purchaser, either by the Mortgage Trustee or any Successor or Substitute Mortgage Trustee, shall be full proof and evidence of the matters therein stated; no other proof shall be requisite of the request by the holder of the Secured Obligations or the Mortgage Trustee or on any Successor or Substitute Mortgage Trustee to enforce this trust, or of the due, timely, and proper posting, filing, and giving of all notices and making of the sale, or any particulars thereof or of the inability, refusal, or failure of the Mortgage Trustee or any Successor or Substitute Mortgage Trustee to act, or of the removal of the Mortgage Trustee or any Successor or Substitute Mortgage Trustee, or of the appointment of a Successor or Substitute Mortgage Trustee, as herein provided, either as to the legality of his appointment or otherwise, or of the contingencies which brought about the failure or inability of the Mortgage Trustee or any Successor or Substitute Mortgage Trustee to act, or of his removal, as the case may be; all prerequisites of said sale shall be presumed to have been performed; and any sale made under the powers herein granted shall be a perpetual bar against the Corporation, its successors and assigns.

**Section 8.9 Right of Sale not Exhausted.** The right of sale hereunder shall not be exhausted by one or any sale, but, so long as any of the Secured Obligations remain undischarged, the Trustee or Successor or Substitute Mortgage Trustee may make other and successive sales until all the Mortgaged Properties shall be legally sold.

**Section 8.10 Purchaser’s Right to Disaffirm Junior Encumbrances.** The purchaser at any foreclosure sale may disaffirm any easement granted or rental, lease or other contract made in violation of any provision of this Deed of Trust, and may take immediate possession of the Mortgaged Properties free from, and despite the terms of, such grant of easement or rental or lease contract.

**Section 8.11 Appointment of Receivers.**

(a) If an Event of Default occurs and remains uncured, a receivership may be necessary to protect the Mortgaged Properties, whether before or after maturity of the Secured Obligations, or at the time of or after the institution of suit to collect the principal of, premium (if any), or interest on the Secured Obligations, or to enforce this Deed of Trust; accordingly, the Mortgage Trustee, at the direction of the Beneficiary, shall, as a matter of strict right and regardless of the value of the Mortgaged Properties or of the solvency of any party bound for the payment of the Secured Obligations, have the right to the appointment on application and notice to the Corporation, by any court having jurisdiction, of a receiver to take charge of, manage, preserve, protect, and operate the Mortgaged Properties and any business or businesses located thereon, to collect the revenues, rents, issues, profits, products, and income thereof, to make all necessary and needed repairs, to complete the construction of any improvements which have been undertaken but not completed, to pay all taxes and assessments against the Mortgaged Properties and insurance premiums for insurance thereon, and after the payment of the expenses of the receivership, including reasonable attorneys’ fees to the Mortgage Trustee’s attorney, and after compensation for management of the Mortgaged Properties, to apply the net proceeds to pay the Secured Obligations or in such manner as the court shall direct. All such expenses shall be secured by the lien of this Deed of Trust until paid.

(b) The receiver or its agents shall be entitled to enter upon and take possession of any part and all of the Mortgaged Properties, together with any and all businesses conducted and all business assets used therewith or thereon, or any part or parts thereof, and to operate and conduct the business or businesses, or complete construction of improvements, to the same extent and in the same manner as the Corporation might lawfully do. The receiver, personally or through its agents or attorneys, may exclude the Corporation and its subsidiaries, agents, servants, and



employees wholly from the Mortgaged Properties and may have, hold, use, operate, manage, and control the same and each and every part thereof, and in the name of the Corporation, its subsidiaries or agents, may exercise all of their rights and powers and use all of then existing items of security and collateral, materials, current supplies, stores, and assets and, at the expense of Mortgaged Properties, may maintain, restore, complete construction, insure, and keep insured the properties, equipment, and apparatus provided or required for use in connection with such business or businesses, and may make all necessary and proper repairs, renewals, and replacements and all such useful alterations, additions, betterments, and improvements as the receiver may deem judicious.

(c) Such receivership shall, at the option of the Beneficiary, continue until full payment of the Secured Obligations, title to and interest in the Mortgaged Properties having passed by foreclosure sale under this Deed of Trust, or the Event of Default having been cured.

**Section 8.12 Application of Proceeds.** The Mortgage Trustee shall pay, distribute, and apply the proceeds of any disposition of the Mortgaged Properties to the Beneficiary for deposit and use as provided in Section 8.5 above. Said disposition shall forever be a bar against the Corporation, its legal representatives, successors and assigns, and all other persons claiming under any of them. It is expressly agreed that the recitals in each conveyance to the purchaser shall be full evidence of the truth of matters therein stated, and all lawful prerequisites to said disposition shall be conclusively presumed to have been performed.

**Section 8.13 Remedies Not Exclusive.** No lien, right, or remedy herein conferred upon or otherwise available to the Mortgage Trustee is intended to be or shall be construed to be exclusive of any other available lien, right, or remedy, but each and every such lien, right, or remedy shall be cumulative and shall be in addition to every other lien, right, or remedy given hereunder or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right, power, or remedy accruing upon any default or Event of Default shall impair any such right, power, or remedy or shall be construed to be a waiver of any such default or Event of Default, or an acquiescence therein, but every such right, power, or remedy may be exercised from time to time and as often as may be deemed expedient. No waiver of any default or Event of Default hereunder shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon. The giving, taking, or enforcement of any other or additional security, collateral, or guaranty for the payment of the Secured Obligations shall not operate to prejudice, waive, or affect the security of this Deed of Trust or any rights, powers, or remedies hereunder, nor shall the Mortgage Trustee be required to first look to, enforce, or exhaust such other additional security, collateral, or guarantees.

**Selected Provisions from the Second Supplemental Trust Indenture Relating to the Austin Community College District Hays New Campus Project**

**ARTICLE I**

**DEFINITIONS AND RULES OF CONSTRUCTION**

**Section 1.1 Definitions.** Terms defined in the Master Indenture and capitalized herein shall, for purposes of this Second Supplemental Indenture, have the meanings given them in the Master Indenture unless otherwise defined herein. Terms defined in the Lease and capitalized herein shall, for purposes of this Second Supplemental Indenture, have the meanings given them in the Lease unless otherwise defined herein.

*Architect*—Gensler Architects, and any successor Architect for the Project.

*Bond or Bonds*—any one or all of the Series 2012 Bonds.

*Bond Payment Date*—each Interest Payment Date and maturity date for the Bonds, as shown on Exhibit C hereto.

*Bondholder*—the person in whose name any Bond is registered, as identified in the Bond Register. As used herein, an “Owner” or a “Holder” of Bonds means a Bondholder.

*Closing Date or Closing*—the date of delivery of the Bonds to the Underwriters.

*Deed of Trust*—the Deed of Trust, Security Agreement, Assignment of Rents and Leases and Financing Statement, dated as of April 1, 2012, by the Corporation to the Trustee granting a first lien security interest in the Project.

*Hays Campus*—the campus to be located in the Hays Consolidated Independent School District in the City of Kyle, Texas.

*Improvements*—the improvements, which are generally described in Exhibit A to the Lease, hereafter acquired, constructed and installed on the Land in accordance with the Plans and Specifications, the Hays Campus.

*Interest Payment Date*—each February 1 and August 1, commencing August 1, 2012, until maturity or prior redemption of a Bond.

*Land*—the real property in Hays County Texas described in Exhibit A of the Lease upon which the Improvements are to be constructed or installed.

*Lease*—that certain Lease With An Option To Purchase, dated as of April 1, 2012, by and between the Corporation and the District.

*Permitted Investments*—any investment which the Corporation is permitted to make under applicable State Laws, including but not limited to the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, and the District's investment policy, including any funds maintained by, available to or managed by the Trustee or its affiliates (including those for which the Trustee or its affiliates receive compensation).

*Project*—the Land and Improvements and the Project Costs related thereto the Hays Campus.

*Project Costs*—all costs of, payment of or reimbursement for design, acquisition, construction, installation and financing of the Project; architectural, engineering, installation and management costs; project coordination and supervisory costs; administrative costs; capital expenditures relating to design, construction and installation; financing costs; sales tax, if any, on the Project; costs of feasibility, environmental, appraisal and other reports; inspection costs; permit fees; filing and recording costs; survey costs; Issuance Costs; and all other costs related to the Project or the financing thereof, as authorized by Chapter 303, Texas Local Government Code, as amended and set forth on Exhibit F hereto.

*Regulations*—the regulations from time to time promulgated by the Internal Revenue Service pursuant to the Code and revenue rulings and revenue procedures from time to time issued pursuant to the Code.

*Rental Payments*—the rental payments to be paid by the District to the Corporation under the Lease in amounts, equal to not less than the payments on the Bonds, as indicated on Exhibit C hereto, and due on the Bond Payment Dates.

*Reserve Requirement*—\$0.00.

*Resolutions*—the resolutions of the Board of Directors of the Corporation adopted on April 2, 2012, authorizing and approving this Second Supplemental Indenture, the Lease, the Deed of Trust, the issuance and sale of the Bonds and other matters incident and related thereto.

*Series 2012 Bonds*—any one or all of the Austin Community College District Public Facility Corporation Lease Revenue Bonds (Hays New Campus Project), Series 2012, substantially in the form set forth in Exhibit B hereto.

*Underwriters*—collectively, J.P. Morgan; Frost Bank; Hutchinson, Shockey, Erley & Co.; and Estrada Hinojosa & Company, Inc.

**Section 1.2 Rules of Construction.**

(a) Words of the masculine and feminine genders shall be deemed and construed to include the other gender and the neuter gender. Unless the context otherwise indicates, the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons.

(b) Headings preceding the text of the Articles and Sections hereof, and the Table of Contents, are solely for convenience of reference and shall not constitute a part of this Second Supplemental Indenture or affect its meaning, construction or effect.

**Section 1.3 Valuation.** For the purpose of determining the amount on deposit to the credit of any fund or account held hereunder, obligations in which money in such fund or account shall have been invested shall be valued at market value. To the extent readily available through the Trustee's data service, the Trustee shall value Permitted Investments in the funds and accounts established under this Second Supplemental Indenture on the fifteenth day of each month.

**Section 1.4 Preamble.** The statements and findings in the preamble of this Second Supplemental Indenture are hereby adopted and made a part thereof.

**ARTICLE II**

**RECITALS AND REPRESENTATIONS**

**Section 2.1 Lease.** The Corporation and the District will enter into the Lease whereby the Corporation will lease the Project to the District and the District will lease the Project from the Corporation.

**Section 2.2 The Project.** Pursuant to the terms of the Lease, the Corporation has agreed to construct the Project in accordance with the Plans and Specifications. The Project will be accepted by the District in accordance with the provisions of the Lease and this Second Supplemental Indenture.

**Section 2.3 Payments.** Under the Lease, the District is obligated to pay to the Corporation or its assigns Rental Payments for the lease of the Project, but solely from Available Funds and subject to such funds being Appropriated for such purposes.

**Section 2.4 Deposit of Funds.** Under the Lease, the Corporation and the District are required to deposit or cause to be deposited with the Trustee for the account of the Corporation all Rental Payments and other money received pursuant to the Lease to be held, credited and applied in accordance with the terms hereof.

**Section 2.5 Authority to Contract.** Each of the parties has authority to enter into this Second Supplemental Indenture and has taken all actions necessary to authorize its execution and delivery by its duly authorized officers signing on the signature page hereof and the performance of its respective obligations hereunder.

**Section 2.6 Conditions Precedent Satisfied.** All acts, conditions and things required by law to exist, happen and be performed precedent to and in connection with the execution and entering into of this Second Supplemental Indenture have happened, and have been performed in regular and due time, form and manner required by law, and the parties hereto are now fully empowered to execute and enter into this Second Supplemental Indenture.

**Section 2.7 Condition to Commencement of Construction.** The Corporation shall not authorize commencement of any work pursuant to any Project Contract unless and until the Contractor under such Project Contract has obtained a performance bond for the benefit of the Corporation and the District and a payment bond for the benefit of the contractors and subcontractors who are to perform such work in the full amount of the work

authorized under such Project Contract in accordance with and with the effect prescribed by Subchapter B of Chapter 2253 of the Texas Government Code, as amended.

**NOW, THEREFORE,** in consideration of the mutual undertakings, provisions and agreements herein contained, in order to secure the payment of the principal of and interest on the Bonds as determined pursuant to the Lease according to their true intent and meaning and to the extent herein provided, to secure the performance and observance of all covenants and conditions herein contained for and in consideration of these premises and of the purchase and acceptance of the Bonds by the Holders thereof from the trust hereby created and of the acceptance by the Trustee of the trust hereby created and for other good and valuable consideration, the receipt of which is hereby acknowledged, this Second Supplemental Indenture has been executed and delivered by the Corporation and the Trustee, and the Trustee has received from the Corporation for the benefit of the Bondholders: (a) all present and future right, title and interest of the Corporation in and under, but none of its responsibilities or obligations with respect to the Lease and any other instrument, document or contract relating to the Project or the financing thereof; (b) all right, title and interest of the Corporation in and to all Rental Payments, and any other payments with respect to the Project under the Lease, made by the District from and after the date of this Second Supplemental Indenture and other income, charges and funds realized from the lease, sale, transfer or other disposition of the Project; (c) a first security lien interest in the Project; and (d) all funds and investments in all accounts established under this Second Supplemental Indenture. The Trustee hereby declares that it will hold all Rental Payments or other sums paid under the Lease, as well as all other income, charges and funds realized from the removal or other disposition of the Project or other amounts received pursuant to this Second Supplemental Indenture or the Deed of Trust in trust for the benefit of the Bondholders in accordance with the terms of this Second Supplemental Indenture together with all funds and investments in the subaccounts for the Series 2012 Bonds of the Trust Fund and all funds deposited with the Trustee in connection with the 2012 Bonds, all subject to and in accordance with this Second Supplemental Indenture (collectively referred to as the "Trust Estate").

**TO HAVE AND TO HOLD** all and singular the Trust Estate whether now owned or hereafter acquired unto the Trustee and its successors in trust and to its assigns forever;

**BUT IN TRUST NEVERTHELESS,** for the equal and proportionate benefit, security and protection of all present and future Bondholders whose Bonds are governed by this Second Supplemental Indenture, and to secure the performance of and compliance with the covenants, terms and conditions of this Second Supplemental Indenture, without preference, priority or distinction, as to lien or otherwise (except as hereinafter expressly provided) of any Bondholder over any other, so that each and every Bondholder shall have the same right, lien and privilege under this Second Supplemental Indenture and shall be equally and ratably secured on a pro rata basis.

### **ARTICLE III**

#### **BOND TERMS AND PROVISIONS**

**Section 3.1 Form of the Bonds.** The Bonds shall be substantially in the form set forth in Exhibit B with such variations, insertions or omissions as are appropriate and not inconsistent therewith and shall conform generally to the rules and regulations of any governmental authority or usage or requirement of law with respect thereto. Such form may be appropriately modified to provide for the issuance of the initial Bond of each series upon the initial delivery of the Bonds to the Underwriters on the Closing Date.

**Section 3.2 Authorization and Issuance of the Bonds.** The Series 2012 Bonds shall be issued as current interest bonds in the aggregate principal amount of \$44,430,000 and shall be designated "Austin Community College District Public Facility Corporation Lease Revenue Bonds (Hays New Campus Project), Series 2012. The Bonds shall be dated April 1, 2012, and shall bear interest as set forth in Exhibit A commencing as of such date, computed on the basis of a 360-day year consisting of twelve 30-day months, payable on each Interest Payment Date, all as set forth more fully in Exhibit C which is attached hereto and made a part hereof for all purposes.

**Section 3.3 Delivery of the Bonds.** Upon the execution and delivery of this Second Supplemental Indenture, the Corporation shall execute and deliver to the Trustee and the Trustee shall register and authenticate the Series 2012 Bonds in the aggregate principal amount of \$44,430,000 and deliver the Bonds to the Underwriters on the Closing Date.

Prior to the registration and authentication by the Trustee of the Bonds, there shall be filed with the Trustee the certificates and other documents required by Section 3.7 of the Master Indenture along with a "Phase I" and, if required by the "Phase I," "Phase II," environmental report with respect to the Land, in form and substance satisfactory to the Trustee and the Underwriters and evidence satisfactory to the Trustee and the Underwriters of compliance with any action recommended therein.

## **ARTICLE IV**

### **ADMINISTRATION OF FUNDS AND ACCOUNTS**

#### **Section 4.1 Special Provisions Relating to Project Acquisition Account.**

(a) In accordance with Section 4.5 of the Master Indenture, there are hereby established within the Project Acquisition Account separate subaccounts with respect to the Bonds to be designated the "Series 2012 Project Acquisition Subaccount."

(b) All disbursements for Project Costs from the Series 2012 Project Acquisition Subaccount shall be made by the Trustee only upon, and within five (5) business days following receipt of, the following:

(i) if for Issuance Costs, a Requisition for Payment of Issuance Costs, in the form set out in Exhibit E hereto, executed by the Corporation and the District;

(ii) if for the initial disbursement of Project Costs, an executed copy of the applicable Construction Contract and an assignment to the Trustee of such Construction Contract;

(iii) if for any Project Costs (excluding the initial disbursement) other than Issuance Costs, a Requisition for Payment of Projects Costs, executed by the Corporation and the District in the form set out in Exhibit D hereto, which shall be accompanied by a certificate of the Construction Administrator in the form set out in Exhibit D hereto; and

(iv) if for the final disbursement on Completion Date of the Project (as defined in the Lease), an executed Acceptance Certificate in the form attached as Exhibit C to the Lease together with a certificate of the Construction Administrator that all labor done and material furnished has been furnished in accordance with the Plans and Specifications and that all necessary certificates, licenses, approvals, releases or waivers of mechanic's and/or materialman's liens, and permits (required to be obtained from any governmental board, agency or department so that the Project may be used and occupied for its intended purposes) have been obtained without qualification. Further, the title insurance company that issues the Mortgagee's Policy of Title Insurance must be prepared to issue its down-date endorsement of such policy free and clear of any mechanic's and materialman's liens. Upon receipt of the executed Acceptance Certificate, the Trustee shall transfer any amount then on deposit in the Series 2012 Project Acquisition Subaccount, that is not required to pay Project Costs to the Series 2012 Payment Subaccount, as applicable, unless the Trustee has received a written request from the Corporation specifying an alternate use of such amounts accompanied by an opinion of bond counsel to the effect that complying with such request will not adversely affect the exclusion from gross income for federal income tax puposes of interest on the Series 2012 Bonds.

(c) No amounts shall be withdrawn or transferred from or paid out of the Series 2012 Project Acquisition Subaccount except as provided in Article IV hereof and Article IV and Section 5.13 of the Master Indenture.

(d) The total Project Costs shall not exceed \$45,000,000, including the purchase price of the Land.

**Section 4.2 Special Provisions Relating to Payment Account.** In accordance with Section 4.2 of the Master Indenture, there are hereby established within the Payment Account separate subaccounts with respect to the Bonds to be designated the "Series 2012 Payment Subaccount." No amounts shall be withdrawn or transferred from

or paid out of the Series 2012 Payment Subaccount except as provided in this Article IV and Article IV and Section 5.13 of the Master Indenture.

**Section 4.3 Special Provisions Relating to Reserve Account.** In accordance with Section 4.3 of the Master Indenture, there is hereby established within the Reserve Account a special subaccount with respect to the Bonds to be designated the “Series 2012 Reserve Subaccount.” On the Closing Date, proceeds of the Series 2012 Bonds in the amount of \$0.00 shall be deposited by the Trustee into the Series 2012 Reserve Subaccount in the amount of \$0.00 in the in full satisfaction of the Reserve Requirement.

**Section 4.4 Special Provisions Relating to Redemption Account.** In accordance with Section 4.4 of the Master Indenture, there are hereby established with respect to the Bonds separate subaccounts with respect to the Bonds to be designated the “Series 2012 Redemption Subaccount.” No amounts shall be withdrawn or transferred from or paid out of the Series 2012 Redemption Subaccount except as provided in this Article IV and Article IV and Section 5.13 of the Master Indenture.

**Section 4.5 Special Provisions Relating to Repair and Replacement Account.** In accordance with Section 4.6 of the Master Indenture, there are hereby established with respect to the Bonds a subaccount to be designated the “Series 2012 Repair and Replacement Subaccount.” The total amount to be deposited into the Series 2012 Repair and Replacement Subaccount will be \$1,000,000. Such amount will be deposited from the District’s operational funds over a sixty (60) month period in substantially equal installments until such time as the requisite amount is funded. No amounts shall be withdrawn or transferred from or paid out of the Series 2012 Repair and Replacement Subaccount except as provided in this Article IV, and Article IV and Section 5.13 of the Master Indenture.

**Section 4.6 Tax Covenants—Series 2012 Bonds.**

(a) **Definitions.** When used in this Section, the following terms have the following meanings:

“Code” means the Internal Revenue Code of 1986, as amended by all legislation, if any, enacted on or before the Issue Date.

“Computation Date” has the meaning stated in Section 1.148 1(b) of the Regulations.

“Gross Proceeds” has the meaning stated in Section 1.148 1(b) of the Regulations.

“Investment” has the meaning stated in Section 1.148 1(b) of the Regulations.

“Issue Date” for each series or sub-series of the Bonds or other obligations of the Corporation is the respective date on which such series or sub-series of the Bonds or other obligations of the Corporation is delivered against payment therefor.

“Net Sale Proceeds” has the meaning stated in Section 1.148 1(b) of the Regulations.

“Nonpurpose Investment” has the meaning stated in Section 1.148 1(b) of the Regulations.

“Proceeds” has the meaning stated in Section 1.148-1(b) of the Regulations.

“Rebate Amount” has the meaning stated in Section 1.148-3 of the Regulations.

“Regulations” means the temporary or final Income Tax Regulations applicable to the Bonds issued pursuant to Sections 141 through 150 of the Code. Any reference to a section of the Regulations shall also refer to any successor provision to such section hereafter promulgated by the Internal Revenue Service pursuant to Sections 141 through 150 of the Code and applicable to the Bonds.

“Yield of”

- (i) any Investment shall be computed in accordance with Section 1.148-5 of the Regulations, and
- (ii) the Bonds shall be computed in accordance with Section 1.148-4 of the Regulations.

(b) Not to Cause Interest to Become Taxable. The Corporation shall not use, permit the use of or omit to use Gross Proceeds of any Series 2012 Bond or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which, if made or omitted, respectively, would cause the interest on a Series 2012 Bond to become includable in the gross income, as defined in Section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Corporation shall have received a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the status for federal income tax purposes of the interest on any Bond, the Corporation shall comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except as permitted by Section 141 of the Code and the Regulations and rulings thereunder, the Corporation shall, at all times after the Issue Date of any Bond and prior to the last stated maturity of the Bonds

- (i) exclusively own, operate, and possess all property the acquisition, construction, or improvement of which is to be financed directly or indirectly with Gross Proceeds of such Bond (including property financed with Gross Proceeds of the Refunded Bonds or notes or bonds refunded by the Refunded Bonds) and not use or permit the use of such Gross Proceeds or any property acquired, constructed, or improved with such Gross Proceeds in any activity carried on by any person or entity other than a state or local government, unless such use is solely as a member of the general public, or
- (ii) not directly or indirectly impose or accept any charge or other payment for use of Gross Proceeds of such Bond or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with such Gross Proceeds (including property financed with Gross Proceeds of the Refunded Bonds or notes or bonds refunded by the Refunded Bonds) other than taxes of general application and interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(d) No Private Loan. Except to the extent permitted by Section 141 of the Code and the Regulations and rulings thereunder, the Corporation shall not use Gross Proceeds of such Bond to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, Gross Proceeds are considered to be "loaned" to a person or entity if (1) property acquired, constructed or improved with Gross Proceeds (including property financed with Gross Proceeds of the Refunded Bonds or notes or bonds refunded by the Refunded Bonds) is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes, (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output, or similar contract or arrangement, or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or such property are otherwise transferred in a transaction which is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except to the extent permitted by Section 148 of the Code and the Regulations and rulings thereunder, the Corporation shall not, at any time prior to the earlier of the final stated maturity or final payment of such Bond, directly or indirectly invest Gross Proceeds of such Bond in any Investment (or use such Gross Proceeds to replace money so invested), if as a result of such investment the Yield of all Investments allocated to such Gross Proceeds whether then held or previously disposed of, exceeds the Yield on the Bonds.

(f) Not Federally Guaranteed. Except to the extent permitted by Section 149(b) of the Code and the Regulations and rulings thereunder, the Corporation shall not take or omit to take any action which would cause the Bonds to be federally guaranteed within the meaning of Section 149(b) of the Code and the Regulations and rulings thereunder.

(g) Information Report. The Corporation shall timely file with the Secretary of the Treasury the information required by Section 149(e) of the Code with respect to the Bonds on such forms and in such place as such Secretary may prescribe.

(h) Payment of Rebate Amount. Except to the extent otherwise provided in Section 148(f) of the Code and the Regulations and rulings thereunder, the Corporation shall:

- (i) account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of such accounting for at least six years after the final Computation Date. The Corporation may, however, to the extent permitted by law, commingle Gross Proceeds of the Bonds with other money of the Corporation, provided that the Corporation separately accounts for each receipt and expenditure of such Gross Proceeds and the obligations acquired therewith,
- (ii) calculate the Rebate Amount with respect to the Bonds not less frequently than each Computation Date, in accordance with rules set forth in Section 148(f) of the Code, Section 1.148-3 of the Regulations, and the rulings thereunder. The Corporation shall maintain a copy of such calculations for at least six years after the final Computation Date,
- (iii) as additional consideration for the purchase of the Bonds by the initial purchaser thereof and the loan of the money represented thereby, and in order to induce such purchase by measures designed to ensure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, pay to the United States the amount described in paragraph (ii) above at the times, in the installments, to the place, in the manner and accompanied by such forms or other information as is or may be required by Section 148(f) of the Code and the Regulations and rulings thereunder, and
- (iv) exercise reasonable diligence to assure that no errors are made in the calculations required by paragraph (ii) and, if such error is made, to discover and promptly to correct such error within a reasonable amount of time thereafter, including payment to the United States of any interest and any penalty required by the Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by Section 148 of the Code and the Regulations and rulings thereunder, the Corporation shall not enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Bonds, not been relevant to either party.

(j) Not Hedge Bonds. The Corporation will not invest more than 50 percent of the Proceeds of any series of the Series 2012 Bonds in Nonpurpose Investments having a guaranteed yield for four years or more.

## **ARTICLE V**

### **REDEMPTION OF THE BONDS**

**Section 5.1 Optional Redemption.** The Bonds maturing on or after August 1, 2023, shall be subject to redemption at the option of the Corporation, in whole or in part, on or after August 1, 2022 or on any Bond Payment Date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date set for redemption. The Bonds, or portions thereof, redeemed will be selected by lot by the Trustee.



**Section 5.2. Optional Redemption Procedure—Sale of All or Portion of Land.** The Bonds maturing on or after August 1, 2023, shall be subject to redemption on any date, at the option of the Corporation, in whole or in part, on or after August 1, 2022, upon the sale of all or a portion of the Project to the District at the Purchase Option Price and payment of the Trustee's reasonable fees and expenses, and the Corporation's payment as provided in Section 11.1 or Section 11.2 of the Lease, at a redemption price equal to the principal amount thereof plus accrued interest to the date set for redemption.

**Section 5.3 Mandatory Redemption—Casualty Loss or Condemnation.** The Bonds are also subject to mandatory redemption on any date, at the option of the District, in whole or in part, upon the District's payment of the Purchase Option Price to the Trustee for the Project following damage, destruction or condemnation thereof, at a redemption price equal to the principal amount of the Bonds being redeemed, plus accrued interest to the redemption date.

**Section 5.4 Optional Redemption—Termination of the Lease.** The Bonds shall be subject to redemption prior to their stated maturity on any Bond Payment Date, at the option of the Trustee, in whole only, in accordance with Section 6.1(a) of the Master Indenture; provided, however, that with respect to a prepayment of Rental Payments by the Corporation pursuant to Section 11.2 of the Lease, no such redemption shall occur prior to August 1, 2022.

**Section 5.5 Conditional Notice of Redemption.** Unless sufficient funds to pay the redemption price of the Bonds to be redeemed pursuant to Section 5.1 or 5.2 shall have been received by the Trustee prior to the giving of notice of redemption, such notice shall state that said redemption is conditional upon the receipt of such funds by the Trustee on or prior to the date fixed for redemption. If such funds are not received by the redemption date, such notice shall be of no force or effect, the Corporation shall not redeem such Bonds, the redemption price shall not be due and payable and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such funds were not so received and that such Bonds will not be redeemed.

**Section 5.6 Mandatory Sinking Fund Redemption of the Series 2012 Bonds.** The Bonds maturing on August 1, 2031 and 2036 (the Term Bonds) are subject to mandatory redemption, prior to maturity, in part, from the mandatory sinking fund payments set forth below on August 1 on or after the first date upon which such mandatory sinking fund payments are to be made, at the principal amount thereof and accrued interest thereon to the redemption date, but without premium.

\$10,385,000 Term Bonds Series 2012 Maturing August 1, 2031

Mandatory Sinking Fund Redemption Date (August 1)	Mandatory Sinking Fund Payment
2028	\$2,170,000
2029	\$2,440,000
2030	\$2,730,000
2031	\$3,045,000 (Maturity)

\$8,730,000 Term Bonds Series 2012 Maturing August 1, 2036

Mandatory Sinking Fund Redemption Date (August 1)	Mandatory Sinking Fund Payment
2032	\$1,225,000
2033	\$1,510,000
2034	\$1,715,000
2035	\$1,890,000
2036	\$2,390,000 (Maturity)

\$15,000,000 Term Bonds Series 2012 Maturing August 1, 2036

Mandatory Sinking Fund Redemption Date (August 1)	Mandatory Sinking Fund Payment
2032	\$2,100,000
2033	\$2,595,000
2034	\$2,945,000
2035	\$3,250,000
2036	\$4,110,000 (Maturity)

The principal amount of the Term Bonds required to be redeemed on any redemption date pursuant to the operation of mandatory sinking fund redemption provisions will be reduced, at the option of the Corporation, by the principal amount of any Term Bond scheduled for redemption on such redemption date or dates, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) have been acquired by the Corporation and delivered to the Trustee for cancellation, (2) have been acquired and canceled by the Trustee, at the direction of the Corporation, at a price not exceeding the principal amount of such Term Bond plus accrued interest to the date of acquisition thereof, or (3) have been redeemed pursuant to the optional redemption provisions and not previously credited to a scheduled mandatory redemption.

**Selected Provisions from the Security Agreement**

**Section 2. Grant of Security.** The Issuer hereby assigns and pledges to the Trustee, and hereby grants to the Trustee, a security interest in and a lien on, all of the Issuer's right, title and interest in and to its property described in subsections (a) through (e) of this Section 2 (the "Collateral"):

(a) to the extent owned by Issuer and purchased with proceeds of the Bonds, all machinery, equipment, or other property at any time installed or located on the real property described in Exhibit A-1 hereto, and substitutions or replacements therefor, all machinery, equipment, or other property which under the terms of the Trust Indenture is to become the property of the Issuer or is to be subjected to the lien of this Agreement, and, without limiting the foregoing, all of the property of the Issuer at any time installed or located on the real property described in Exhibit A-1 attached hereto together with all machinery, apparatus, equipment, fittings, fixtures, whether actually or constructively attached to said property, and including all trade, domestic, and ornamental fixtures and articles of personal property of every kind and nature whatsoever now or hereafter located in, upon, or under said property or any part thereof and used or usable in connection with any present or future operations of said property, including, without limiting the generality of the foregoing, all heating, air-conditioning, freezing, lighting, laundry, incinerating, and power equipment, gas and electric fixtures, engines, machinery, pipes, pumps, tanks, motors, conduits, switchboards, plumbing, lifting, cleaning, fire prevention, fire extinguishing, refrigerating, ventilating, and communications apparatus, safety equipment, boilers, ranges, furnaces, oil burners, or units thereof, appliances, air-cooling and air-conditioning apparatus, washers, dryers, water heaters, mirrors, mantels, vacuum cleaning systems, elevators, escalators, shades, awnings, screens, storm doors, and windows, stoves, wall beds, refrigerating plants, refrigerators, attached cabinets, partitions, ducts, and compressors, rugs and carpets and other floor coverings, draperies, furniture and furnishings, together with all building materials and equipment now or hereafter delivered to the property and intended to be installed therein, including but not limited to, lumber, plaster, cement, shingles, roofing, plumbing, fixtures, pipe, lath, wallboard, cabinets, nails, sinks, toilets, furnaces, heaters, brick, tile, water heaters, screens, window frames, glass, doors, flooring, paint, lighting fixtures and unattached refrigerating, cooking, heating, and ventilating appliances and equipment, together with all additions and accessions thereto and replacements thereof (any and all such property described in this paragraph (a) being referred to herein as the "Equipment");

(b) all of the accounts, documents, chattel paper, instruments, and general intangibles arising in any manner from the Issuer's ownership and operation of the Project, including, but not limited to, all

amounts due from tenants of the Project (any and all such property described in this paragraph (b) being referred to herein as the "Revenues");

(c) to the extent owned by the Issuer and purchased with proceeds of the Bonds, all of the inventory now or hereafter located at the Project in all of its forms, including, without limitation, all goods, materials, supplies, stores of food, drugs, and linens now or hereafter held for sale and use or consumption, whether by the Issuer or by another person pursuant to a service contract, at the Project, together with all documents, documents of title, dock warrants, dock receipts, warehouse receipts, bills of lading, or orders for the delivery of all or any portion of the foregoing, all goods in which the Issuer has an interest in mass or a joint or other interest or right of any kind, all goods which are returned to or repossessed by the Issuer, and all accessions thereto and products thereof (any and all such property described in this paragraph (c) being referred to herein as the "Inventory");

(d) any and all tenant contracts, rental agreements, franchise agreements, management contracts, construction contracts, and other contracts, licenses, and permits now or hereafter affecting the Project or any part thereof; and

(e) the proceeds, in cash or otherwise, of the Collateral described in the foregoing clauses (a), (b), (c) and (d), including, without limitation, (i) the proceeds of any sale or other disposition of such Collateral; and (ii) all insurance proceeds of any kind (whether or not the Trustee is the loss payee under the applicable insurance policy) paid at any time in connection with such Collateral, all liens (whether possessory, contractual, statutory or otherwise) with respect to such Collateral, and all rights, remedies and claims (whether in the nature of indemnities, warranties, guaranties or otherwise) of the Issuer with respect to such Collateral, in any case whether now existing or hereafter at any time or from time to time arising.

The inclusion of proceeds in this Agreement does not authorize the Issuer to sell, dispose of or otherwise use the Collateral in any manner to the extent otherwise prohibited hereby or by the other documents executed in connection with the Bonds.

**Section 3. Security for Obligations.** This Agreement secures the prompt and complete payment and performance of all indebtedness, obligations and covenants of every kind and character of the Issuer now or hereafter existing as evidenced by the Bonds, in favor of the Trustee, whether such indebtedness, obligations and covenants be direct or indirect, primary or secondary, joint or several, fixed or contingent, and whether evidenced by the Bonds, promissory notes, or otherwise, together with all renewals, extensions, amendments, supplements, increases and rearrangements of any of the foregoing (all such obligations, covenants and conditions being hereinafter collectively referred to as the "Obligations").

\* \* \* \* \*

**Section 5. Representations, Warranties and Covenants.** The Issuer hereby represents and warrants as follows that to the best of its knowledge and belief:

(a) All of the Equipment (if any) is located at the locations specified in Exhibit A-1. The principal place of business and chief executive office of the Issuer is located at 5930 Middle Fiskville Road, Austin, Texas 78752.

(b) All records concerning the Issuer's Receivables (if any) and all originals of all chattel paper (if any) which evidence Receivables are and will remain located at the chief executive office listed in Section 5(a). The Issuer will notify the Trustee of any change of its name, its corporate structure or the address of its chief executive office or principal place of business listed in Section 5(a) at least 30 days prior to any such change.

(c) All of the Inventory (if any) is located at the locations specified in Exhibit A-1, attached hereto.

(d) The Issuer owns the Collateral free and clear of any lien or security interest other than the interests created hereby and by the Trust Indenture. No effective financing statement or other instrument similar in effect covering all or any part of the Collateral is or will be on file in any recording office.

(e) The Issuer has full power and authority to execute and deliver this Agreement. No authorization, approval, or action by, and no notice to or filing with, any governmental authority or regulatory body (that has not been obtained or done) is required either (i) for the grant by the Issuer of the security interests granted hereby or for the execution, delivery, or performance of this Agreement by the Issuer or (ii) for the exercise by the Trustee of its rights and remedies hereunder. No action has been brought or threatened which in any manner is likely to interfere with the right of the Issuer to execute or deliver this Agreement or to perform any of the Issuer's obligations hereunder.

(f) This Agreement is, and all other documents and instruments executed in connection herewith when delivered will be, the legal, valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their respective terms, except as enforcement may be (i) limited by laws affecting creditors rights and (ii) subject to the general effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(g) The exercise by the Trustee of its rights and remedies hereunder will not contravene any contractual restrictions binding on or affecting the Issuer or any of its properties.

(h) Except as provided herein and in the Trust Indenture, the Issuer has the full and unencumbered right to collect the Revenues derived from the Project, and the Issuer has not omitted to take any act and has not executed any instrument which might prevent or impair the Trustee from fully enforcing all of the terms and conditions of this Agreement.

\* \* \* \* \*

**Section 16. Remedies.** If any Event of Default or an Event of Nonappropriation shall have occurred and be continuing:

(a) The Trustee may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the UCC (whether or not the UCC applies to the affected Collateral) and in addition thereto and cumulative thereof, the following rights: the right to sell, grant licenses under, lease or otherwise dispose of the Collateral and the right to take possession of the Collateral, and for that purpose, the Trustee may enter upon any premises on which the Collateral may be situated and remove the same therefrom and/or may render the Collateral inoperable; the Trustee may require the Issuer to, and the Issuer hereby agrees that it will, at its expense and upon the request of the Trustee, forthwith assemble all or part of the Collateral and all documents relating to the Collateral as directed by the Trustee and make the Collateral available to the Trustee at a place to be designated by the Trustee; without notice except as specified below, or as may be required by applicable law or by the terms of the Trust Indenture or any of the collateral documents executed in connection with the Bonds, sell the Collateral in one or more parcels at public or private sale, at any of the Trustee's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Trustee may reasonably deem commercially reasonable. The Issuer agrees that, to the extent notice of sale shall be required by law, at least 30 days' notice to the Issuer of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Trustee shall not be obligated to make any sale of Collateral regardless of notice of sale having been given, provided the value of such Collateral is credited against the amounts owed by Issuer. The Trustee may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. The rights of the Trustee pursuant to this paragraph are subject to the rights of the District to the use of the Collateral pursuant to the Lease unless the Lease has been terminated or the District's right to possession terminated pursuant to the applicable provisions thereof and of the Trust Indenture.

(b) All cash proceeds received by the Trustee in respect of any sale of, collection from, or other realization upon all or any part of the Collateral shall be applied in whole or in part by the Trustee against the Obligations as provided in the Trust Indenture. Any surplus of such cash or cash proceeds held by the Trustee and remaining after payment in full of all the Obligations shall be paid over to the Issuer or to whomsoever may be lawfully entitled to receive such surplus; provided that the Trustee shall have no obligation to invest or otherwise pay interest on any amounts held by it in connection with or pursuant to this Agreement.

(c) Each of the rights of the Trustee under this Agreement, the Trust Indenture, the Mortgage, the Lease, the Bonds, and each and every other document or instrument now or hereafter evidencing or securing the indebtedness hereby secured, is separate and distinct from and cumulative to all other rights herein and therein granted and all other rights which the Trustee may have in law or equity, and no such right shall be in exclusion of any other. No delay by the Trustee in exercising any right or remedy hereunder or otherwise afforded by law shall operate as a waiver thereof or preclude the exercise thereof upon the occurrence of an Event of Default. No failure by the Trustee to insist upon the strict performance by the Issuer of each and every agreement of the Issuer under the Trust Indenture, the Bonds, or this Agreement or said other documents and instruments shall constitute a waiver of any such agreement, and no waiver by the Trustee of any Event of Default shall constitute a waiver of or consent to any subsequent Event of Default. No withdrawal or abandonment by the Trustee of any exercise of the power of sale herein granted or of any of its rights under such power shall be construed as a waiver of any power or right of the Trustee hereunder. In case the Trustee shall proceed to enforce any right, power, or remedy hereunder and such proceeding is withdrawn, discontinued, or abandoned for any reason, or is determined adversely to the Trustee, then in every such case (i) the Issuer and the Trustee shall be restored to their former positions and rights, (ii) all rights, powers, and remedies of the Trustee shall continue as if no such proceedings had been taken, (iii) each and every default declared or occurring prior or subsequent to such withdrawal, discontinuance, or abandonment shall and shall be deemed to be a continuing default, and (iv) neither this Agreement nor the Obligations shall be or shall be deemed to be reinstated or otherwise affected by such withdrawal, discontinuance, or abandonment, and the Issuer hereby expressly waives the benefit of any statute or rule of law now provided, or which may hereafter be provided, which would produce a result contrary to or in conflict with the above.

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

**APPENDIX B**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR YEAR ENDED AUGUST 31, 2011**

(THIS PAGE IS INTENTIONALLY LEFT BLANK)





**Comprehensive Annual Financial Report  
for the fiscal year ended August 31, 2011**

**Austin Community College District  
Texas**

# Austin Community College District

Austin, Texas

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Fiscal Years Ended August 31, 2011 and 2010**

Prepared by  
Business Services  
Austin Community College District

**THIS PAGE LEFT INTENTIONALLY BLANK**



# Introductory Section

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**TABLE OF CONTENTS**

---

	<u>PAGE</u>	<u>EXHIBIT</u>
<b>INTRODUCTORY SECTION</b>		
Table of Contents.....	i-iii	
Board of Trustees and Key Officers .....	iv	
Organizational Chart .....	v	
Letter of Transmittal .....	vi-xi	
Certificate of Achievement for Excellence in Financial Reporting.....	xii	
<b>FINANCIAL SECTION</b>		
Report of Independent Certified Public Accountants .....	1-2	
Management's Discussion and Analysis (Unaudited) .....	3-15	
<u>Basic Financial Statements</u>		
Statements of Net Assets .....	16-17	1
Statements of Financial Position – ACC Foundation .....	18	1A
Statements of Revenues, Expenses and Changes in Net Assets .....	19	2
Statements of Activities – ACC Foundation .....	20	2A
Statements of Cash Flows .....	21-22	3
Notes to the Basic Financial Statements .....	23-66	
<b><u>SCHEDULES</u></b>		
<u>Required Supplemental Information</u>		
Schedule of Funding Progress.....	67	
Schedule of Operating Revenues .....	68	A
Schedule of Operating Expenses by Object .....	69	B
Schedule of Non-Operating Revenues and Expenses.....	70	C
Schedule of Net Assets by Source and Availability.....	71	D

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**TABLE OF CONTENTS**

---

	<u>PAGE</u>	<u>SCHEDULES</u>
<b>STATISTICAL SECTION (Unaudited)</b>		
Net Assets by Component .....	73	
Revenues by Source .....	74	
Program Expenses by Function .....	75	
Tuition and Fees .....	76	
State Appropriations per FTSE and Contact Hour .....	77	
Assessed Value and Taxable Assessed Value of Property .....	78	
Principal Taxpayers .....	79-80	
Property Tax Levies and Collections .....	81	
Ratios of Outstanding Debt.....	82	
Legal Debt Margin Information.....	83	
Pledged Revenue Coverage .....	84	
Demographic and Economic Statistics.....	85	
Principal Employers .....	86	
Faculty, Staff, and Administrators Statistics.....	87	
Enrollment Details.....	88-89	
Student Profile .....	90-91	
Transfers to Senior Institutions .....	92	
Capital Asset Information .....	93	

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**TABLE OF CONTENTS**

---

	<u>PAGE</u>	<u>SCHEDULES</u>
<b>FEDERAL AWARDS SECTION</b>		
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters .....	94-95	
Report of Independent Certified Public Accountants on Compliance Related to Major Programs (OMB Circular A-133) and on Internal Control Over Compliance.....	96-97	
Schedule of Expenditures of Federal Awards.....	98-100	E
Notes to the Schedule of Expenditures of Federal Awards.....	101-102	
Schedule of Federal Findings and Questioned Costs.....	103-104	
<b>STATE AWARDS SECTION</b>		
Report of Independent Certified Public Accountants on Compliance Related to Major Programs (State of Texas Single Audit Circular) and on Internal Control over Compliance .....	105-106	
Schedule of Expenditures of State Awards.....	107	F
Notes to the Schedule of Expenditures of State Awards .....	108	
Schedule of State Findings and Questioned Costs.....	109-110	

**THIS PAGE LEFT INTENTIONALLY BLANK**



**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**BOARD OF TRUSTEES AND KEY OFFICERS**  
**August 31, 2011**

---

**BOARD OF TRUSTEES**

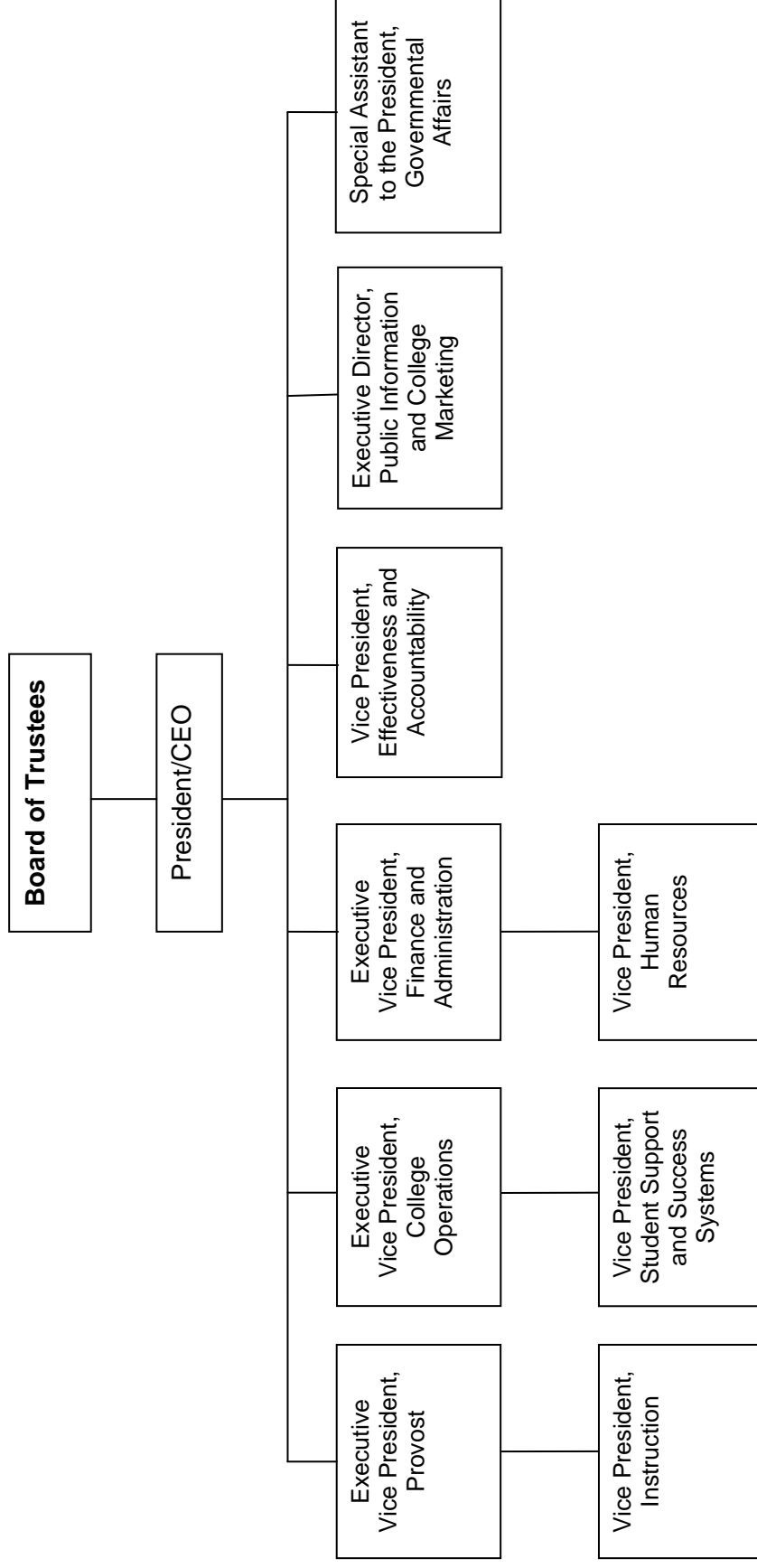
<b><u>Place #</u></b>	<b><u>Members</u></b>	<b><u>Term Expires</u></b>
1	Mr. Tim Mahoney	November 30, 2014
2	Mr. John Michael-Cortez, Secretary	November 30, 2014
3	Ms. Nan McRaven,	November 30, 2014
4	Mr. Jeffrey Richard, Vice Chair	November 30, 2016
5	Dr. Victor Villarreal	November 30, 2016
6	Ms. Guadalupe Sosa	November 30, 2016
7	Dr. Barbara Mink, Chair	November 30, 2012
8	Dr. James McGuffee	November 30, 2012
9	Mr. Allen Kaplan	November 30, 2012

**KEY OFFICERS**

<b><u>Name</u></b>	<b><u>Title</u></b>
Dr. Richard Rhodes, CPA	President/CEO
Mr. Ben Ferrell, CPA	Executive Vice President, Finance and Administration
Dr. Mary Hensley	Executive Vice President, College Operations
Vacant	Executive Vice President, Provost
Ms. Gerry Tucker	Vice President, Human Resources
Dr. Kathleen Christensen	Vice President, Student Support and Success Systems
Mr. Mike Midgley, CPA	Vice President, Instruction
Ms. Soon Merz	Vice President, Effectiveness and Accountability
Ms. Brette Lea	Executive Director, Public Information and College Marketing
Ms. Linda Young	Special Assistant to the President, Governmental Affairs

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
Austin, Texas

**ORGANIZATIONAL CHART**  
August 31, 2011





December 12, 2011

Honorable Chairman, Board of Trustees, and President  
The Citizens of the Austin Community College District

Dear Board Members and President:

The following comprehensive annual financial report of the Austin Community College District ("the College") for the fiscal year ended August 31, 2011, is hereby submitted. Responsibility for the preparation and integrity of the financial information, and the completeness and fairness of the presentation, including all disclosures, rests with the College. 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 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 Basic Financial Statements are provided in the financial section and are considered essential to fair presentation and adequate disclosure for this financial report. The notes include the Summary of Significant Accounting Policies for the College and other necessary disclosures of important matters relating to the financial position of the College. The notes are treated as an integral part of the financial statements and should be read in conjunction with them.

The College is reported as a special purpose government engaged solely in business type activity (BTA). In accordance with GASB Statements 34 and 35, this presentation of financial reporting combines all fund groups into a single column, and resembles the format of the corporate presentation, thus facilitating comparison.

To the best of our knowledge, the enclosed data is accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the College. All disclosures necessary to enable the reader to gain an understanding of the College's financial activities have been included.

The College is required to undergo an annual federal single audit in conformity with the provisions of the Single Audit Act Amendments of 1996, and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and an annual state single audit in conformity with the Texas Governor's Office of Budget and Planning *Uniform Grant Management Standards Single Audit Circular*. Information related to these Single Audits, including the schedule of expenditures of federal awards, schedule of expenditures of state awards, and auditor's reports on compliance and on internal controls are included in the federal and state single audit sections of this report.

## **Governmental Structure**

The Austin Community College District was established as a public community college in December 1972, and began operations in September 1973. The College operates as a community college district under the Constitution Texas Education Code. The College is governed by an elected nine-member, Board of Trustees (“the Board”). At each election, three Trustees are elected to serve in a six-year, at-large position. The Board holds regularly scheduled meetings on the first Monday of each month, unless otherwise announced. Board meetings are held in the Boardroom at the College’s administrative office building (Highland Business Center), unless otherwise provided in the notice of a meeting.

The Board has the final authority to determine and interpret the policies that govern the College and has oversight responsibility of the College’s activities limited only by the state legislature, the courts, and the will of the people as expressed in Board of Trustee elections. Official Board action is taken only in meetings that comply with the Open Meetings Act.

In general, the Board provides policy direction and sets goals for the College consistent with the College’s role and mission. Besides general Board business, trustees are charged with numerous statutory regulations, including appointing the tax assessor/collector, ordering elections, and issuing bonds. The Board is also responsible for appointing the President, setting the tax rate, and adopting the budget for the ensuing fiscal year.

## **Mission and Values**

Austin Community College District is dedicated to providing quality education that exceeds the expectations of its service area as defined by Texas Education Code 130.166. This service area includes all of Hays, Gillespie, Caldwell, and Blanco counties, most of Travis and Bastrop counties, and part of Williamson, Gonzales, Guadalupe, Lee, and Fayette counties.

The vision statement is as follows:

*The Austin Community College District will be recognized as the preferred gateway to higher education and training and as the catalyst for social equity, economic development, and personal enrichment.*

Furthermore, these are the core values that guide the Austin Community College District’s internal and external interactions with each other and our community:

- **C - Communication:** ACC values open, responsible exchange of ideas;
- **A - Access:** ACC values an open door to educational potential.
- **R - Responsiveness:** ACC values targeted actions to address Service Area and internal needs within available resources.
- **E - Excellence:** ACC values commitment to integrity and exemplary standards.
- **S - Stewardship:** ACC values personal and professional ownership that generates accountability.

## ***Economic Condition and Outlook***

The College's service area is located in Central Texas, about 150 miles inland from the Gulf of Mexico. According to the US Census Bureau, the population in 2010 of the Austin-Round Rock-San Marcos MSA was 1,712,647, an increase of 37% since 2000. Growth in these counties is expected to continue at this rate or faster in the future. Austin is the state capital, and consequently 16% of its workforce is employed with state and local government agencies. The remainder of the counties' economic base consists of manufacturing, computer technology, and trade and service industries.

The Austin-Round Rock-San Marcos MSA continues to outpace the national averages in economic indicators. According to the Texas Workforce Commission, the Austin-Round Rock MSA civilian workforce had increased 0.5% from 917,235 in 2010 to 921,775 in 2011. The unemployment rate in 2011 was 7.4%, which is lower than the statewide unemployment rate of 8.4%, and significantly lower than the national unemployment rate of 9.1%. According to the 2000 census, residents of the Austin-Round Rock MSA are typically well educated, with 40.6% of the workforce population over 25 possessing a bachelor's degree or higher.

During the past five years, the College experienced significant improvements in its financial condition, increasing its unrestricted net assets from \$8.8 million to \$24.4 million over that time. This is due to a commitment from the Board and administration to sound financial planning and budget performance. The College has increased its use of long-term planning and financial forecasting which has improved the decision making process. At the same time, the College has benefited from a strong local economy, record enrollments, and favorable annexations. This strengthened financial position will allow the College to weather the current economic downturn with minimal impact on College operations.

State funding continues to be a concern. The State reduced the 2010-2011 appropriations by 7.5% mid-year. Additionally, there was a 10% reduction for the 2012-2013 biennium. The current funding rate is significantly less per contact hour than the College was receiving in 2000. The State continues to deal with a deficit budget, so the future of State funding continues to be a concern. The College is committed to the legislative process, and will continue to work with State leaders to inform them of the crucial role of community colleges for the State's economic and social well-being. At the same time, the College has taken significant steps to mitigate the impact of state appropriations on the College's fiscal stability.

## ***Financial Planning and Budgeting***

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

- Long-Term Facilities Plan
- Three Year Master Plan
- Annual Budget, including 10 year projections

The College recently developed a regional facilities master plan designed specifically to address the College's *Closing the Gaps* target, which calls for an additional 20,000 students by the year 2025. The plan includes six recommendations for meeting this demand, all of which were adopted by the Board:

- 1) Approve land acquisition for a campus in Round Rock;
- 2) Hire an A/E firm to begin the design of a campus in Round Rock;
- 3) Reaffirm master plan recommendation for a campus in San Marcos;
- 4) Form a Public Facilities Corporation (PFC) to finance new campuses;
- 5) Pursue land donations and/or purchases in strategic areas with future growth potential;
- 6) Develop individual master plans for expansion and renovations at existing campuses.

In general, the College has completed all of the above recommendations, including item 6 which is the development of individual campus master plans for all of the existing campuses. These campus master plans address the potential expansions and needed renovations at each campus in order to meet the future enrollment projections.

The recommendations, along with the major instructional and operational initiatives, are incorporated into a three year master plan, which is driven by strategic goals developed by the President and approved by the Board. This is a rolling three year plan that is updated annually prior to the annual budget cycle. This master plan identifies the initiatives that the College will focus on for the next three years, and therefore drive the annual budget decisions.

The annual budget is developed with a bottom-up approach with the approved master plan serving as a guide. During the budget development cycle, departments are asked to identify the funds needed in their departmental budgets in order to accomplish the goals laid out in the master plan. After this information is collected from the departments, it is compiled into a proposed college-wide budget. The budget is then presented to the Board, including budget projections for the next 10 years. These projections incorporate the proposed new initiatives and other operating increases in order to demonstrate the long-term impact of the current year funding decisions. It also projects future tuition rate increases.

The combined use of these three planning devices allows the College to develop funding strategies to meet the future expenditure needs, and maintain a strong financial balance. Due to the College's commitment to planning, in the last four years the College has met the demands of record enrollment increases, increased programs and service available to students, and all while increasing its net assets each year.

### ***Major Initiatives***

The College has devoted significant time and effort in planning for the future. During 2011 the College continued to make progress with its current facilities master plan in order to provide space for twenty thousand additional students by 2025 to meet the State's *Closing the Gaps* initiative of increasing participation in higher education. The College has clearly emerged as the regional leader in the *Closing the Gaps* effort to promote economic development through an educated workforce. Unique and innovative programs such as the *College Connection*, which automatically admits area graduating high school seniors to the College, helped increase enrollment, particularly among traditionally under-represented students. *College Connection* has received national recognition and is being emulated by other community colleges in Texas and other states.

Other major initiatives that highlighted 2011 include:

- Welcomed the citizens of Elgin ISD and Hays CISD into the ACC taxing district with a successful annexation election in November 2010. These annexations will allow for the construction of new campuses in each of these communities.

- The College welcomed the residents of Round Rock ISD which joined the College's taxing district with a successful annexation election in May 2008 with the first full year of operations of the new Round Rock Campus which opened at full capacity.
- First year of operation for the new Rio Grande Campus Gymnasium Adaptive Reuse in Summer 2010 which provides more than 38,000 square feet of classrooms and faculty offices for the College's downtown campus.
- Continued significant progress in the pursuit of strategic land acquisitions.
- Successfully acquired a significant portion of Highland Mall providing over 600,000 sqft of space which provides great expansion opportunities.

The College is moving ahead with significant plans for expansion thanks to its community support, and expects to maintain its role as a major source of post-secondary education and economic development in the Central Texas region. For 2012, the College plans to further develop its strategic academic and facilities planning for the region, which will include vigorously pursuing expansion of its taxing district through annexation.

### ***Independent Audit***

State statutes require an annual audit by independent certified public accountants. The College's Board of Trustees selected the accounting firm of Grant Thornton LLP. In addition to meeting the requirements set forth in state statutes, their audit also was designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and related OMB Circular A-133 and the state single audit related to the Uniform Grant Management Standards Single Audit Circular. The auditor's reports related specifically to the Single Audits are included in the Single Audit Sections.

### ***Awards***

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Austin Community College District for its comprehensive annual financial report for the fiscal year ended August 31, 2010. This was the eighth consecutive year that the College 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***

We are grateful to the Board of Trustees for its interest in planning and oversight of the financial operations of the College. We especially want to acknowledge the staff of Business Services for their hard work and dedicated service, for we could not have accomplished the preparation of this report without their diligent efforts. We would also like to thank the accounting firm of Grant Thornton LLP for their assistance with the audit.

Respectively submitted,



Ben Ferrell, C.P.A.  
Executive Vice President,  
Finance & Administration



Neil Vickers, C.P.A.  
Associate Vice President,  
Finance & Budget



# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
Austin Community College District  
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. Danison*

President

*Jeffrey R. Enen*

Executive Director

**THIS PAGE LEFT INTENTIONALLY BLANK**



## Financial Section



# Grant Thornton

## Report of Independent Certified Public Accountants

Audit • Tax • Advisory

**Grant Thornton LLP**

1717 Main Street, Suite 1500  
Dallas, TX 75201-4667

T 214.561.2300

F 214.561.2370

[www.GrantThornton.com](http://www.GrantThornton.com)

Board of Trustees  
Austin Community College District

We have audited the accompanying basic financial statements of the Austin Community College District (the "District") as of and for the year ended August 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of ACC Foundation, Inc., which represents the discretely presented component unit of the College. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of August 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**THIS PAGE LEFT INTENTIONALLY BLANK**

The management's discussion and analysis on pages 3 through 15 and the Schedule of Funding Progress on page 67 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying introductory section, supplemental schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Single Audit Circular, and are also not a required part of the basic financial statements. The supplemental schedules of operating revenues, operating expenses by object, non-operating revenues and expenses, net assets by source and availability, and schedules of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

GRANT THORNTON LLP

Dallas, Texas

December 8, 2011

**THIS PAGE LEFT INTENTIONALLY BLANK**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

---

**Financial Statement Analysis and Overview**

The following discussion and analysis of the Austin Community College District's ("the College") annual financial statements provides an overview of the College's financial activities for the years ended August 31, 2011 (Fiscal Year 2011), 2010 (Fiscal Year 2010), and 2009 (Fiscal Year 2009), and identifies changes in its financial position for these years. In conformity with Government Accounting Standards Board (GASB) Statement No. 34, the discussion focuses on currently known facts, decisions, and conditions that have an impact on the financial activities of the College, and is intended to assist the reader in the interpretation of the financial statements. The financial statements should be read in conjunction with the Notes to the Basic Financial Statements.

The financial statements are prepared in accordance with the GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Three primary statements are required: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

Financial statements for the College's discrete component unit, Austin Community College Foundation ("the Foundation"), are issued independent of the College. The Foundation's financial information for fiscal years 2011 and 2010 is shown on separate pages behind the College's basic financial statements. Refer to Notes 1 and 25 in the Notes to the Basic Financial Statements for more detail on the Foundation.

The College formed the Austin Community College District Public Facility Corporation ("the PFC"), which was incorporated on December 21, 2007 as a non-profit corporation formed under the Texas Public Facility Corporation Act. The PFC was formed for the purpose of assisting the College in financing, refinancing, providing, or otherwise assisting in the acquisition of public facilities. The PFC is reported as a blended component unit in the financial statements of the College, and therefore its activities are blended with the activities of the College. Refer to Note 1 in the Notes to the Basic Financial Statements for more detail on the PFC.

The following summary and management discussion and analysis of the results is intended to provide readers with an overview of the basic financial statements.

Some of the financial highlights of fiscal year 2011 are as follows:

- Assets of the College exceeded liabilities at the close of the fiscal year ending on August 31, 2011 by \$92.0 million. Of this amount, \$24.4 million (unrestricted net assets) may be used to meet the College's ongoing obligations.
- During fiscal year 2011, the College successfully annexed the properties in Elgin ISD and Hays Consolidated ISD. Due to these areas becoming eligible for lower in-district tuition rates immediately upon annexation, there was a negative impact on tuition revenue in 2011. However, in fiscal year 2012 the College will begin collecting ad valorem taxes from these properties which will exceed the reduction in tuition revenue.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
Austin, Texas

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

*Statement of Net Assets*

The Statement of Net Assets includes assets and liabilities, both current and non-current, and the change in net assets as of the end of the fiscal year. Current assets are those assets that are available to satisfy current liabilities, or liabilities that are due within one year. Non-current assets include capital assets, long-term investments, and other assets not classified as current. Non-current liabilities include bonds payable and other long-term commitments. Net Assets is the difference between total assets and total liabilities. It is one indicator of whether the overall financial condition has improved or deteriorated during the year when considered with other factors such as enrollment, contact hours of instruction, student retention and other non-financial information. Finally, the Statement of Net Assets is useful in determining the assets available to continue operations as well as how much the College owes to vendors, bondholders, and other entities at the end of the year.

Additional detail regarding basis of accounting and major categories of net assets can be found in Note 2 in the Notes to the Basic Financial Statements.

**CONDENSED FINANCIAL INFORMATION**

**Condensed Statement of Net Assets**  
(in Millions)

	<b>August 31</b>			<b>Change</b>	
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2010 to 2011</b>	<b>2009 to 2010</b>
<b>Assets</b>					
Current Assets	\$ 85.7	\$104.6	\$ 91.9	\$ (18.9)	\$ 12.7
Capital Assets, Net of Accumulated Depreciation	376.5	325.4	231.1	51.1	94.3
Other Noncurrent Assets	68.6	33.6	99.2	35.0	(65.6)
Total Assets	<u>530.8</u>	<u>463.6</u>	<u>422.2</u>	<u>67.2</u>	<u>41.4</u>
<b>Liabilities</b>					
Current Liabilities	68.2	75.3	67.0	(7.1)	8.3
Noncurrent Liabilities	370.6	291.1	265.2	79.5	25.9
Total Liabilities	<u>438.8</u>	<u>366.4</u>	<u>332.2</u>	<u>72.4</u>	<u>34.2</u>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	49.3	53.6	54.1	(4.3)	(0.5)
Restricted: Expendable	18.3	17.5	15.2	0.8	2.3
Unrestricted	24.4	26.1	20.7	(1.7)	5.4
Total Net Assets	<u>\$ 92.0</u>	<u>\$ 97.2</u>	<u>\$ 90.0</u>	<u>\$ (5.2)</u>	<u>\$ 7.2</u>

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

---

Total Assets increased from 2010 to 2011 by \$67.2 million. The increase was due to various real estate acquisitions, along with construction activity at the Elgin Campus. Since all of these activities were funded with bonds, the increase in assets is offset by an increase in liabilities. Unrestricted cash and investments were basically unchanged. Since 2009, the College has increased its total assets before considering liabilities by \$108.6 million, most of which is related to real estate acquisitions and facility construction. \$10.2 million of the asset increase since 2009 is in unrestricted cash, investments and accounts receivable, and therefore is due to strong performance of the operating budget over the last 2 years.

Total Liabilities increased from 2010 to 2011 by \$72.4 million. All of the increase was in bonds payable resulting from \$86.0 million bond issue during 2011. This increase in bonds payable was partly offset by a decrease in accounts payable of \$10.2 million and a decrease in accrued liabilities of \$3.2 million. Bonds and capital lease payables, other than the new issuance above, decreased by \$6.5 million due to principal payments made during the year.

The College's net assets (assets less liabilities) decreased by \$5.2 million from the previous year. Specifically, net assets were \$92.0 in 2011, \$97.2 million in 2010, and \$90.0 million in 2009. The decrease is attributable to a \$3.2 million increase in depreciation, a mid-year reduction in state appropriations of \$2.1 million and a \$1.7 million reduction in tuition revenue due to the successful annexation of Elgin ISD and Hays CISD. The increase in depreciation expense is attributed to the completion and opening of the Round Rock Campus. This campus is by far the College's largest and most costly to date, and therefore it had a significant impact on depreciation expense. While the College's original budget included capital purchases that would have offset the impact of depreciation on net assets, the mid-year cuts in state appropriations forced the College to delay most of the capital expenditures included in the operating budget. Delaying the capital expenditures allowed the College to preserve cash and therefore maintain liquidity levels. Preserving cash was a priority for the College, but the reduction to the capital budget prevented the College from investing enough in new capital assets to offset the impact of depreciation on those assets, thus resulting in a decrease in net assets. Additionally, the College's tuition revenue was \$1.7 million less than budgeted due to the successful annexation of Elgin and Hays ISDs. While these annexations are very positive for the College and will generate positive cash flows in the future, there is a timing difference between the reduction in tuition revenue and the increase in property tax revenue. Since the annexation occurred mid-year 2011, the residents of those territories became eligible for the reduced in-district tuition rate immediately which was for the Spring 2011 semester. However, because property taxes are paid in arrears, the tax collections will not begin until the College's fiscal year 2012. This timing difference resulted in a loss of tuition revenue of about \$1.7 million during the current year. Since the future tax revenues will exceed the reduced tuition revenues, this impact will be reversed in 2012 and all future years thereafter. In 2010 and 2009, net assets increased by \$7.2 million and \$6.0 million, respectively. A more detailed discussion follows in the Statement of Revenues, Expenses, and Changes in Net Assets section.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
Austin, Texas

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

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

The Statement of Revenues, Expenses and Changes in Net Assets presents the College's overall results of operations. The statement is divided into Operating Revenues, Operating Expenses, and Non-Operating Revenues and Expenses. The College is primarily dependent upon three sources of revenue: state appropriations; tuition and fees; and property taxes. Since state appropriations and property taxes are classified as Non-operating Revenues (per the GASB requirement), Texas community colleges will generally display an operating deficit before taking into account other support. Therefore, total revenues and total expenses should be considered in assessing the change in the College's financial position.

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**  
(in Millions)

	<b>Fiscal Year</b>			<b>Change</b>	
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2010 to 2011</b>	<b>2009 to 2010</b>
<b>Operating Revenues</b>					
Tuition and Fees	\$ 52.7	\$ 50.5	\$ 47.8	\$ 2.2	\$ 2.7
Grants and Contracts	13.5	12.2	8.0	1.3	4.2
Auxiliary Enterprises	1.2	1.1	1.0	0.1	0.1
Other Operating Revenues	7.8	7.6	5.6	0.2	2.0
Total Operating Revenues	<u>75.2</u>	<u>71.4</u>	<u>62.4</u>	<u>3.8</u>	<u>9.0</u>
<b>Operating Expenses</b>	<u>275.5</u>	<u>262.4</u>	<u>218.1</u>	<u>13.1</u>	<u>44.3</u>
Operating Loss	(200.3)	(191.0)	(155.7)	(9.3)	(35.3)
<b>Non-Operating Revenues (Expenses)</b>					
State Appropriations	59.1	59.1	56.0	-	3.1
Ad Valorem Taxes	100.8	104.5	88.9	(3.7)	15.6
Federal Revenue, Non Operating	48.8	40.3	22.8	8.5	17.5
Investment Income	0.4	1.3	0.5	(0.9)	0.8
Interest on Capital-Related Debt	(13.9)	(7.0)	(6.6)	(6.9)	(0.4)
Other Non-Operating Revenue (Expense)	(0.1)	-	0.1	(0.1)	(0.1)
Net Non-Operating Revenues	<u>195.1</u>	<u>198.2</u>	<u>161.7</u>	<u>(3.1)</u>	<u>36.5</u>
Increase (Decrease) in Net Assets	(5.2)	7.2	6.0	(12.4)	1.2
<b>Net Assets</b>					
Net Assets, Beginning of Year	97.2	90.0	84.0	7.2	6.0
Net Assets, End of Year	<u>\$ 92.0</u>	<u>\$ 97.2</u>	<u>\$ 90.0</u>	<u>\$ (5.2)</u>	<u>\$ 7.2</u>

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

---

Key Factors impacting total revenues:

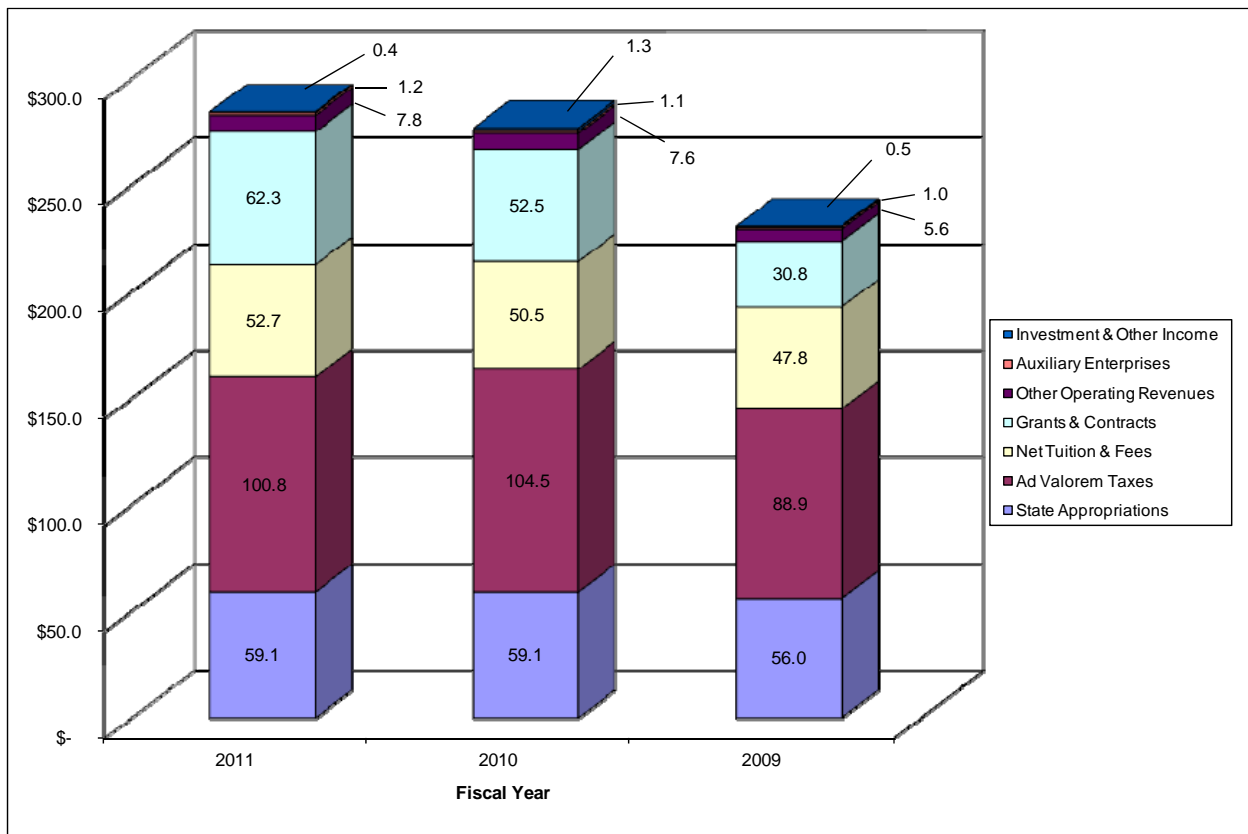
- State appropriations, which are categorized as non-operating revenues, were unchanged from fiscal year 2010 at \$59.1 million. The College's appropriation for 2011 and 2010 were reduced by 7.5% and 5%, respectively, from the amounts that were originally approved in the State's General Appropriation Act for the 2010-2011 biennium. State appropriations accounted for 20.8% of total revenue in 2011, compared to 21.4% of total revenue in 2010, and 24.2% in 2009.
- Tuition and Fees, net of discounts, were up \$2.2 million in 2011. However, discounts were up by \$7.1 million. Therefore, gross tuition & fee revenues increased by \$9.3 million as a result of a 6% enrollment increase, plus tuition rate increases of \$3 per credit hour for all students and an additional \$10 per credit hour for out-of-district students. Tuition and Fees accounted for 18.6% of total revenue in the current year, compared to 18.3% in 2010 and 20.7% in 2009.
- Grants and Contracts revenue increased primarily as a result of increased funding for student Pell grants.
- Other Operating Revenue, which includes interest income, continuing education programs, miscellaneous fees, property rental, and testing fees, totaled \$7.8 million in 2011, \$7.6 million in 2010, and \$5.6 million in 2009. The increase in 2011 is due to increases in enrollments.
- Property taxes, which are categorized as non-operating revenues, decreased by \$3.7 million in 2011, increased by \$15.6 million in 2010, and increased by \$8.3 million in 2009. Specifically, the College recognized \$100.8 million of property tax revenue in 2011, \$104.5 million in 2010, and \$88.9 million in 2009. The decrease in 2011 was due to reductions in appraised values throughout the central Texas region. The drop in values is attributed to the slow national economy, however the value decreases in central Texas have been modest compared to the national average. Commercial properties suffered the largest decreases in value, while residential values decreased only slightly. The net decrease to the total tax base was about 4%. In 2010 and 2009, the increase in property tax revenue is attributed to increases in appraised property values and new construction driven by a strong Austin economy. In 2010, there was an additional increase as a consequence of the May 2008 special election in which the voters approved the annexation of the portions of the Round Rock Independent School District that were not already in the College's taxing district. This annexation added about \$13 billion in taxable property values, which generated an additional \$12 million in property tax revenues for 2010. Property taxes in 2011 were 35.4% of total revenues compared to 37.8% in 2010 and 38.5% in 2009. See graphical illustration on next page.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
Austin, Texas

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

**Total Revenue by Source**  
(in Millions)

	Fiscal Year			Change	
	2011	2010	2009	2010 to 2011	2009 to 2010
<b>Revenue Sources:</b>					
State Appropriations	\$ 59.1	\$ 59.1	\$ 56.0	\$ -	\$ 3.1
Ad Valorem Taxes	100.8	104.5	88.9	(3.7)	15.6
Net Tuition & Fees	52.7	50.5	47.8	2.2	2.7
Grants & Contracts	62.3	52.5	30.8	9.8	21.7
Other Operating Revenues	7.8	7.6	5.6	0.2	2.0
Auxiliary Enterprises	1.2	1.1	1.0	0.1	0.1
Investment & Other Income	0.4	1.3	0.5	(0.9)	0.8
<b>Total Revenue</b>	<b>\$ 284.3</b>	<b>\$ 276.6</b>	<b>\$ 230.6</b>	<b>\$ 7.7</b>	<b>\$ 46.0</b>

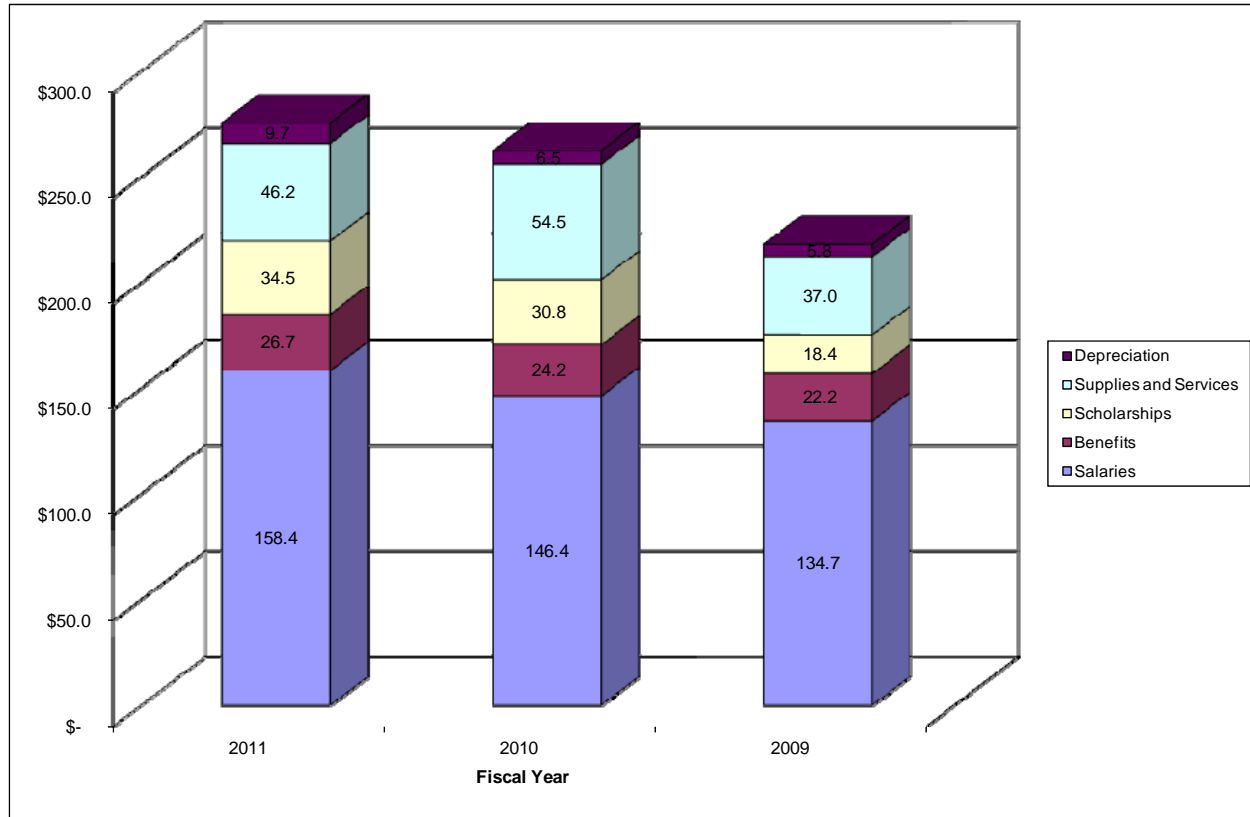


**AUSTIN COMMUNITY COLLEGE DISTRICT**  
Austin, Texas

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

**Operating Expenses - Natural Classification**  
(in Millions)

	Fiscal Year			Change	
	2011	2010	2009	2010 to 2011	2009 to 2010
<b>Operating Expenses:</b>					
Salaries	\$ 158.4	\$ 146.4	\$ 134.7	\$ 12.0	\$ 11.7
Benefits	26.7	24.2	22.2	2.5	2.0
Scholarships	34.5	30.8	18.4	3.7	12.4
Supplies and Services	46.2	54.5	37.0	(8.3)	17.5
Depreciation	9.7	6.5	5.8	3.2	0.7
Total Operating Expenses	<u>\$ 275.5</u>	<u>\$ 262.4</u>	<u>\$ 218.1</u>	<u>\$ 13.1</u>	<u>\$ 44.3</u>



**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

---

Factors impacting operating expenses by natural classification include the following:

- Salary expense in 2011 increased by \$12.0 million, an 8.2% increase over 2010. There was a \$5.6 million increase in Faculty salaries due to a 6% enrollment increase, and \$6.4 million for newly created positions mostly related to staffing at the new Round Rock campus which opened in the Fall of 2010. Salary expense in 2010 increased by \$11.7 million, a 8.7% increase over 2009. The increase was a result of employee salary increases of approximately \$2.9 million, a \$5.3 million increase in Faculty salaries due to a 12% enrollment growth, and \$3.6 million for newly created positions. The new positions were mainly in the areas of direct student support due to enrollment increases.
- Other operating expenses decreased by \$8.3 million in 2011 and increased by \$17.5 million in 2010. The decrease in 2011 is due to the unusual increase in 2010. In 2010, the majority of the increase was due to one-time startup costs related to the new Round Rock Campus. For both years, there were increases due to the support for higher enrollments.
- Depreciation expense increased in 2011 by \$3.2 million primarily due to the opening of the new Round Rock Campus and the new Building 3000 at the Rio Grande Campus. Depreciation expense increased in 2010 by \$0.7 million primarily due to addition of a parking garage at the Rio Grande Campus and addition of capital IT equipment.
- Total scholarship costs for 2011 were \$34.5 million compared to \$30.8 million in 2010 and \$18.4 million in 2009. These increases are due to higher enrollments which increase the number of Federal Title IV awards. The increase in all three years is attributed to record enrollment increases, with a particularly large increase in financial aid students.

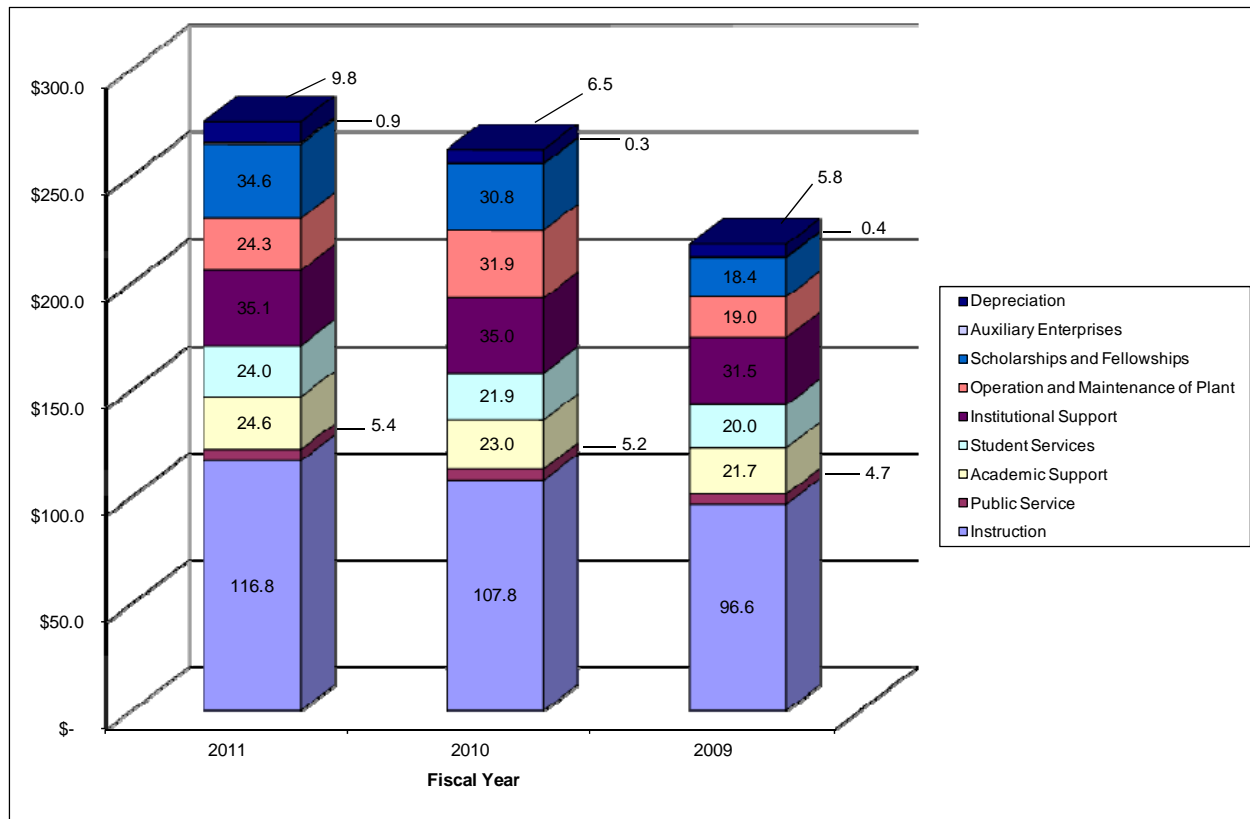


**AUSTIN COMMUNITY COLLEGE DISTRICT**  
Austin, Texas

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

**Operating Expenses - Functional Classification**  
(in Millions)

	Fiscal Year			Change	
	2011	2010	2009	2010 to 2011	2009 to 2010
<b>Operating Expenses:</b>					
Instruction	\$ 116.8	\$ 107.8	\$ 96.6	\$ 9.0	\$ 11.2
Public Service	5.4	5.2	4.7	0.2	0.5
Academic Support	24.6	23.0	21.7	1.6	1.3
Student Services	24.0	21.9	20.0	2.1	1.9
Institutional Support	35.1	35.0	31.5	0.1	3.5
Operation and Maintenance of Plant	24.3	31.9	19.0	(7.6)	12.9
Scholarships and Fellowships	34.6	30.8	18.4	3.8	12.4
Auxiliary Enterprises	0.9	0.3	0.4	0.6	(0.1)
Depreciation	9.8	6.5	5.8	3.3	0.7
<b>Total Operating Expenses</b>	<b>\$ 275.5</b>	<b>\$ 262.4</b>	<b>\$ 218.1</b>	<b>\$ 13.1</b>	<b>\$ 44.3</b>



**AUSTIN COMMUNITY COLLEGE DISTRICT**  
Austin, Texas

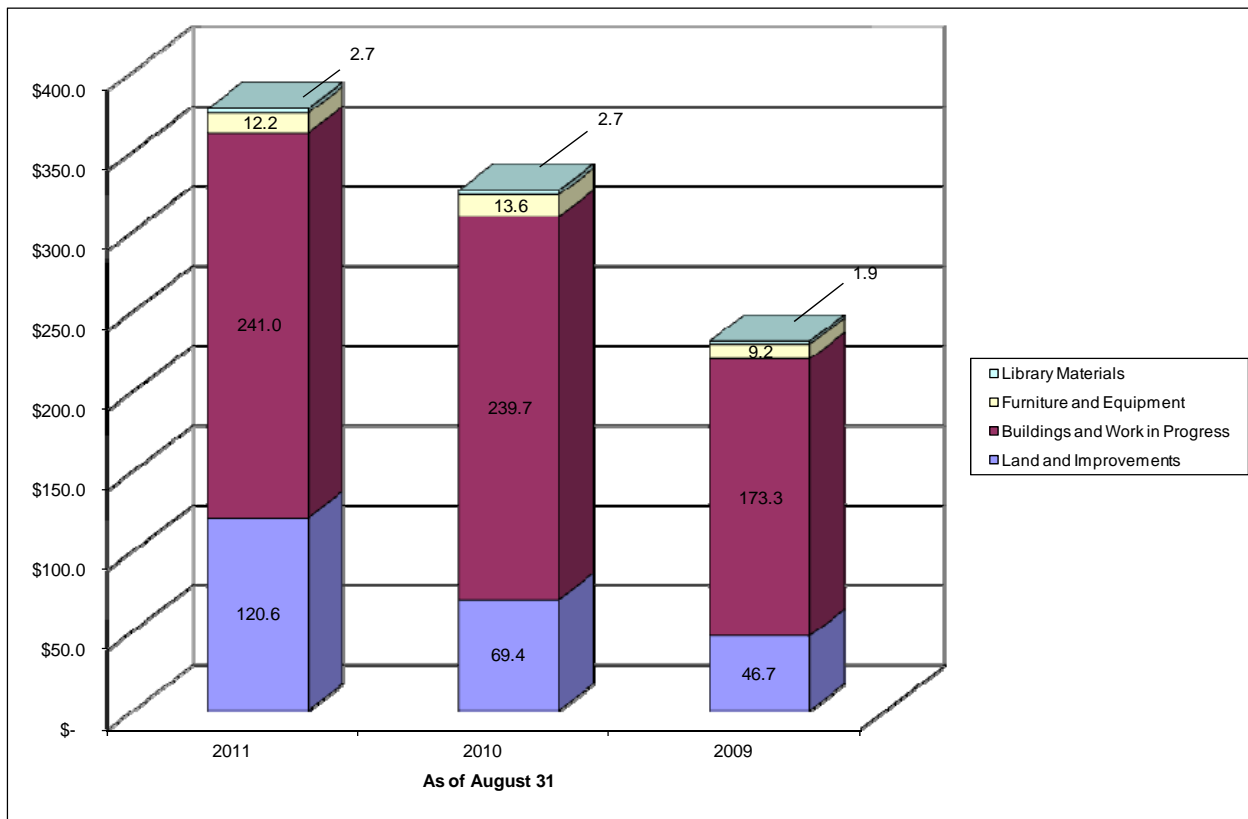
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

All of the functions, except Operations and Maintenance of Plant, increased in 2011. The increases were fairly consistent and proportional for the different functions. The increases were primarily due to increases in salaries and staffing for growing enrollments. The decrease in Operations and Maintenance of Plant is due to the unusual increase in 2010. In 2010, the increase was due to one-time startup costs related to the new Round Rock Campus.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets, Net, at Year End**  
(in Millions)

	<u>August 31</u>			<u>Change</u>	
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2010 to 2011</u>	<u>2009 to 2010</u>
<b>Capital Assets:</b>					
Land and Improvements	\$ 120.6	\$ 69.4	\$ 46.7	\$ 51.2	\$ 22.7
Buildings and Work in Progress	241.0	239.7	173.3	1.3	66.4
Furniture and Equipment	12.2	13.6	9.2	(1.4)	4.4
Library Materials	2.7	2.7	1.9	-	0.8
Total Capital Assets	<u>\$ 376.5</u>	<u>\$ 325.4</u>	<u>\$ 231.1</u>	<u>\$ 51.1</u>	<u>\$ 94.3</u>



**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

---

The College had \$376.5 million, \$325.4 million, and \$231.1 million invested in capital assets, net of accumulated depreciation, at August 31, 2011, 2010, and 2009, respectively. The amount of accumulated depreciation was \$63.5 million, \$54.2 million and \$48.3 million for fiscal years 2011, 2010, and 2009, respectively. Depreciation charges totaled \$9.8 million, \$6.5 million and \$5.8 for fiscal years 2011, 2010, and 2009, respectively.

Changes in net capital assets are the result of acquisitions, improvements, deletions, and changes in accumulated depreciation. During 2011, the College completed construction of a new parking lot at the Pinnacle campus (\$2.7 million). Additionally, the College completed land acquisitions in Elgin and Hays ISDs related to the successful annexation elections in those areas (\$13.2 million). Finally, the College made additional acquisition at the Highland Mall site (\$36.5 million). During 2010, the College completed construction of the new Round Rock Campus (\$89.4 million) and a new building (Building 3000) at the Rio Grande Campus (\$11.3 million). Additionally, the College completed three property acquisitions for future expansion (\$19.2 million). During 2009, the College completed three land acquisitions for future expansion (\$13.0 million), completed the new Rio Grande Parking Garage (\$14.8 million), continued the renovation of the Rio Grande Gymnasium (\$2.5 million), and continued the construction of the new Round Rock Campus (\$29.2 million).

In accordance with GASB Statements No. 34 and 35, the College does not record the cost of its capital assets as an expense at the time of acquisition/completion of the asset, but rather shows the expense systematically over the expected life of the asset as depreciation expense. The amount shown in the accounting records for the value of the asset will decrease each year until the asset is fully depreciated or removed from service. As a result, the amount of capital assets shown in the Statement of Net Assets may decrease from one year to another even though new assets have been acquired during the year. Capital assets subject to depreciation include improvements to land (such as parking lots and signage), buildings, equipment, and library books. Land is not depreciated.

More detailed information about the College's capital assets is presented in Note 6 of the Basic Financial Statements.

***Debt Administration***

At August 31, 2011 the College had approximately \$373.9 million in outstanding debt, compared to \$294.2 million in 2010 and \$267.5 million in 2009. The increase in 2011 is the result of a \$33.5 million PFC lease revenue bond issuance related to the Elgin ISD annexation election and future campus there. Additionally, \$10.0 million in combined fee revenue bonds was issued related to the Hays ISD annexation election and the land acquisition there. Finally, the College issued \$42.5 million in combined fee revenue bonds related to additional acquisitions at the Highland mall site. These increases were offset by \$6.5 million in reduction due to regularly scheduled principal payments. The increase in 2010 is the result of a \$31.5 million combined fee revenue bond issue. This increase is offset by \$4.8 million in reductions due to principal payments.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Outstanding Debt at Year End**  
(in Millions)

	<b>August 31</b>			<b>Change</b>	
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2010 to 2011</b>	<b>2009 to 2010</b>
<b>Outstanding Debt:</b>					
Revenue Bonds	\$ 125.8	\$ 76.3	\$ 47.0	\$ 49.5	\$ 29.3
General Obligation Bonds	95.2	96.4	97.3	(1.2)	(0.9)
Lease Revenue Bonds - PFC	152.4	120.4	121.7	32.0	(1.3)
Capital Leases	0.5	1.1	1.5	(0.6)	(0.4)
Total Outstanding Debt	<u>\$ 373.9</u>	<u>\$ 294.2</u>	<u>\$ 267.5</u>	<u>\$ 79.7</u>	<u>\$ 26.7</u>

In 2011, the College issued, via its public facilities corporation, Series 2010 Lease Revenue Bonds with a Par of \$33.5 million. These bonds will be used to acquire land and construct a campus in Elgin ISD. Also, the College issued the Series 2010 Combined Fee Revenue Refunding Bonds with a par of \$3.9 million. These bonds were used to refund the callable outstanding series 2002 bonds in order to achieve present value savings. The College also issued \$52.5 million for Series 2011, 2011A, and 2011B Combined Fee Revenue Bonds to be used for real estate acquisitions in Hays CISD and at the Highland mall site. In 2010, the College issued Combined Fee Revenue Building Bonds, Series 2009A with a par of \$31.5 million. These bonds will be primarily used to complete the strategic property acquisition goals of the College's master plan. Additionally, the College issued Combined Fee Revenue Refunding Bonds, Series 2009B which refunded certain portions of Series 1998 Bonds and Series 2000 Bonds. The present value refunding gain was \$0.4 million. The College did not issue any new debt in 2009.

The College's combined fee revenue bonds are special obligations of the College that are payable solely from, and will be equally and ratably secured by, an irrevocable first lien on pledged revenues. The pledged revenues include, but are not limited to: general fees; pledged tuition, and investment income derived from any and all funds of the College. General obligation bonds are payable from ad valorem taxes levied, within the limitation prescribed by law, against all property located within the College's taxing district. Payments are derived from taxes levied and collected on an annual basis in an amount sufficient to pay the principal and interest when due, full allowance made for delinquencies and collection costs. The PFC lease revenue bonds will be paid with the proceeds from the lease payments made by the College to the PFC at such times and in such amounts as will be required to timely pay the principal of, premium, and interest on the bonds. The obligation of the College to make lease payments is a current expense, payable solely from funds annually appropriated by the College for such use. Capital lease obligations are paid from any legally available operating source.

For 2011, the College's bond ratings, assigned by Moody's Investors Service and Standard and Poor's Rating Services, are "Aa2" and "AA+" for general obligation bonds, "A1" and "AA-" for combined fee revenue bonds, and "Aa3" and "AA" for lease revenue bonds, respectively. The Standard and Poor's ratings represent an upgrade in 2010 for the College's combined fee revenue bonds from A to AA-. The Standard and Poor's ratings represent an upgrade in 2008 for the College's general obligations bonds from AA to AA+. Standard & Poor's attributes the

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

---

upgrade to the College's historically positive operations, growing enrollment, diverse property tax base, and operating revenue diversity. Historically, the College has purchased financial guaranty insurance in order to get a higher rating on all the outstanding bond issues. However, due to recent upgrades in the College's bond ratings and other market conditions, the College has not purchased insurance on any bonds since 2006.

More detailed information about the College's long-term liabilities is presented in Notes 7, 8, and 9 of the Basic Financial Statements.

**Economic Factors That Will Affect the Future**

The economic position of the College is influenced in part by the economic position of the State of Texas and of the Austin-Round Rock-San Marcos MSA. State appropriations are expected to be approximately \$53.2 million for fiscal year 2012, in accordance with the funding awarded for the State's 2012-2013 biennium. This is 5.8 million less than the appropriation received in 2011 and 2010, and \$8.7 million less than the amount originally approved for the 2010-2011 biennium.

Tax revenues in 2012 are projected to increase by \$3.2 million or 4.0% to \$104.0 million from \$100.8 million in 2011, and \$104.5 million in 2010. The expected increase in 2012 is primarily due to the successful annexations of Elgin Independent School District and Hays Consolidated Independent School District. In November 2010, the voters of these areas held successful elections to enter the College's taxing district. The College will begin collecting property taxes from these areas in fiscal year 2012. These areas will add about \$4.5 billion in taxable property to the College, generating about \$4.0 million in new revenues. The decrease in 2011 property tax revenues is due to a decline in appraised values of about 4%, which is attributed to the national recession.

Tuition and fee revenue for 2012 is projected to be approximately \$73 million which is up considerably compared to \$52.7 million in 2011. Due to significant reductions in State funding, the College increased tuition rates significantly for 2012. The tuition rate was increased by \$15 per credit hour, plus there were significant increases to the Out-of-District Fee, which is the fee paid by those students that do not pay property taxes to the College.

These projected increases in revenue will be necessary to fund new or increased expenses in instructional and support functions as the College continues to achieve the State's *Closing the Gaps* initiative. The College's 2012 budget made significant progress towards stabilizing the College's financial position after a series of historic funding reductions from the State, however the College will continue to face challenges in the future to fund anticipated increases in demands for services provided by community colleges.

## **BASIC FINANCIAL STATEMENTS**

**Exhibit 1**  
**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**STATEMENTS OF NET ASSETS**  
**August 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 29,947,121	\$ 30,235,305
Restricted Cash & Cash Equivalents	10,946,442	19,022,663
Investments	12,501,266	25,008,986
Accounts Receivable (Net) (See Note 17)	22,330,224	19,268,601
Deferred Charges	9,148,578	10,558,726
Prepaid Expenses	822,066	531,963
Total Current Assets	<u>85,695,697</u>	<u>104,626,244</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	11,089,742	15,861,635
Investments	12,508,253	-
Restricted Investments	40,153,426	13,813,200
Deferred Charges	4,840,620	3,914,686
Capital Assets (Net) (See Note 6)	376,526,172	325,421,841
Total Noncurrent Assets	<u>445,118,213</u>	<u>359,011,362</u>
Total Assets	<u>530,813,910</u>	<u>463,637,606</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	5,735,299	15,967,116
Accrued Liabilities	5,977,542	9,184,274
Accrued Compensable Absences - Current Portion	2,683,420	2,693,286
Funds Held for Others	2,149,246	491,831
Deferred Revenues	44,362,483	40,478,249
Capital Leases - Current Portion	534,295	516,190
Bonds Payable - Current Portion	6,763,391	5,942,986
Total Current Liabilities	<u>68,205,676</u>	<u>75,273,932</u>
Noncurrent Liabilities:		
Accrued Compensable Absences	2,166,871	1,898,905
Deferred Revenues	609,583	704,583
OPEB Payable	1,241,605	860,798
Capital Leases	-	534,295
Bonds Payable	366,587,368	287,160,610
Total Noncurrent Liabilities	<u>370,605,427</u>	<u>291,159,191</u>
Total Liabilities	<u>438,811,103</u>	<u>366,433,123</u>

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

**Exhibit 1**  
**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**STATEMENTS OF NET ASSETS – (Continued)**  
**August 31, 2011 and 2010**

---

	<u>2011</u>	<u>2010</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	49,330,529	53,589,343
Restricted for:		
Expendable		
Scholarships	353,801	386,060
Departmental Activities	111,363	82,350
Loans	27,609	27,609
Debt Service	17,777,580	16,975,024
Unrestricted	24,401,925	26,144,097
Total Net Assets	<u>\$ 92,002,807</u>	<u>\$ 97,204,483</u>

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



**Exhibit 1A**  
**AUSTIN COMMUNITY COLLEGE DISTRICT**  
Austin, Texas

**STATEMENTS OF FINANCIAL POSITION OF ACC FOUNDATION**  
**(A Component Unit of Austin Community College District)**  
**May 31, 2011 and 2010**

---

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 749,104	\$ 585,590
Investments (Note C)	4,050,733	1,760,562
Accrued interest/dividends receivable	24,545	6,590
Promises to give (Note D)	<u>239,976</u>	<u>62,299</u>
Total assets	<u><u>5,064,358</u></u>	<u><u>2,415,041</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
 Liabilities	 <u>-</u>	 <u>-</u>
 Net assets		
Unrestricted	269,659	193,022
Temporarily restricted (Note G)	802,015	373,835
Permanently restricted (Note F)	<u>3,992,684</u>	<u>1,848,184</u>
Total net assets	<u>5,064,358</u>	<u>2,415,041</u>
Total liabilities and net assets	<u><u>\$ 5,064,358</u></u>	<u><u>\$ 2,415,041</u></u>

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

**Exhibit 2**  
**AUSTIN COMMUNITY COLLEGE DISTRICT**  
Austin, Texas

**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 \$27,782,324 and \$20,623,395, Respectively)	\$ 52,739,591	\$ 50,540,086
Federal Grants and Contracts	7,850,298	7,243,206
State Grants and Contracts	4,214,920	3,499,335
Local Grants and Contracts	336,749	382,575
Non-Governmental Grants and Contracts	1,047,028	1,027,534
Sales and Services of Educational Activities	4,394,812	4,370,390
Auxiliary Enterprises	1,243,305	1,147,105
General Operating Revenues	3,441,312	3,220,214
Total Operating Revenues (Schedule A)	<u>75,268,015</u>	<u>71,430,445</u>
<b>OPERATING EXPENSES</b>		
Instruction	116,846,968	107,781,517
Public Service	5,445,969	5,164,981
Academic Support	24,572,271	23,052,422
Student Services	24,033,999	21,871,008
Institutional Support	35,079,981	35,052,239
Operation and Maintenance of Plant	24,335,986	31,883,327
Scholarships and Fellowships	34,550,434	30,784,822
Auxiliary Enterprises	938,515	331,265
Depreciation	9,749,746	6,531,221
Total Operating Expenses (Schedule B)	<u>275,553,869</u>	<u>262,452,802</u>
Operating Loss	(200,285,854)	(191,022,357)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State Appropriations	59,097,142	59,133,878
Ad Valorem Taxes	100,785,060	104,503,979
Federal Revenue, Non Operating	48,823,118	40,321,844
Gifts	2,559	23,331
Investment Income	406,506	1,277,285
Interest on Capital Related Debt	(13,942,317)	(6,986,512)
(Losses) Gains on Disposal of Capital Assets	(87,890)	1,524
Net Non-Operating Revenues (Schedule C)	<u>195,084,178</u>	<u>198,275,329</u>
(Decrease) Increase in Net Assets	(5,201,676)	7,252,972
<b>NET ASSETS</b>		
Net Assets, Beginning of Year	<u>97,204,483</u>	<u>89,951,511</u>
Net Assets, End of Year	<u>\$ 92,002,807</u>	<u>\$ 97,204,483</u>

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

**Exhibit 2A**  
**AUSTIN COMMUNITY COLLEGE DISTRICT**  
Austin, Texas

**STATEMENTS OF ACTIVITIES OF ACC FOUNDATION**  
**(A Component Unit of Austin Community College District)**  
**For The Years Ended May 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
Revenues		
Contributions	\$ 27,854	\$ 28,008
Interest and Dividend Income	12,141	954
Investment Gains	68,369	1,796
Net Assets Released from Restrictions	474,474	551,380
Total Unrestricted Revenues	<u>582,838</u>	<u>582,138</u>
Expenses		
Program Services	492,680	403,576
General and Administrative	11,021	10,737
Fundraising	2,500	-
Total Expenses	<u>506,201</u>	<u>414,313</u>
Increase in Unrestricted Net Assets	<u>76,637</u>	<u>167,825</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	588,900	481,086
Interest and Dividend Income	62,450	52,474
Investment Gains	251,304	178,537
Net Assets Released from Restrictions	(474,474)	(551,380)
Increase in Temporarily Restricted Net Assets	<u>428,180</u>	<u>160,717</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:</b>		
Contributions	<u>2,144,500</u>	<u>168,595</u>
Increase in Permanently Restricted Net Assets	<u>2,144,500</u>	<u>168,595</u>
Change in Net Assets	2,649,317	497,137
Net Assets, Beginning of Year	2,415,041	1,917,904
Net Assets, End of Year	<u>\$ 5,064,358</u>	<u>\$ 2,415,041</u>

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

**Exhibit 3**  
**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**STATEMENTS OF CASH FLOWS**  
**For The Years Ended August 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Students and Other Customers	\$ 55,294,387	\$ 52,381,061
Receipts from Grants and Contracts	13,817,647	15,659,902
Other Receipts	7,074,239	5,730,583
Payments to or On-Behalf of Employees	(171,122,632)	(157,816,877)
Payments to Suppliers for Goods and Services	(56,386,654)	(52,987,727)
Payments for Scholarships and Fellowships	(33,140,285)	(32,524,619)
Net Cash Used in Operating Activities	<u>(184,463,298)</u>	<u>(169,557,677)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Receipts from Ad Valorem Taxes	100,790,115	104,059,866
Receipts from State Appropriations	45,838,953	46,174,618
Receipts from Title IV Federal Financial Aid Programs	48,823,118	40,321,844
Receipts from (Payments to) Student Org and Other Agency Transactions	1,657,415	(1,189,541)
Net Cash Provided by Non-Capital Financing Activities	<u>197,109,601</u>	<u>189,366,787</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds on Issuance of Capital Debt	90,159,026	41,291,765
Proceeds from the Sale of Capital Assets	1,514	13,038
Other Payments Associated with Issuance of Capital Debt	(1,390,407)	(501,747)
Purchases of Capital Assets	(63,952,184)	(91,831,877)
Payments on Capital Debt and Leases - Principal	(10,416,190)	(14,448,716)
Payments on Capital Debt and Leases - Interest	(14,326,240)	(13,226,973)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>75,519</u>	<u>(78,704,510)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from Sales and Maturities of Investments	26,285,505	88,309,732
Interest on Investments	157,592	1,112,175
Purchase of Investments	(52,301,217)	(29,000,000)
Net Cash (Used in) Provided by Investing Activities	<u>(25,858,120)</u>	<u>60,421,907</u>
(Decrease) Increase in Cash and Cash Equivalents	(13,136,298)	1,526,507
Cash and Cash Equivalents, Beginning of Year	65,119,603	63,593,096
Cash and Cash Equivalents, End of Year	<u>\$ 51,983,305</u>	<u>\$ 65,119,603</u>

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

**Exhibit 3**  
**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**STATEMENTS OF CASH FLOWS – (Continued)**  
**For The Years Ended August 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating Loss	\$ (200,285,854)	\$ (191,022,357)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities		
State On-Behalf Payments	13,258,189	12,959,260
Depreciation Expense	9,749,746	6,531,221
Other Non-Cash Adjustments	-	35,546
Changes in Assets and Liabilities:		
Receivables (Net)	(2,871,008)	(2,923,770)
Other Assets	(123,755)	(130,957)
Deferred Charges	1,410,148	(1,739,797)
Accounts Payable	(9,549,244)	1,767,846
Accrued Liabilities	(479,661)	(878,159)
Compensated Absences	258,100	399,775
OPEB Payable	380,807	283,216
Deferred Revenues	3,789,234	5,160,499
Net Cash Used in Operating Activities	<u>\$ (184,463,298)</u>	<u>\$ (169,557,677)</u>

**SCHEDULE OF NON-CASH INVESTING, CAPITAL,  
AND FINANCING ACTIVITIES:**

State On-Behalf Payments	\$ 13,258,189	\$ 12,959,260
Non-Cash Gifts	2,559	23,331
Change in Fair Value of Investments	<u>(212,861)</u>	<u>528,814</u>
Net Non-Cash Investing, Capital, and Financing Activities	<u>\$ 13,047,887</u>	<u>\$ 13,511,405</u>

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

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 1. REPORTING ENTITY**

The Austin Community College District (“the College”) was established in December 1972, in accordance with the laws of the State of Texas, to serve the educational needs of Austin and the surrounding communities, and began operation in September 1973. The College 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 College 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.

The College is a comprehensive, public, two-year institution offering academic, general, occupational, developmental, and continuing adult education programs through a network of campuses. The College is governed by a nine-member Board of Trustees (“the Board”), which has governance responsibilities over all activities related to the College.

***Blended Component Unit***

Using the criteria established by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14*, the College’s management has determined that the Austin Community College District Public Facility Corporation (“the PFC”) should be blended with the activities of the College because its sole purpose is to assist the College in financing or otherwise assisting in the acquisition of public facilities.

The PFC was incorporated on December 21, 2007 as a non-profit corporation formed under the Texas Public Facility Corporation Act. The PFC was formed for the purpose of assisting the College in financing, refinancing, providing, or otherwise assisting in the acquisition of public facilities. The PFC is governed by a nine-member Board of Directors that is the same nine-member Board of Trustees of the College. PFC does not have authority to levy taxes. Although the PFC is legally separate from the College, the PFC is reported as if it were part of the College because its sole purpose is to assist the College in the acquisition of public facilities. That is, the PFC is reported as a blended component unit in the Basic Financial Statements of the College. Financial information for the PFC may be obtained from the College’s business office.

***Discrete Component Unit***

Using the criteria established by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14*, the College’s management has determined that the Austin Community College Foundation (“the Foundation”) should be reported as a discrete component unit of the College because of the nature and significance of its relationship with the College. GASB Statement No. 39 requires reporting the Foundation as a component unit if the Foundation raises and holds economic resources for the direct benefit of the College and the Foundation is significant compared to the College.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 1. REPORTING ENTITY (Continued)**

The Foundation is a Texas nonprofit corporation chartered in 1991 to provide supplemental financial resources to advance the institutional goals and expand the educational services of the College. It is the intention of the Foundation to support educational initiatives which will enhance the quality of facilities and instruction, increase and diversify educational services, and improve accessibility to educational opportunities for students, faculty, staff, and residents of the geographic areas served by the College. The Foundation is accounted for separately in the Basic Financial Statements of the College and has a May 31 fiscal year end. The Foundation's Notes to Financial Statements are disclosed in Note 25. Complete financial statements of Austin Community College Foundation can be obtained from the business office of the College.

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

***Reporting Guidelines***

The significant accounting policies followed by the College in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the College complies with *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*.

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

***Basis of Accounting***

The financial statements of the College have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

***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 a tuition discount. If the amount is disbursed directly to the student, the amount is recorded as a scholarship expense.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Title IV, Higher Education Act (HEA) Program Funds:*

Certain Title IV HEA Program funds are received by the College to pass through to the student. These funds are initially received by the College 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.

*Tuition Remissions and Exemptions:*

Certain State or College programs provide full or partial tuition and fee exemptions to students who qualify. These remissions and exemptions are recorded as a tuition discount.

***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 College's Board adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget and subsequent amendment 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 College'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. Cash and cash equivalents that are externally restricted as to their use are classified as noncurrent assets in the Statement of Net Assets, unless they are considered to offset maturing debt and payables that has been set up as a current liability, in that case they are presented as current assets in the Statement of Net Assets. The College has designated public funds investment pools to be cash equivalents.

Board policy requires the College to maintain a minimum unrestricted, unallocated cash level of 8% of budgeted total annual expenses plus total accounts payable. The College was in compliance with this policy as of August 31, 2011 and 2010.

***Investments***

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity date greater than three months but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.



**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. Equipment with an estimated useful life less than one year is not capitalized. 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.

The following represents the capitalization threshold and useful lives for the capital asset types:

Capital Asset Type	Capitalization Threshold	Estimated Useful Life
Buildings and Building Improvements	\$ 100,000	50 Years
Infrastructure	100,000	30 Years
Other Real Estate Improvements	100,000	20 Years
Library Books	N/A	15 Years
Furniture, Machinery, Vehicles and Other Equipment	5,000	10 Years
Telecommunications and Peripheral Equipment	5,000	5 Years
Leasehold Improvements	100,000	Lease Tenure

***Net Assets***

The College's net assets are classified as follows:

*Invested in Capital Assets, Net of Related Debt:* This category represents the College's total investment in capital assets, net of related outstanding debt and accumulated depreciation.

*Restricted Net Assets, Nonexpendable:* Net Assets, such as endowments and similar type funds, which are subject to externally imposed stipulations requiring that the funds be maintained permanently by the College.

*Restricted Net Assets, Expendable:* Net Assets for which the College is legally or contractually obligated to spend in accordance with external restrictions.

*Unrestricted Net Assets:* Unrestricted Net Assets are resources that are not subject to any external restrictions and may be used at the discretion of the governing board for any lawful purpose of the College.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

***Deferred Revenues***

Tuition, fees, and other revenues received and related to periods after August 31, 2011 or 2010, respectively, have been deferred to the subsequent fiscal year.

***Estimates***

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

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

The College distinguishes operating revenues and expenses from non-operating items. The College reports as a BTA and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are State appropriations, property tax revenues, and Title IV Federal grants and contracts. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The major non-operating expenses include interest on capital related debt and losses on disposal of capital assets.

In response to guidance provided by GASB as question/answer 7.72.10 in the Implementation Guide, revenue received for federal Title IV grant programs (e.g. Pell grants) is characterized as non operating revenue as opposed to operating revenue.

**NOTE 3. AUTHORIZED INVESTMENTS**

The College is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act ("PFIA") (Sec. 2256.001 Texas Government Code). The Board 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) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than "A" by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute. During the years ended August 31, 2011 and 2010 the College was in compliance with the Public Funds Investment Act.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 4. DEPOSITS AND INVESTMENTS**

At August 31, 2011 and 2010, the College had demand deposits with the carrying amount of \$3,046,329 and \$1,536,019, respectively, and total bank balances equaled \$3,360,994 and \$2,557,861, respectively. For the fiscal year ended August 31, 2011 bank balances up to \$250,000 were covered by the Federal Deposit Insurance Corporation ("FDIC"), the standard deposit insurance amount. Additionally, from December 31, 2010 to December 31, 2012, all noninterest-bearing transactions are fully insured under Bank of America's Temporary Unlimited Coverage. Consequently, all of the College's non-interest bearing accounts at Bank of America are fully FDIC insured regardless of the amount. Because of this increased FDIC coverage, there was no need for additional collateral for the fiscal year ended August 31, 2011. For the fiscal year ended August 31, 2010 bank balances up to \$250,000 were covered by the FDIC and the remainder was collateralized by securities pledged in the College's name, held by Bank of New York serving as a third-party agent.

In addition to insurance and collateral, the College utilizes sweep agreements as a funding mechanism for its demand deposit accounts. Under this agreement the funds are maintained in a money market account in the College's name, and then swept into the demand deposit account as needed to fund disbursements. Since the funds reside in a money market fund, custodial risk is kept to a minimum, and pledged collateral is typically not needed.

As of August 31, 2011 and 2010, the College had certificates of deposits in the amount of \$37,545,393 and 29,008,986, respectively. The College requires pledged collateral with a market value of at least 102% of the par value of the deposit, and requires monthly collateral reports from each financial institution reporting the pledged securities and their market values.

***Cash and Cash Equivalents***

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

	2011	2010
Petty Cash on Hand	\$ 17,482	\$ 18,321
Demand Deposits	3,046,329	1,536,019
Money Market Mutual Funds	12,844,588	23,440,482
Investment Pools	36,074,906	40,124,781
Total Cash and Cash Equivalents	<u>\$ 51,983,305</u>	<u>\$ 65,119,603</u>

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 4. DEPOSITS AND INVESTMENTS (Continued)**

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

Investment Type	Fair Value	Weighted Average Maturity (Years)	Credit Exposure	Exposure Permitted by Investment Policy
Investment Pools	36,074,906	0.00	31.62%	80%
Money Market Mutual Funds	12,844,588	0.00	11.26%	50%
Certificates of Deposit	37,545,393	1.58	32.91%	80%
U.S. Agency Securities	27,617,552	2.19	24.21%	80%
Total Portfolio	<u>\$ 114,082,439</u>	1.05		

Reconciliation of Deposits and Investments to Statement of Net Assets:

Type of Security	Market Value August 31, 2011	Market Value August 31, 2010
Investment Pools	\$ 36,074,906	\$ 40,124,781
Money Market Mutual Funds	12,844,588	23,440,482
Cash and Deposits	3,063,811	1,554,340
Total	51,983,305	65,119,603
Investments	65,162,945	38,822,186
Total Deposits and Investments	<u>\$ 117,146,250</u>	<u>\$ 103,941,789</u>

Per Statement of Net Assets (Exhibit 1):

Cash and Cash Equivalents	\$ 29,947,121	\$ 30,235,305
Restricted Cash and Cash Equivalents (Current)	10,946,442	19,022,663
Restricted Cash and Cash Equivalents (Noncurrent)	11,089,742	15,861,635
Investments (Current)	12,501,266	25,008,986
Investments (Noncurrent)	12,508,253	-
Restricted Investments	40,153,426	13,813,200
Total Deposits and Investments	<u>\$ 117,146,250</u>	<u>\$ 103,941,789</u>

*Interest Rate Risk* - In accordance with state law and College's policy, the College does not purchase any investments with maturities greater than five years. The College manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to a maximum of one and one-half years.

*Credit Risk and Concentration of Credit Risk* - In accordance with state law and the College's investment policy, investments in investment pools must be rated at least "AAA" or "AAA-m", commercial paper must be rated at least "A-1" or "P-1", and investments in obligations from other states, municipalities, counties, etc. must be rated at least "A". The College does not limit the amount it may invest in any one issuer.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 4. DEPOSITS AND INVESTMENTS (Continued)**

As of August 31, 2011, the College had an investment of \$27,617,552 in U.S. Agency Securities. All of those securities had a Standard and Poor rating of AA+ and a Moody's rating of Aaa.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller 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 invests in securities that meet the requirements of Texas Public Funds Investment Act. Standard & Poor rates TexPool AAA-m. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor, as well as to the Office of Comptroller of Public Accounts, for review. As of August 31, 2011 and 2010, the College had an investment of \$36,074,906 and \$40,124,781, respectively, in TexPool, the Texas Local Government Investment Pool.

TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. The College reports investments in TexPool as cash and cash equivalents.

**NOTE 5. DERIVATIVES**

Derivatives are investment products that may be a security or contract that derives its value from another security, currency, commodity, or index, regardless of the source of funds used.

At August 31, 2011 and 2010, the College had not engaged in any derivative transactions either for investment purposes or as a risk management strategy.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 6. CAPITAL ASSETS**

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

	Balance September 1, 2010	Additions	Reductions	Transfers	Balance August 31, 2011
Not Depreciated					
Land	\$ 58,235,054	\$ 34,029,054	\$ -	\$ -	\$ 92,264,108
Construction in Progress	2,638,541	9,220,810	-	(5,618,057)	6,241,294
Subtotal	60,873,595	43,249,864	-	(5,618,057)	98,505,402
Other Capital Assets					
Buildings	264,445,358	15,834,827	-	(13,238,136)	267,042,049
Infrastructure	2,913,746	-	-	-	2,913,746
Land Improvements	16,605,171	-	-	18,856,193	35,461,364
Library Books	4,606,391	307,942	(86,613)	-	4,827,720
Equipment	27,626,123	1,550,848	(426,695)	-	28,750,276
Subtotal	316,196,789	17,693,617	(513,308)	5,618,057	338,995,155
Accumulated Depreciation					
Buildings	27,364,494	4,826,358	-	-	32,190,852
Infrastructure	1,359,748	97,125	-	-	1,456,873
Land Improvements	6,997,959	1,562,317	-	-	8,560,276
Library Books	1,943,388	266,546	(86,613)	-	2,123,321
Equipment	15,394,703	2,485,150	(337,291)	-	17,542,562
Subtotal	53,060,292	9,237,496	(423,904)	-	61,873,884
Net Other Capital Assets	263,136,497	8,456,121	(89,404)	5,618,057	277,121,271
Assets Under Capital Leases					
Equipment	2,561,255	-	-	-	2,561,255
Accumulated Depreciation					
Equipment	1,149,506	512,250	-	-	1,661,756
Net Assets Under Capital Lease	1,411,749	(512,250)	-	-	899,499
Net Capital Assets	\$ 325,421,841	\$ 51,193,735	\$ (89,404)	-	\$ 376,526,172

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 6. CAPITAL ASSETS (Continued)**

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

	Balance September 1, 2009	Additions	Reductions	Transfers	Balance August 31, 2010
Not Depreciated					
Land	\$ 37,547,047	\$ 20,688,007	\$ -	\$ -	\$ 58,235,054
Construction in Progress	34,551,308	72,214,292	-	(104,127,059)	2,638,541
Subtotal	<u>72,098,355</u>	<u>92,902,299</u>	<u>-</u>	<u>(104,127,059)</u>	<u>60,873,595</u>
Other Capital Assets					
Buildings	162,980,711	-	-	101,464,647	264,445,358
Infrastructure	2,913,746	-	-	-	2,913,746
Land Improvements	13,942,759	-	-	2,662,412	16,605,171
Library Books	3,847,126	970,327	(211,062)	-	4,606,391
Equipment	<u>21,086,727</u>	<u>6,958,537</u>	<u>(419,141)</u>	<u>-</u>	<u>27,626,123</u>
Subtotal	<u>204,771,069</u>	<u>7,928,864</u>	<u>(630,203)</u>	<u>104,127,059</u>	<u>316,196,789</u>
Accumulated Depreciation					
Buildings	24,184,863	3,179,631	-	-	27,364,494
Infrastructure	1,262,623	97,125	-	-	1,359,748
Land Improvements	6,462,595	535,364	-	-	6,997,959
Library Books	1,902,987	251,464	(211,063)	-	1,943,388
Equipment	<u>13,846,941</u>	<u>1,955,387</u>	<u>(407,625)</u>	<u>-</u>	<u>15,394,703</u>
Subtotal	<u>47,660,009</u>	<u>6,018,971</u>	<u>(618,688)</u>	<u>-</u>	<u>53,060,292</u>
Net Other Capital Assets	<u>157,111,060</u>	<u>1,909,893</u>	<u>(11,515)</u>	<u>104,127,059</u>	<u>263,136,497</u>
Assets Under Capital Leases					
Equipment	2,561,255	-	-	-	2,561,255
Accumulated Depreciation					
Equipment	<u>637,256</u>	<u>512,250</u>	<u>-</u>	<u>-</u>	<u>1,149,506</u>
Net Assets Under Capital Lease	<u>1,923,999</u>	<u>(512,250)</u>	<u>-</u>	<u>-</u>	<u>1,411,749</u>
Net Capital Assets	<u>\$ 231,133,414</u>	<u>\$ 94,299,942</u>	<u>\$ (11,515)</u>	<u>\$ -</u>	<u>\$ 325,421,841</u>

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 7. 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
<b>Bonds</b>					
2002 Revenue Bond	\$ 11,394,935	\$ 401,250	\$ (4,190,000)	\$ 7,606,185	\$ (421,032)
2005 Revenue Bond	23,896,056	-	(1,677,454)	22,218,602	1,661,573
2009A Revenue Bond	31,683,772	-	(347,041)	31,336,731	340,108
2009B Revenue Bond	9,364,925	-	(1,406,700)	7,958,225	1,431,334
2010 Revenue Bond	-	4,127,358	(38,393)	4,088,965	335,991
2011 Revenue Bond	-	22,225,000	-	22,225,000	-
2011A Revenue Bond	-	20,275,000	-	20,275,000	300,000
2011B Revenue Bond	-	10,050,000	-	10,050,000	-
Total Revenue Bonds	<u>76,339,688</u>	<u>57,078,608</u>	<u>(7,659,588)</u>	<u>125,758,708</u>	<u>3,647,974</u>
2003 G.O. Bond	66,840,519	-	(913,004)	65,927,515	974,251
2004 G.O. Bond	10,922,834	-	(256,394)	10,666,440	256,706
2006 G.O. Bond	18,635,920	284,780	(346,043)	18,574,657	62,788
Total G.O. Bonds	<u>96,399,273</u>	<u>284,780</u>	<u>(1,515,441)</u>	<u>95,168,612</u>	<u>1,293,745</u>
2008 Lease Revenue Bonds (PFC)	120,364,635	-	(1,411,196)	118,953,439	1,821,672
2010A Lease Revenue Bonds (PFC)	-	33,470,000	-	33,470,000	-
Total Lease Revenue Bonds (PFC)	<u>120,364,635</u>	<u>33,470,000</u>	<u>(1,411,196)</u>	<u>152,423,439</u>	<u>1,821,672</u>
Total Bonds	<u>293,103,596</u>	<u>90,833,388</u>	<u>(10,586,225)</u>	<u>373,350,759</u>	<u>6,763,391</u>
<b>Other Long-Term Liabilities</b>					
Capital Leases	1,050,485	-	(516,190)	534,295	534,295
Compensable Absences	4,592,191	7,317,398	(7,059,298)	4,850,291	2,683,420
OPEB Payable	860,798	380,807	-	1,241,605	-
Deferred Revenue	799,583	-	(95,000)	704,583	95,000
Total Other Long-Term Liabilities	<u>7,303,057</u>	<u>7,698,205</u>	<u>(7,670,488)</u>	<u>7,330,774</u>	<u>3,312,715</u>
Total Long-Term Liabilities	<u>\$ 300,406,653</u>	<u>\$ 98,531,593</u>	<u>\$ (18,256,713)</u>	<u>\$ 380,681,533</u>	<u>\$ 10,076,106</u>



**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 7. LONG-TERM LIABILITIES (Continued)**

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
<b>Bonds</b>					
1998 Revenue Bond	\$ 6,700,000	\$ -	\$ (6,700,000)	\$ -	\$ -
2000 Revenue Bond	4,515,000	-	(4,515,000)	-	-
2002 Revenue Bond	11,276,541	377,775	(259,381)	11,394,935	(129,333)
2005 Revenue Bond	24,473,944	-	(577,888)	23,896,056	1,677,454
2009A Revenue Bond	-	31,699,023	(15,251)	31,683,772	347,041
2009B Revenue Bond	-	9,392,958	(28,033)	9,364,925	1,406,700
Total Revenue Bonds	<u>46,965,485</u>	<u>41,469,756</u>	<u>(12,095,553)</u>	<u>76,339,688</u>	<u>3,301,862</u>
2003 G.O. Bond	67,389,491	-	(548,972)	66,840,519	913,004
2004 G.O. Bond	11,178,318	-	(255,484)	10,922,834	255,660
2006 G.O. Bond	18,700,289	259,313	(323,682)	18,635,920	61,263
Total G.O. Bonds	<u>97,268,098</u>	<u>259,313</u>	<u>(1,128,138)</u>	<u>96,399,273</u>	<u>1,229,927</u>
2008 Lease Revenue Bonds (PFC)	121,732,442	-	(1,367,807)	120,364,635	1,411,197
<b>Total Bonds</b>	<u>265,966,025</u>	<u>41,729,069</u>	<u>(14,591,498)</u>	<u>293,103,596</u>	<u>5,942,986</u>
<b>Other Long-Term Liabilities</b>					
Capital Leases	1,549,201	-	(498,716)	1,050,485	516,190
Compensable Absences	4,192,417	2,900,569	(2,500,795)	4,592,191	2,693,286
OPEB Payable	577,582	283,216	-	860,798	-
Deferred Revenue	894,583	-	(95,000)	799,583	95,000
Total Other Long-Term Liabilities	<u>7,213,783</u>	<u>3,183,785</u>	<u>(3,094,511)</u>	<u>7,303,057</u>	<u>3,304,476</u>
<b>Total Long-Term Liabilities</b>	<u>\$ 273,179,808</u>	<u>\$ 44,912,854</u>	<u>\$ (17,686,009)</u>	<u>\$ 300,406,653</u>	<u>\$ 9,247,462</u>

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 8. DEBT AND LEASE OBLIGATIONS**

***Lease Revenue Bonds***

On December 1, 2010, the College and the PFC entered into a Lease with an Option to Purchase agreement whereby the PFC will lease the Elgin Campus Facility to the College, and consequently the PFC issued \$33,470,000 in Lease Revenue Bonds, Taxable Series 2010A (Build America Bonds – Direct Payment). The Lease Revenue Bonds, Taxable Series 2010A were issued at par and proceeds from the Bonds will be used to finance the cost of acquisition, construction and equipment of the Elgin campus that will be used by the College. A portion of the proceeds will also be used to pay the costs of issuing the Bonds.

The College also has outstanding Lease Revenue Bonds issued in 2008 which proceeds were used to finance the costs of acquisition, construction and equipment of the Round Rock Campus and to pay the cost of issuing the Bonds.

The PFC pays Lease Revenue Bonds from the lease payments made by the College. The Lease payments are due at such times and in such amounts as will be required to timely pay the principal and interest on the Lease Revenue Bonds. The Lease Revenue Bonds, Taxable Series 2010A are due and payable in annual installments varying from \$130,000 to \$3,980,000, with interest rates varying from 3.828% to 6.523% and the final installment is due in 2035. The Lease Revenue Bonds, Series 2008 are due and payable in annual installments varying from \$1,500,000 to \$9,000,000 with interest rates varying from 5.0% to 5.5% and the final installment is due in 2033.

The obligation of the College to make lease payments is a current expense, payable solely from funds annually appropriated by the College for such use. Remedies available upon a failure of the College to appropriate or pay lease payments are limited to termination of the College's leasehold interest, the right to take possession and control of the Project, and the right to sell or lease the Project upon foreclosure.

**Build America Bonds**

The PFC designated the Lease Revenue Bonds, Taxable Series 2010A as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 the ("the Recovery Act"). The PFC will receive periodic Federal Payments from the United States Treasury equal to 35% of the interest payable on these Bonds. In order to receive Federal Payments, the PFC is required to file a form with the Internal Revenue Service prior to each interest payment date for the Bonds. The Federal payments do not constitute a full faith and credit guarantee of the United States Government, but are required to be paid by the United States Treasury under the Recovery Act. The Federal Payments will not be pledged to secure payment of the Bonds; however, the PFC has agreed to deposit all Federal Payments with respect to the Bonds to the Interest and Sinking Fund.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 8. DEBT AND LEASE OBLIGATIONS (Continued)**

***General Obligation Bonds***

There were no new issuances of General Obligation Bonds for the years ended August 31, 2011 and 2010. The General Obligation Bonds outstanding as of August 31, 2011 and 2010 were issued in 2006, 2004 and 2003. The General Obligation Bonds are direct obligations payable from ad valorem taxes levied, within the limitation prescribed by law, against all property located within the College's taxing district. Payment of the bonds will be derived from taxes levied and collected on an annual basis in an amount sufficient to pay the principal and interest when due, full allowance being made for delinquencies and collection costs. The refunding 2006 General Obligation Bonds are due and payable in annual installments varying from \$40,000 to \$1,645,000, with interest rates varying from 4.0% to 9.6% and the final installment due in 2034. The remaining 2003 and 2004 General Obligation Bonds not refunded by the 2006 bond issuance are due and payable in annual installments varying from \$250,000 to \$5,130,000, with interest rates ranging from 2.25% to 5.0% and the final installment due in 2033.

***Revenue Bonds***

On July 29, 2011, the College issued \$10,050,000 in Subordinate Lien Combined Fee Revenue Bonds, Series 2011B. The Bonds were issued to acquire the Hays campus land and to pay for the cost of issuing the Bonds. On July 1, 2011, the College issued \$20,275,000 in Combined Fee Revenue Building Bonds, Taxable Series 2011A. The proceeds of the Bonds will be used to acquire real property including property in the vicinity of Highland Mall, and renovate and improve College facilities and to pay for the cost of issuing the Bonds. On April 1, 2011, the College issued \$22,225,000 in Combined Fee Revenue Building Bonds, Taxable Series 2011. The proceeds of the bonds will be used to pay for the acquisition, construction, and improvement of property, buildings and facilities for the College, including a substantial portion of the Highland Mall, and to pay the costs of issuance for the Bonds. And on October 15, 2010, the College issued \$3,860,000 Combined Fee Revenue Refunding Bonds, Series 2010. The Bonds were issued to refund all the callable outstanding 2002 Bonds and to pay for the costs of issuing the Bonds.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 8. DEBT AND LEASE OBLIGATIONS (Continued)**

Repayment of the revenue bond indebtedness is collateralized by a first lien on a pledge of certain tuition and fees described below. The bond indentures for all outstanding Revenue Bonds require that the College deposit into an interest and sinking fund the following: 1) Tuition Fee pledged at the maximum amount permitted by Section 130.123 of the Texas Education Code, as amended. Section 130.123 currently limits the maximum pledge to an amount equal to 25% of all tuition collections; 2) the General Fee of \$13 per semester credit hour from all nonexempt students for each semester and summer term; and 3) investment income derived from any and all funds. Such pledged tuition and fees amounted to \$27,761,102 and \$24,934,901 for the years ended August 31, 2011 and 2010, respectively. The pledged amount equates to 36.3% and 36.9% of the above revenue streams, respectively. The actual debt service payment for those years was \$6,616,939 and \$5,523,742, respectively. Compared to the minimum required pledge to debt service coverage ratio of 1.25, the actual coverage ratio was 4.20 and 4.51, respectively. Revenue bonds payable are due in annual installments varying from \$125,000 to \$10,050,000, with interest rates ranging from 0.711% to 5.767% and the final installment due in 2036. The College has complied with all significant bond covenants for the years ended August 31, 2011 and 2010.

The debt service requirement at August 31, 2011 is summarized below:

	<u>General Obligation Bonds</u>		<u>Combined Fee Revenue Bonds</u>		<u>Lease Revenue Bonds</u>	
For the Year Ended August 31,	Principal	Interest	Principal	Interest	Principal	Interest (1)
2012	1,430,000	3,998,396	3,895,000	4,982,737	1,500,000	7,582,913
2013	2,105,000	3,950,996	14,100,000	4,862,778	1,960,000	7,504,163
2014	2,640,000	3,866,796	4,170,000	4,575,257	2,460,000	7,401,263
2015	2,680,000	3,756,046	4,315,000	4,442,095	2,970,000	7,272,113
2016	3,450,000	3,624,897	7,546,421	4,716,134	3,460,000	7,119,778
2017-2021	15,038,659	16,549,181	37,846,346	18,693,915	24,225,000	32,418,340
2022-2026	22,800,000	12,550,369	21,621,749	14,490,821	34,550,000	25,011,362
2027-2031	28,250,000	7,098,563	20,295,000	4,155,269	47,825,000	15,090,962
2032-2036	14,770,000	1,095,456	7,830,000	1,180,793	31,395,000	3,023,593
SubTotal	\$93,163,659	\$56,490,700	\$121,619,516	\$62,099,799	\$150,345,000	\$112,424,487
Net premium	866,858	-	1,115,067	-	2,078,439	-
Accreted Interest	1,138,095	-	3,024,125	-	-	-
Total	<u>\$95,168,612</u>	<u>\$56,490,700</u>	<u>\$125,758,708</u>	<u>\$62,099,799</u>	<u>\$152,423,439</u>	<u>\$112,424,487</u>

Note:

(1) Future interest amount is shown net of "Build America Bonds" Federal subsidy. As "Build America Bonds," the PFC will receive periodic Federal Payments from the United States Treasury equal to 35% of the interest payable on its Lease Revenue Bonds, Taxable Series 2010A.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 8. DEBT AND LEASE OBLIGATIONS (Continued)**

General information related to general obligation, revenue and lease revenue bonds payable is summarized below:

**General Obligation Bonds:**

- Limited Tax Bonds Refunding, Series 2006.
  - To refund a portion of Series 2003 and 2004 bonds.
  - Issued December 12, 2006.
  - Total authorized \$17,573,659; \$15,530,000 Current Interest Bonds and \$2,043,659 Capital Appreciation Bonds; all authorized bonds have been issued.
  - Source of revenue for debt service is ad valorem taxes.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$16,203,659 and \$16,443,659, respectively.
- Limited Tax Bonds, Series 2004.
  - To construct, renovate and equip college buildings district-wide, including phase 2 of the Health Careers Building, construction of the South Austin campus, parking and other such improvements as determined by the College.
  - Issued June 30, 2004.
  - Total authorized \$99,000,000; \$23,910,000 issued.
  - Source of revenue for debt service is ad valorem taxes.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$10,645,000 and \$10,895,000, respectively.
- Limited Tax Bonds, Series 2003.
  - To construct, renovate and equip college buildings district-wide, including student parking and other such improvements as determined by the College.
  - Issued July 10, 2003.
  - Total authorized \$99,000,000; \$75,000,000 issued.
  - Source of revenue for debt service is ad valorem taxes.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$66,315,000 and \$67,180,000, respectively.

**Combined Fee Revenue Bonds:**

- Subordinate Lien Combined Fee Revenue Bonds, Series 2011B.
  - To acquire land for Hays Campus construction.
  - Issued July 29, 2011.
  - Total authorized \$10,050,000; all authorized bonds have been issued.
  - Source of revenue for debt service is tuition and general fees.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$10,050,000 and \$0, respectively.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 8. DEBT AND LEASE OBLIGATIONS (Continued)**

- Combined Fee Revenue Building Bonds, Taxable Series 2011A.
  - To acquire real property and renovate and improve college facilities including real property in the vicinity of Highland Mall.
  - Issued July 1, 2011.
  - Total authorized \$20,275,000; all authorized bonds have been issued.
  - Source of revenue for debt service is tuition and general fees.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$20,275,000 and \$0, respectively.
- Combined Fee Revenue Building Bonds, Taxable Series 2011.
  - To acquire real property and renovate and improve college facilities including acquiring a substantial portion of Highland Mall.
  - Issued April 1, 2011.
  - Total authorized \$22,225,000; all authorized bonds have been issued.
  - Source of revenue for debt service is tuition and general fees.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$22,225,000 and \$0, respectively.
- Combined Fee Revenue Refunding Bonds, Series 2010.
  - To refund all the callable outstanding Series 2002 Bonds.
  - Issued October 15, 2010.
  - Total authorized \$3,860,000; all authorized bonds have been issued.
  - Source of revenue for debt service is tuition and general fees.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$3,860,000 and \$0, respectively.
- Combined Fee Revenue Building Bonds, Series 2009A.
  - To acquire real property and renovate and improve college facilities.
  - Issued November 1, 2009.
  - Total authorized \$31,510,000; all authorized bonds have been issued.
  - Source of revenue for debt service is tuition and general fees.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$31,180,000 and \$31,510,000, respectively.
- Combined Fee Revenue Refunding Bonds, Series 2009B.
  - To refund the remaining 1998 and 2000 Series bonds.
  - Issued November 1, 2009.
  - Total authorized \$9,300,000; all authorized bonds have been issued.
  - Source of revenue for debt service is tuition and general fees.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$7,920,000 and \$9,300,000, respectively.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 8. DEBT AND LEASE OBLIGATIONS (Continued)**

- Combined Fee Revenue Refunding Bonds, Series 2005.
  - To refund a portion of Series 2000 bonds, and the remaining 1995 Series bonds.
  - Issued April 21, 2005.
  - Total authorized \$25,255,000; all authorized bonds have been issued.
  - Source of revenue for debt service is tuition and general fees.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$21,525,000 and \$23,090,000, respectively.
- Combined Fee Revenue Refunding Bonds, Series 2002.
  - To purchase, acquire, renovate, construct and equip college facilities and to refund the remaining 1992 Series bonds.
  - Issued April 3, 2002.
  - Total authorized \$10,389,516; \$5,805,000 Current Interest Bonds and \$4,584,516 Capital Appreciation Bonds; all authorized bonds have been issued.
  - Source of revenue for debt service is tuition and general fees.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$4,584,516 and \$8,774,516, respectively.

**Lease Revenue Bonds:**

- Lease Revenue Bonds, Taxable Series 2010A (Build America Bonds – Direct Payment).
  - To finance the cost of acquisition, construction and equipment of the Elgin Campus.
  - Issued December 1, 2010.
  - Total authorized \$33,470,000; all authorized bonds have been issued.
  - Source of revenue for debt service is lease payments in amounts required by lease purchase agreement between the College and the PFC.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$33,470,000 and \$0, respectively.
- Lease Revenue Bonds, Series 2008.
  - To finance the cost of acquisition, construction and equipment of the Round Rock Campus.
  - Issued August 1, 2008.
  - Total authorized \$118,980,000; \$93,305,000 Serial Bonds and a \$25,675,000 2033 Term Bond; all authorized bonds have been issued.
  - Source of revenue for debt service is lease payments in amounts required by lease purchase agreement between the College and the PFC.
  - Outstanding principal balance as of August 31, 2011 and 2010 is \$116,875,000 and \$117,955,000, respectively.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 8. DEBT AND LEASE OBLIGATIONS (Continued)**

***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. The College had no arbitrage liability for the years ended August 31, 2011 and 2010.

***Capital Leases***

As of August 31, 2011 and 2010 the College made annual lease payments for capital leased property of \$553,057.

Obligations under capital leases at August 31, 2011, were as follows:

	<u>Total</u>
For the year ended August 31, 2012	<u>\$ 553,057</u>
Total Minimum Lease Payments	\$ 553,057
Less: Amount Representing Interest Costs	<u>(18,762)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 534,295</u></u>

***Interest Expense***

For the year ended August 31, 2011, the College incurred \$15,126,263 in interest cost, of which \$13,942,317 was expensed and \$1,183,946 was capitalized. For the year ended August 31, 2010, the College incurred \$13,645,853 in interest cost, of which \$6,986,512 was expensed and \$6,659,341 was capitalized.



**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 9. DEFEASED BONDS OUTSTANDING**

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

<u>Bond Issued</u>	<u>Year Refunded</u>	<u>2011 Par Value Outstanding</u>	<u>2010 Par Value Outstanding</u>
Limited Tax Bonds, Series 2004	2006	\$ 12,265,000	\$ 12,265,000
Limited Tax Bonds, Series 2003	2006	<u>5,320,000</u>	<u>5,320,000</u>
		<u>\$ 17,585,000</u>	<u>\$ 17,585,000</u>

On October 15, 2010, the College issued Combined Fee Revenue Refunding Bonds, Series 2010. The par value was \$3,860,000 and they were issued for the refunding of all the callable outstanding Series 2002 Bonds. The present value of the net refunding gain was \$384,517. The total cash flows to service the refunded bonds and cash flows required to service the refunding bonds as of the effective date of the refunding were \$5,246,875 and \$4,824,147, respectively.

On November 1, 2009, the College issued Combined Fee Revenue Refunding Bonds, Series 2009B. The par value was \$9,300,000 and they were issued for the refunding of certain outstanding Series 1998 Bonds and Series 2000 Bonds. The present value of the net refunding gain was \$755,205. The total cash flows to service the refunded bonds and cash flows required to service the refunding bonds as of the effective date of the refunding were \$11,366,381 and \$10,503,120, respectively.

**NOTE 10. OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS**

The College leases various classrooms, offices, parking lots, and equipment under Rental Agreements. These agreements have clauses which allow the College to terminate the agreement if funding becomes unavailable or the Board does not approve funding. Rental payments during the fiscal year ended August 31, 2011 and 2010 were \$1,440,528 and \$1,900,050, respectively.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 10. OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS (Continued)**

The lease with the City of Austin (see Note 18) is the only non-cancelable lease for the College, and the future minimum rental payments are as follows:

For the Year Ending August 31,	Total
2012	\$ 70,000
2013	70,000
2014	70,000
2015	70,000
2016	70,000
2017-2019	210,000
Total Future Minimum Lease Payments	<u>\$ 560,000</u>

**NOTE 11. EMPLOYEES' RETIREMENT PLANS**

***Defined Benefit Plan***

The State of Texas ("the State") has joint contributory retirement plans for almost all of its employees. One of the primary plans in which the College participates is administered by the Teacher Retirement System of Texas (TRS), a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: all risks and costs are not shared by the employer but are the liability of the State. TRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees covered under the plan. It operates primarily under the provisions of Texas Constitution, Article XVI § 67 and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapter 803 and Chapter 805, respectively. Structure, benefits and contributions are established by state statute. State law provides a state contribution rate of 6.644%, 6.644% and 6.58% for fiscal years 2011, 2010, and 2009, respectively, and a member contribution rate of 6.4%. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy:

- (1) The state constitution requires legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during that fiscal year.
- (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's 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.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 11. EMPLOYEES' RETIREMENT PLANS (Continued)**

All College employees, except those employed less than one-half the standard workload, those exempted by law, and those participating in the Optional Retirement Program (ORP) are required to participate in TRS. Some employees, like physical plant or grant funded employees, are not funded by the State and therefore the College funds TRS for these employees.

The State's, the College's, and the participants' combined contributions to TRS were \$11,397,994, \$10,273,134, and \$9,437,797 for the years ended August 31, 2011, 2010, and 2009, respectively. These contributions represent 100% of the annual required contributions for each year. For the years ended August 31, 2011, 2010, and 2009, TRS contributions made by employees were \$5,570,098, \$5,079,637, and \$4,657,045, respectively; contributions made by the State were \$5,360,013, \$4,773,837, and \$4,351,598, respectively; and the expense to the College was \$467,883, \$419,660, and \$429,154, respectively. Total payroll for employees covered by the System for the years ended August 31, 2011, 2010, and 2009 was \$87,041,567, \$79,369,464, and \$72,775,648, respectively.

TRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Road, Austin, Texas 78701, by calling 1-800-223-8778, or by downloading the report from the TRS internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

***Defined Contribution Retirement Plans***

The State has also established the ORP for institutions of higher education that is subject to amendment by the Texas Legislature. Participation in the ORP is in lieu of participation in the TRS. The ORP provides for the purchase of annuity contracts as individual retirement accounts and is a defined contribution plan. For fiscal years 2011 and 2010, the employee contribution rate is 6.65% and the State contribution rate is 6.40%. For those employees hired prior to September 1, 1995, the College contributes an additional 2.10% for the fiscal years ended August 31, 2011 and 2010. For the years ended August 31, 2011 and 2010, ORP contributions made by employees were \$2,070,438 and \$2,029,376, respectively; contributions made by the State were \$1,986,852 and \$1,940,123, respectively; and the expense to the College was \$2,395,611 and \$2,359,201, respectively. Total payroll of employees participating in ORP for the fiscal years ended August 31, 2011 and 2010 are \$31,135,270 and \$30,517,232, respectively.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 11. EMPLOYEES' RETIREMENT PLANS (Continued)**

In addition, the College has established a defined contribution Money Purchase Plan for part-time employees, called the Part-Time Employees Retirement System (PTERS). To be eligible for participation in the PTERS, an employee must complete one hour of service in a service period. Participation in this plan is in lieu of participation in the TRS or the ORP. Under the PTERS, the College is required to withhold from an employee's compensation 6% and match an amount equal to 1.5% of the employee's total compensation for a combined contribution of 7.5% of the employee's total annual compensation. The College has contracted with Ohio National Life Insurance Company to administer the PTERS. The College maintains the authority to amend plan provisions and contributions of the PTERS. For the years ended August 31, 2011 and 2010, PTERS contributions made by employees were \$2,170,178 and \$1,960,658; and the expense to the College was \$542,571 and \$490,184, respectively. Total payroll of employees participating in PTERS for the fiscal years ended August 31, 2011 and 2010 are \$36,169,987 and \$32,677,895, respectively.

The College has no additional or unfunded liabilities for these plans.

**NOTE 12. HEALTHCARE AND LIFE INSURANCE BENEFITS**

In addition to the pension benefits described in Note 11, the State provides certain health care and life insurance benefits for most active and retired employees. Some employees, like physical plant or grant funded employees, are not funded by the State and therefore the College funds the benefits for these employees. The State appropriates a sum-certain amount for these benefits to the College based on employee enrollments during the legislative cycle, and any additional expense must be funded by the College. These benefits are administered by the Employee Retirement System of Texas and provided through an insurance company whose premiums are based on benefits paid during the previous year.

For the year ended August 31, 2011, the State's maximum contribution per full-time employee was \$438 per month for the year and totaled \$5,254 per employee for the year. The State also paid a maximum amount for a spouse, child(ren), or family of \$688, \$606, and \$856 per month, respectively. The total cost of providing those benefits for the year was \$1,217,188 for 260 retirees and \$11,785,284 for 2,196 active employees.

For the year ended August 31, 2010, the State's maximum contribution per full-time employee was \$429 per month for the year and totaled \$5,150 per employee for the year. The State also paid a maximum amount for a spouse, child(ren), or family of \$675, \$594, and \$839 per month, respectively. The total cost of providing those benefits for the year was \$1,182,778 for 243 retirees and \$10,204,897 for 2,066 active employees.

Of the costs above, the health insurance expense to the State on-behalf of the College was \$7,898,176 and \$8,185,423 for the fiscal years ended August 31, 2011 and 2010, respectively. The expense to the College was \$5,104,296 and \$3,202,252 for the fiscal years ended August 31, 2011 and 2010, respectively.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 13. ON-BEHALF PAYMENTS**

For the fiscal years ended August 31, 2011 and 2010 the College recorded State on-behalf contributions for the Teacher's Retirement System of \$5,360,013 and \$4,773,837, respectively, and contributions for the Optional Retirement Program of \$1,986,852 and \$1,940,123, respectively. The Optional Retirement Program contributions are received as cash reimbursements from the State for payments made by the College to the respective investment funds on behalf of the employees.

The College recorded State on-behalf contributions for health insurance of \$7,898,176 and \$8,185,423 for the fiscal years ended August 31, 2011 and 2010, respectively. These were non-cash, on-behalf contributions.

The State's total on-behalf contributions for the fiscal years ended August 31, 2011 and 2010 of \$15,245,041 and \$14,899,383, respectively, were recorded as revenues and expenses in the accompanying basic financial statements.

**NOTE 14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

***Retiree Medical Insurance - Plan Description***

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

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

***Retiree Medical Insurance - Funding Policy***

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

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS board of trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

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

The employer contribution for the retiree medical insurance is funded by the State as an on-behalf contribution. The State's on-behalf contributions to SRHP for the years ended August 31, 2011, 2010, and 2009, were \$1,217,188, \$1,182,778, and \$1,042,227, respectively.

***Retiree Dental Care – Plan Description***

The College has elected to reimburse retirees' cost of dental benefits received through the State's SRHP. The College refers to the reimbursement program as the "Retiree Dental Care Plan" and it is considered a single employer plan. Retirees that elect to receive dental benefits, make direct contributions to the SRHP. The College then reimburses the retiree quarterly for the cost of their contribution to the SRHP. There are no stand alone reports associated with this plan.

***Retiree Dental Care – Funding Policy Annual OPEB Cost***

The College reimburses 100% of the retirees cost of the dental benefits provided by the SRHP. These costs are funded on a pay-as-you-go basis. A retired employee becomes eligible for dental benefits upon retirement from the College assuming they meet the eligibility requirements for participation in the SRHP. The College's annual cost per retiree was \$269.52, \$269.52, and \$264.96 for the years 2011, 2010, and 2009, respectively. The total annual contributions made by the College were \$53,082, \$50,694, and \$48,207 for the years 2011, 2010, and 2009, respectively.

***Retiree Dental Care – Net OPEB Obligation***

The College's annual other post employment benefits (OPEB) cost related to the "Retiree Dental Care Plan" is calculated based on the annual required contributions of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

The College's annual OPEB cost for the years ended August 31, 2011, 2010, and 2009 is as follows:

	2011	2010	2009
Annual Required Contribution (ARC)	\$ 433,889	\$ 333,910	\$ 333,910
Interest on OPEB Obligation	-	-	-
Adjustment to ARC	-	-	-
Annual OPEB Cost, End of Year	\$ 433,889	\$ 333,910	\$ 333,910
Employer contributions	53,082	50,694	48,207
Increase in net OPEB obligation	\$ 380,807	\$ 283,216	\$ 285,703
Net OPEB Obligation, Beginning of Year	860,798	577,582	291,879
Net OPEB Obligation, End of Year	<u>\$ 1,241,605</u>	<u>\$ 860,798</u>	<u>\$ 577,582</u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended August 31, 2001, 2010, and 2009 are as follows:

Fiscal Year Ended	Net OPEB Obligation Beginning of Year	Annual OPEB Cost	Employer Contributions	Net OPEB Obligation End of Year	Annual OPEB Cost Contributed
2011	\$ 860,798	\$ 433,889	\$ 53,082	\$ 1,241,605	12.23%
2010	577,582	333,910	50,694	860,798	15.18%
2009	291,879	333,910	48,207	577,582	14.44%

***Funding Status and Funding Progress***

The funded status of the College's retiree dental care plan, under GASB Statement No. 45 as of August 31, 2011, 2010, and 2009 is as follows:

Actuarial Valuation Date as of August 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll
2011	\$ -	\$ 4,112,179	\$ 4,112,179	0%	\$ 118,176,838	3.48%
2010	-	3,190,301	3,190,301	0%	109,886,696	2.90%
2009	-	3,190,301	3,190,301	0%	102,919,712	3.10%

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

***Actuarial Methods and Assumptions***

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the College's retiree dental care plan. Using the plan benefits, the present dental premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of dental benefits are based on the plan as understood by the College and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the College and the College's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions for the years ended August 31, 2011, 2010, and 2009 were as follows:

Actuarial Methods and Assumptions	
Investment Rate of Return	4.50% Net of Expenses
Actuarial Cost Method	Projected Unit Credit Cost Method
Amortization Method	Level as a Percentage of Employee Payroll
Salary Growth Rate	3.0% per Year
Dental Trend	3.0% per Year

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the College's retiree dental care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**NOTE 15. COMPENSABLE ABSENCES**

Full-time employees earn annual leave from 10 to 13.34 hours per month, depending on the number of years employed with the College. The College's policy is that classified, professional-technical or administrative employees may accrue up to 240 hours of annual leave.

Sick leave, which is limited to a maximum of 1,200 hours, is earned at the rate of eight (8) hours per month. The maximum sick leave that may be paid to an employee when he retires or otherwise terminates employment is one-half of the employee's accumulated entitlement in excess of 960 hours. The College's policy is to recognize the cost of sick leave when earned, which provides for the College's maximum vested liability.



**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 15. COMPENSABLE ABSENCES (Continued)**

For the fiscal years ended August 31, 2011 and 2010 the College recognized \$4,850,291 and \$4,592,191, respectively, as an accrued liability for the unpaid annual and sick leave. The College's reporting of accrued liabilities for compensable absences is in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The total amount accrued at August 31, 2011, of \$4,850,291 is allocated \$957,812 to sick leave and \$3,892,479 to annual leave. The total amount accrued at August 31, 2010, of \$4,592,191 is allocated \$903,501 to sick leave and \$3,688,690 to annual leave.

**NOTE 16. PENDING LAWSUITS AND CLAIMS**

On August 31, 2011 and 2010, various lawsuits and claims involving the College were pending. While the ultimate liability with respect to litigation and other claims asserted against the College cannot be reasonably estimated at this time, this liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the College.

The College receives federal, state and local grants that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. The College's management believes such disallowances, if any, will not have a material effect on the basic financial statements.

**NOTE 17. DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES**

***Receivables***

Accounts Receivable at August 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Tuition and Fees Receivable (net of allowance for doubtful accounts of \$4,333,552 and \$3,782,340)	\$ 16,281,596	\$ 12,900,340
Taxes Receivable (net of allowance for doubtful accounts of \$275,007 and \$275,512)	2,475,062	2,479,611
Contracts and Grants Receivable	3,013,303	3,530,419
Investment Income Receivable	378,744	183,075
Other Receivable	<u>181,519</u>	<u>175,156</u>
Total Receivables	<u>\$ 22,330,224</u>	<u>\$ 19,268,601</u>

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 17. DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES**  
**(Continued)**

***Payables***

Payable balances at August 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Payable to Vendors	\$ 5,735,299	\$ 15,967,116
Salaries and Benefits Payable	3,082,667	2,995,111
Payable to Students	1,227,949	1,112,593
Accrued Interest Payable	1,447,369	1,099,955
Construction Retainage	<u>219,557</u>	<u>3,976,615</u>
Total Payables	<u>\$ 11,712,841</u>	<u>\$ 25,151,390</u>

**NOTE 18. DEFERRED REVENUE – CITY OF AUSTIN LEASE**

In 1997, the College and the City of Austin (“the City”) desired to jointly develop a “One Stop Career Center” to more efficiently coordinate the training and employment of individuals needing specialized vocational job training and educational opportunities. In order to accomplish and develop the Center, the College and the City executed several lease agreements that allowed the City to provide money to the College for the construction of the One Stop Career Center as part of the College’s development of its Eastview Campus.

The College entered into a lease with the City for a portion of the Eastview Campus. The College and the City then entered into a sublease agreement in connection with the lease-back of the premises to the College. This lease-back allowed the College to enter into a second sublease with the Capital Area Workforce Development Board for the ultimate purpose of providing work space for the One Stop Career Center. All leases are effective February 1, 1999 through January 31, 2019.

The City funded this lease with funds received from the United States Department of Housing and Urban Development, and it discounted the cost of the rent payment under the Sublease Agreement with the College as a grant to enable the College to reduce the cost of its sublease to the Capital Area Workforce Development Board for the One Stop Career Center project.

The College and the City agreed that the City would begin paying an annual base rent of \$95,000 once the building was completed, or by May 31, 2000. As a result of the prime lease, the City prepaid the entire twenty year annual base rent of \$1,900,000 to the College. For the years ended August 31, 2011 and 2010, the College has recognized \$95,000 each year as lease payments. The remaining liability is recorded as deferred revenue for the fiscal years ended August 31, 2011 and 2010 in the amounts of \$704,583 and \$799,583, respectively.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 19. FUNDS HELD FOR OTHERS**

The College holds funds for certain student organizations and other agencies. These amounts are reflected in the basic financial statements as funds held for others in the amount of \$2,149,246 and \$491,831 for the fiscal years ended August 31, 2011 and 2010, respectively.

**NOTE 20. 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 recognized on *Statements of Revenues, Expenses and Changes in Net Assets* (Exhibit 2), *Schedule of Operating Revenues* (Schedule A) and *Schedule of Non-Operating Revenues and Expenses* (Schedule C). Contract and grant awards for which funds are expended but not yet collected are included in Accounts Receivable in the *Statement of Net Assets* (See Contracts and Grants Receivable, Note 17). Contract and grant awards that are not yet funded or expended are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years ended August 31, 2011 and 2010 for which no expenses have been incurred totaled \$7,218,871 and \$12,179,880, respectively.

These amounts are comprised of the following:

	<u>2011</u>	<u>2010</u>
Federal Contracts and Grant Awards	\$ 3,687,645	\$ 8,434,912
State Contracts and Grant Awards	3,335,782	3,595,026
Local Contracts and Grant Awards	48,613	144,381
Private Contracts and Grant Awards	146,831	5,561
Total Contract and Grant Awards	<u>\$ 7,218,871</u>	<u>\$ 12,179,880</u>

**NOTE 21. PROPERTY TAXES**

The College'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 College's taxing jurisdiction. The College's Taxable Assessed Values for the years ended August 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Appraised Valuation	\$ 124,833,359,961	\$ 130,105,839,286
Less: Exemptions	(19,963,728,179)	(21,074,859,539)
Less: Abatements	-	-
Taxable Assessed Value	<u>\$ 104,869,631,782</u>	<u>\$ 109,030,979,747</u>

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 21. PROPERTY TAXES (Continued)**

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

Fiscal Year 2011:

	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Tax Rate per \$100 valuation Authorized	\$ 0.0900	\$ 0.5000	\$ 0.5900
Tax Rate per \$100 valuation Assessed	<u>\$ 0.0900</u>	<u>\$ 0.0051</u>	<u>\$ 0.0951</u>

Fiscal Year 2010:

	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Tax Rate per \$100 valuation Authorized	\$ 0.0900	\$ 0.5000	\$ 0.5900
Tax Rate per \$100 valuation Assessed	<u>\$ 0.0900</u>	<u>\$ 0.0046</u>	<u>\$ 0.0946</u>

Taxes levied for the years ended August 31, 2011 and 2010 are \$100,446,970 and \$104,074,010, respectively (which includes adjustments for the year, 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. On January 1 of each year a tax lien attaches to property to secure payment of all taxes, penalties, and interest.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 21. PROPERTY TAXES (Continued)**

Taxes collected for the years ended August 31, 2011 and 2010, are as follows:

Fiscal Year 2011:

	Current Operations	Debt Service	Total
Current Taxes Collected	\$ 94,219,850	\$ 5,336,122	\$ 99,555,972
Delinquent Taxes Collected	468,537	26,535	495,072
Penalties & Interest Collected	636,407	36,043	672,450
Other Tax Related Collections	63,050	3,571	66,621
Total Collections	<u>\$ 95,387,844</u>	<u>\$ 5,402,271</u>	<u>\$100,790,115</u>

Fiscal Year 2010:

	Current Operations	Debt Service	Total
Current Taxes Collected	\$ 98,044,742	\$ 5,016,826	\$103,061,568
Delinquent Taxes Collected	372,712	19,071	391,783
Penalties & Interest Collected	484,777	24,805	509,582
Other Tax Related Collections	92,214	4,719	96,933
Total Collections	<u>\$ 98,994,445</u>	<u>\$ 5,065,421</u>	<u>\$104,059,866</u>

Tax collections for the years ended August 31, 2011 and 2010 are 99.11% and 98.93%, respectively, of the current tax levy. The allowance for uncollectible property taxes amounted to \$275,007 and \$275,512 for the years ended August 31, 2011 and 2010, respectively. The use of debt service tax proceeds is restricted for the retirement of general obligation bonds.

**NOTE 22. INCOME TAXES**

The College 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 College had no unrelated business income tax liability for the fiscal years ended August 31, 2011 and 2010.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 23. GREATER AUSTIN AREA TELECOMMUNICATIONS NETWORK**

The College entered into a telecommunications network interlocal agreement with the Austin Independent School District, Travis County, the State of Texas, the University of Texas System, and the City of Austin ("the Participants") to provide a governmental communications network linking each of the Participants' facilities. The Participants formed the Greater Austin Area Telecommunications Network Interlocal Agency to manage the network. No compensation is paid to any entity for use of the network. Instead, the cost of the construction of the network and use of the network is allocated among the owners on the basis of their respective interests.

**NOTE 24. CONSTRUCTION COMMITMENT**

The College has entered into construction commitments for various projects including the renovation of facilities and the construction of buildings. At August 31, 2011 and 2010, the outstanding commitments under construction contracts for facilities and other projects are \$3,596,372 and \$4,273,222, respectively.

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**

Complete financial statements of Austin Community College Foundation can be obtained from the College's Business Office.

***Notes to the Foundation Financial Statements***

The following footnotes are excerpted from the Foundation's audited financial statements dated May 31, 2011:

**A: ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**1. Organization and Nature of Activities**

Austin Community College Foundation (Foundation) is a Texas non-profit corporation chartered in 1991 to provide supplemental financial resources to advance the institutional goals and expand the education services of the Austin Community College District (ACC). The mission of the Foundation is to support educational initiatives which will enhance the quality of facilities and instruction, increase and diversify educational services, and improve accessibility to educational opportunities for students, faculty, staff and residents of the geographic areas served by ACC.

The Foundation is organized exclusively to support ACC and its programs and is considered a component unit by ACC. As such, the financial statements of the Foundation are included within the financial statements of ACC.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**  
**(Continued)**

**A: ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

3. Basis of Presentation

Financial statement presentation follows the guidance of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*. Under these standards, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

4. Cash Equivalents

The Foundation considers checking accounts, saving accounts, money market funds and certificates of deposits with initial maturities of three months or less to be cash equivalents.

5. Investments

The Foundation records investments using the guidance of FASB ASC 958-320, *Not-for-Profit Entities: Investments – Debt and Equity Securities*. Investments are stated at their readily determinable fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

6. Contributions

The Foundation records contributions using the guidance of FASB ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. As donor or time restrictions are satisfied, net assets are reclassified to unrestricted net assets. The Foundation's policy is to report restricted support that is satisfied in the year of receipt as restricted and then released in the same year.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**  
**(Continued)**

**A: ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**7. Functional Expenses**

Expenses are categorized by function as either (1) program services, (2) general and administrative, or (3) fundraising expenses. Expenses that are specifically identifiable to a function are allocated entirely to that function. Expenses that are not specifically identifiable to a function are allocated based upon management's estimate of time and resources devoted to the function.

**8. Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**B: TAX EXEMPT STATUS**

The Foundation is generally exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). The Foundation has also been determined not to be a private foundation within the meaning of Section 509(a) of the Code because it is an organization described in Section 509(a)(1) and 170(b)(1)(A)(vi). Therefore, no provision for income taxes has been included in these financial statements.

The tax years 2007 through 2010 remain open to examination by the major taxing jurisdictions in which returns are filed.

**C: INVESTMENTS**

Investments comprised the following at May 31,

	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 2,331,622	\$ 1,032,426
Corporate bonds	1,542,568	467,660
Government securities	126,673	182,871
Certificates of deposit	49,870	-
Equity securities	<u>-</u>	<u>77,605</u>
	<u>\$ 4,050,733</u>	<u>\$ 1,760,562</u>



**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**  
**(Continued)**

**C: INVESTMENTS (Continued)**

Investments held by the Foundation's brokerage firm are insured by the Securities Investor Protection Corporation (SIPC) for loss, theft, or destruction of securities while in the brokerage firm's custody. In the event of a brokerage firm's failure, coverage is provided for up to \$500,000. This coverage does not protect against market risks and fluctuations associated with normal market investments.

**D: PROMISES TO GIVE**

The promises to give balances as of May 31, 2011 and 2010 were considered fully collectible. Therefore, no allowances for uncollectible balances are reflected in these financial statements. Due to the immaterial amounts of discounts calculated as of May 31, 2011 and 2010, no discounts to present value are reflected in these financial statements. Promise to give comprised the following at May 31,

	2011	2010
Collection expected in less than one year	\$ 79,043	\$ 62,299
Collection expected in one to five years	160,933	-
Promises to give, gross	239,976	62,299
Less discounts to present value	-	-
Less allowances for uncollectible balances	-	-
Promises to give, net	<u>\$ 239,976</u>	<u>\$ 62,299</u>

**E: RESTRICTIONS ON NET ASSETS**

Permanently restricted net assets were primarily comprised of endowed scholarships. Temporarily restricted net assets were comprised of investment income related to endowment funds that must be spent according to the respective endowment agreements and contributions that are not endowments, but must be used in accordance with the respective donors' restrictions. Following are descriptions of restrictions relating to selected permanently and temporarily restricted net asset balances.

***ACC Counseling Services Endowed Scholarship***

Provide recognition to ACC students who seek professional guidance in achieving their educational goals.

***AMD/Gary Heerssen Memorial Scholarship***

Provide recognition and financial assistance to ACC students enrolled in the electronics program.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**  
**(Continued)**

**E: RESTRICTIONS ON NET ASSETS (Continued)**

***Denius/Schulman Commercial Music Management Endowed Scholarship***

Provide recognition and financial assistance to ACC students enrolled in the Commercial Music Management program.

***Denius/Schulman Recording Workshop Endowed Scholarship***

Provide support for ACC's Commercial Music Management summer music workshop for high school students.

***Military Order of the Purple Heart Service Foundation, Inc. Endowed Scholarship***

Provide scholarship opportunities for veterans and their spouses to pay for selected computer courses offered at ACC.

***Robert W. Galvin Endowed Scholarship***

Provide recognition and financial assistance to ACC students enrolled in the Semiconductor Manufacturing Technology program.

***Royce & Donna Faulkner Family Endowed Scholarship***

Provide recognition and financial assistance to ACC students enrolled in the Building Construction program.

***Roy F. and Joann Mitte Foundation Endowed Scholarship***

Provide recognition and financial assistance to ACC students who exhibit high academic standards.

***St. David's Neal Kocurek ACC Endowed Scholarship***

Provide financial assistance to ACC students enrolled in a health science program

**F: PERMANENTLY RESTRICTED NET ASSETS**

The Foundation's endowment comprised approximately 50 individual funds established for a variety of purposes. The Foundation does not have any Board designated endowment funds.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**  
**(Continued)**

**F: PERMANENTLY RESTRICTED NET ASSETS (Continued)**

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of original gift amounts of donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment, and (c) accumulations to a permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment. The remaining portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

***Funds with Deficiencies***

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donors require the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$21,150 and \$39,784 at May 31, 2011 and 2010, respectively.

***Return Objectives and Risk Parameters***

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended achieve a rate of return on investments over a 10-year period at least equal to the rate of inflation plus 5%. Actual returns in any given year may vary.

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**  
**(Continued)**

**F: PERMANENTLY RESTRICTED NET ASSETS (Continued)**

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation has adopted the following strategic asset allocation ranges: 45%-55% equity; 35%-45% fixed income; and 5%-15% cash. The Foundation's Investment Committee reviews the performance of its investments and makes reports and/or recommendations to the Foundation's Board of Trustees on at least an annual basis.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The Foundation has a policy of appropriating for distribution each year a minimum of 3 percent of each endowment fund. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow in order to maintain the purchasing power of its endowments. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

***Changes in Endowment Funds***

Changes in the Foundation's endowment funds (excludes promises to give) were as follows for the years ended May 31, 2011 and 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, May 31, 2009	\$ (193,188)	\$ -	\$ 1,667,790	\$ 1,474,602
Contributions	-	1,313	168,595	169,908
Return on investments	153,404	46,942	-	200,346
Appropriations	-	(48,255)	-	(48,255)
Endowment funds, May 31, 2010	(39,784)	-	1,836,385	1,796,601
Contributions	-	-	2,133,198	2,133,198
Return on investments	18,634	313,756	-	332,390
Appropriations	-	(52,146)	-	(52,146)
Endowment funds, May 31, 2011	<u>\$ (21,150)</u>	<u>\$ 261,610</u>	<u>\$ 3,969,583</u>	<u>\$ 4,210,043</u>

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**  
**(Continued)**

**F: PERMANENTLY RESTRICTED NET ASSETS (Continued)**

Permanently restricted net assets comprised the following endowments as of May 31,

	2011	2010
AAUW - Frances Malmberg Endowed Scholarship	\$ 78,455	\$ 78,455
ACC Counseling Services Endowed Scholarship	100,025	100,025
AMD/Gary Heerssen Memorial Scholarship	155,516	155,516
Assistance League of Austin Endowed Scholarship	15,000	15,000
Austin Hotel & Lodging Association Hospitality Mgmt Endowed Scholarship	15,000	15,000
Automotive Technology Endowed Scholarship	36,025	34,025
Benjamin Clough Endowed Scholarship	40,495	40,495
Bob Lain Endowed Scholarship	16,425	16,425
Boone Baker Endowed Scholarship	4,504	4,504
Delco Endowed Scholarship	32,894	32,894
Denius/Schulman Commercial Music Management Endowed Scholarship	150,000	150,000
Denius/Schulman Recording Workshop Endowed Scholarship	100,000	100,000
Diagnostic Radiology Endowed Scholarships	15,000	15,000
Didi Stuart Endowed Scholarship in the Graphic Arts	16,510	16,510
Earl Maxwell Endowed Scholarship	22,550	22,550
Edwina Fredlund Traverso Endowed Scholarship	25,618	25,518
Eric Hanson Endowed Scholarship	39,000	39,000
Ethel Mae Hafernik Hummell Endowed Scholarship	17,000	-
Gus Garcia Endowed Scholarship	6,335	6,335
James and Oda Thompson Memorial Endowed Scholarship	15,000	15,000
James Lee Williams Endowed Scholarship	15,237	15,237
Jo Frances Hill Endowed Scholarship	16,060	16,060
Maxine Black Endowed Scholarship	16,734	16,734
Melinda Townsel & Greg Dunn Endowed Scholarship	15,000	15,000
Thomas M. Madison and O.B. Ross/Merrill Lynch Endowed Scholarships	45,000	45,000
Military Order of the Purple Heart Serv. Foundation, Inc. Endowed Scholarship	100,000	100,000
Myra A. McDaniel Endowed Scholarship	15,000	-
Nursing Program Endowed Scholarship	10,000	10,000
Pat Dobbs Endowed Scholarship	36,808	34,808
Peggy Hale Croshaw Endowed Scholarship	14,593	14,593
Pradeau Endowed Scholarship	36,000	36,000
Reagan Bradshaw Endowed Scholarship	26,445	26,445
Robert W. Galvin Endowed Scholarship	104,708	104,708
Robyn Richter Endowed Scholarship	15,000	-
Roy F. & Joann Cole Mitte Foundation Endowed Scholarship	150,000	150,000
Royce & Donna Faulkner Family Endowed Scholarship	102,500	102,500
Round Rock Endowed Scholarship	27,584	-
Ruth Townley Endowed Scholarship	9,462	9,462
"Ryan" Endowed Scholarship	18,884	18,884
South Austin Hospital Auxiliary Endowed Scholarship	35,000	30,000
St. David's Neal Kocurek ACC Endowed Scholarship	2,030,000	-
Steve E. and Anna D. Rinehart Endowed Scholarship	15,000	15,000
Dr. Stephen B. Kinslow Endowed Scholarship	17,000	-
Steve Kramer Endowed Scholarship	33,436	31,620
Student Emergency Fund Scholarship	57,000	45,000
Suzanne Cooper Endowed Scholarship	50,000	50,000
Tommy Cowan Endowed Scholarship	17,450	17,450
Travis County Medical Alliance Endowed Scholarship	11,431	11,431
Visual Communication Endowed Scholarship	50,000	50,000
	<u>\$ 3,992,684</u>	<u>\$ 1,848,184</u>

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**  
**(Continued)**

**G: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets comprised the following as of May 31,

	2011	2010
AAUW - Frances Malmberg Endowed Scholarship	\$ 2,250	\$ -
ACC Counseling Services Endowed Scholarship	12,700	-
AMD/Gary Heerssen Memorial Scholarship	6,106	-
Assistance League of Austin Endowed Scholarship	1,527	-
Austin Hotel & Lodging Assoc. Hospitality Mgmt Endowed Scholarship	1,848	-
Automotive Technology Endowed Scholarship	405	-
Benjamin Clough Endowed Scholarship	6,564	-
Bob Lain Endowed Scholarship	841	-
Boone Baker Endowed Scholarship	-	-
Delco Endowed Scholarship	350	-
Denius/Schulman Commercial Music Mgmt Endowed Scholarship	11,096	-
Denius/Schulman Recording Workshop Endowed Scholarship	8,960	-
Diagnostic Radiology Endowed Scholarships	375	-
Didi Stuart Endowed Scholarship in the Graphic Arts	582	-
Earl Maxwell Endowed Scholarship	2,959	-
Edwina Fredlund Traverso Endowed Scholarship	1,403	-
Eric Hanson Endowed Scholarship	3,395	-
Ethel Mae Hafernik Hummell Endowed Scholarship	988	-
Gus Garcia Endowed Scholarship	707	-
James and Oda Thompson Memorial Endowed Scholarship	1,003	-
James Lee Williams Endowed Scholarship	822	-
Jo Frances Hill Endowed Scholarship	306	-
Maxine Black Endowed Scholarship	-	-
Melinda Townsel & Greg Dunn Endowed Scholarship	332	-
Thomas M. Madison and O.B. Ross/Merrill Lynch Endowed Scholarships	-	-
Military Order of the Purple Heart Serv. Foundtn, Inc. Endowed Schlrship	3,378	-
Myra A. McDaniel Endowed Scholarship	291	-
Nursing Program Endowed Scholarship	-	-
Pat Dobbs Endowed Scholarship	2,655	-
Peggy Hale Croshaw Endowed Scholarship	-	-
Pradeau Endowed Scholarship	1,155	-
Reagan Bradshaw Endowed Scholarship	-	-
Robert W. Galvin Endowed Scholarship	17,522	-
Robyn Richter Endowed Scholarship	872	-
Roy E. & Joann Cole Mitte Foundation Endowed Scholarship	28,032	-
Royce & Donna Faulkner Family Endowed Scholarship	8,277	-
Round Rock Endowed Scholarship	1,103	-
Ruth Townley Endowed Scholarship	-	-
"Ryan" Endowed Scholarship	1,056	-
South Austin Hospital Auxiliary Endowed Scholarship	2,086	-
St. David's Neal Kocurek ACC Endowed Scholarship	117,997	-
Steve E. & Ann D. Rinehart Endowed Scholarship	1,582	-
Dr. Stephen B. Kinslow Endowed Scholarship	988	-
Steve Kramer Endowed Scholarship	-	-
Student Emergency Fund Scholarship	3,830	-
Suzanne Cooper Endowed Scholarship	1,031	-
Tommy Cowan Endowed Scholarship	2,877	-
Travis County Medical Alliance Endowed Scholarship	-	-
Visual Communication Endowed Scholarship	1,361	-
Temporarily restricted, endowed	<u>\$ 261,610</u>	<u>\$ -</u>

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**  
**(Continued)**

**G: Temporarily Restricted Net Assets (Continued)**

	2011	2010
ACC Board of Trustees Scholarship	\$ 1,750	\$ 1,250
ACC Bookstore Scholarship	5,000	-
Activision CODE	40,000	50,000
Ada Diaz-Miranda Scholarship	-	5,000
Assistance League of Austin Scholarship	12,805	34,550
Austin Classical Guitar Society Scholarship	2,500	-
Barrientos Annual Scholarship	26,600	17,610
Bowman Scholarship	-	9,500
Boyd Vance Scholarship	2,071	-
Carolyn & Tom Gallagher Scholarship	10,000	10,000
College Connection Scholarships	5,987	19,622
Corbin T Jastrow Scholarship	1,000	5,000
Creative Writing Scholarship	-	407
Dance and Drama Scholarship	7,007	4,875
El Centro's Performing Arts Scholarship	-	3,000
Finway Incorporated Scholarship	-	2,500
Fulbright & Jaworski Scholarship	5,000	5,000
General Scholarships	38,073	32,348
Grainger Technical Scholarships	20,000	30,000
Joan Wolf Ort Memorial Scholarship	1,000	1,000
Kinnser Software Scholarships	225,000	-
LEEF Book Scholarship	2,457	-
Lila Diaz-Garcia Scholarship	-	5,000
Louise Epstein and John Henry McDonald Scholarship	-	2,500
Math Competition	200	120
McDonald's of Central Texas ACC Scholarship	-	10,000
Memorial Fund	10,863	3,511
Photography Department Scholarship	1,800	-
Presidential Scholarship	50	-
Professor Jan Smith IBIAC Scholarship	23,750	25,000
Scott D Evans Rotary Club of RR Scholarship	2,500	2,500
SEMI/Frank Squires Scholarships	70,000	70,000
Shaping the Future Scholarships	13,842	13,842
Silke Morin Scholarship	-	50
Student Emergency Fund	400	-
Student Government	500	-
TACHE Scholarship	1,000	4,000
Town Lake Links Inc. Scholarship	2,500	3,000
Veteran's Fund	150	150
W. "Woody" Woodside Rotary Club of RR Scholarship	2,500	2,500
Ward-Fuller Memorial Scholarship	100	-
Welding Tools	4,000	-
Temporarily restricted, non-endowed	<u>\$ 540,405</u>	<u>\$ 373,835</u>
Total temporarily restricted net assets	<u>\$ 802,015</u>	<u>\$ 373,835</u>

**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

---

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**  
**(Continued)**

**G: TEMPORARILY RESTRICTED NET ASSETS (Continued)**

Restrictions on temporarily restricted net assets in the amounts of \$474,474 and \$551,380 were satisfied during the years ended May 31, 2011 and 2010, respectively.

**H: RELATED PARTY TRANSACTIONS**

The purpose of the Foundation is to support initiatives of ACC. For the years ended May 31, 2011 and 2010, the Foundation remitted \$492,680 and \$403,576, respectively, to ACC for scholarships and programs.

All of the Foundation's personnel and facilities are provided by ACC. ACC's cost of providing these services totaled approximately \$213,564 and \$205,573 during the years ended May 31, 2011 and 2010, respectively. The personnel provided by ACC do not meet the requirements for recognition as set forth in the FASB ASC 958-605 and, therefore, are not reflected in the statements of activities.

The Foundation receives in-kind contributions of property and equipment on behalf of ACC. These are considered agency transactions as the Foundation never takes custody of the property, but merely acts as a transfer agent. Therefore, these donations are not reflected as contributions and related program expenses on the statement of activities. The Foundation acted as a transfer agent and received approximately \$37,159 and \$156,757 of property and equipment during the years ended May 31, 2011 and 2010, respectively, on ACC's behalf.



**AUSTIN COMMUNITY COLLEGE DISTRICT**  
**Austin, Texas**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For The Years Ended August 31, 2011 and 2010**

**NOTE 25. DISCRETE COMPONENT UNIT– AUSTIN COMMUNITY COLLEGE FOUNDATION**  
**(Continued)**

**I: FAIR VALUE MEASUREMENTS**

Certain assets are carried at fair value in these financial statements. Fair value measurements were arrived at using the following inputs at May 31, 2011 and 2010:

Description		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	2011			
Mutual funds	\$ 2,331,622	\$ 2,331,622	\$ -	\$ -
Corporate bonds	1,542,568	1,542,568	-	-
Government securities	126,673	126,673	-	-
Certificates of deposit	49,870	-	49,870	-
Promises to give	239,976	-	239,976	-
	<u>\$ 4,290,709</u>	<u>\$ 4,000,863</u>	<u>\$ 289,846</u>	<u>\$ -</u>
	2010	(Level 1)	(Level 2)	(Level 3)
Mutual funds	\$ 1,032,426	\$ 1,032,426	\$ -	\$ -
Corporate bonds	467,660	467,660	-	-
Government securities	182,871	182,871	-	-
Equity securities	77,605	77,605	-	-
Promises to give	62,299	-	62,299	-
	<u>\$ 1,822,861</u>	<u>\$ 1,760,562</u>	<u>\$ 62,299</u>	<u>\$ -</u>

**J: CONCENTRATIONS**

The Foundation's mutual fund investments at May 31, 2011 included \$1,078,407 invested in American Funds' Growth Fund of America (AGTHX) and \$619,767 invested in American Funds' Investment Company of America Fund (AIVSX).

The Foundation recognized contributions totaling \$2,080,000 from St. David's Foundation during the year ended May 31, 2011.

**K: SUBSEQUENT EVENTS**

Subsequent events have been evaluated through July 28, 2011, the date the financial statements were available to be issued.

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

**APPENDIX C**  
**FORM OF BOND COUNSEL OPINION**

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

# Bickerstaff Heath Delgado Acosta LLP

3711 S. MoPac Expressway Building One, Suite 300 Austin, Texas 78746 (512) 472-8021 Fax (512) 320-5638 www.bickerstaff.com

May 1, 2012

AUSTIN COMMUNITY COLLEGE DISTRICT PUBLIC FACILITY CORPORATION  
LEASE REVENUE BONDS  
(HAYS NEW CAMPUS PROJECT)  
SERIES 2012  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$44,430,000

WE HAVE ACTED AS BOND COUNSEL in connection with the issuance by the Austin Community College District Public Facility Corporation (the "Corporation") of its \$44,430,000 aggregate original principal amount Lease Revenue Bonds (Hays New Campus Project), Series 2012, dated April 1, 2012 (the "Bonds").

IN OUR CAPACITY AS BOND COUNSEL, we have examined the Bonds for the sole purpose of rendering an opinion with respect to the legality and validity of the Lease (as defined below), the Deed of Trust (as defined below), the Bond Resolution (as defined below) and the Bonds under the Constitution and laws of the State of Texas, and with respect to the excludability of the interest on the Bonds from gross income for federal income tax purposes. We have not been requested to investigate or verify, and have not investigated or verified, any records, data or other material relating to the financial condition or capabilities of the Corporation or the Austin Community College District (the "District").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas. We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service as we have deemed relevant; a transcript of certified proceedings of the Corporation and the District and other pertinent instruments authorizing and relating to the issuance of the Bonds, including the registered Initial Bond numbered I-1 in the transcript of certified proceedings.

BASED ON OUR EXAMINATION, we are of the opinion that:

1. The Corporation is a public, nonprofit corporation, organized and existing under the laws of the State of Texas, including particularly the Public Facility Corporation Act, Chapter 303, Texas Local Government Code, as amended (the "Act").
2. The Corporation has duly adopted the resolution authorizing the Bonds (the "Bond Resolution") and has duly authorized, executed and delivered a Master Trust Indenture, dated as of September 20, 2010 (the "Master Trust Indenture") and Second Supplemental Trust Indenture Relating to the Austin Community College District (Hays New Campus Project) dated as of April 1, 2012 (the "Supplemental Trust Indenture" and together with the Master Trust Indenture, the "Trust Indenture"), by and between the Corporation and the Trustee, and the Lease With an Option to Purchase between the Corporation and the District, dated as of April 1, 2012 (the "Lease"), which constitute legal, valid and binding limited obligations of the Corporation enforceable in accordance with their terms.
3. The Corporation has duly authorized the issuance, execution and delivery of the Bonds. The Bonds constitute legal, valid and binding limited obligations of the Corporation, and are entitled to the benefit and security of the Trust Indenture.
4. Interest on the Bonds will be excludable for federal income tax purposes in the gross income of the owners thereof pursuant to Section 103 of the Code and will not constitute a specific item of tax preference under Section 57 of the Code for purposes of calculating the alternative minimum tax.

The adjustment for "adjusted current earnings" set forth in Section 56(g) of the Code is required in determining a corporation's alternative minimum taxable income. Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess, if any, of the "adjusted current earnings" of a corporation over the alternative minimum taxable income (determined without regard to this adjustment or the alternative tax net operating loss deduction). Interest on tax-exempt obligations, including the Bonds, would generally be included in computing a corporation's "adjusted current earnings." Accordingly, a portion of any interest on the Bonds received or accrued by a corporation that owns the Bonds will be included in computing such corporation's alternative minimum taxable income for such year.

In rendering this opinion, we have assumed continuing compliance by the Corporation with the covenants contained in the Trust Indenture, the Lease, and the Federal Tax Certificate, and by the District contained in the Lease and the Federal Tax Certificate, that each will comply with the applicable requirements of the Code, including requirements relating to, *inter alia*, the use and investment of proceeds of the Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the Corporation or the District to comply with such covenants could result in the interest on the Bonds being subject to federal income tax from the date of issue. We have not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date hereof that may affect the tax-exempt status of the interest on the Bonds.

The opinions set forth above are qualified to the extent the obligations of the enforceability of the Bonds, the Lease, and the Trust Indenture subject to the principles of equity and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally.

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. We observe that the Corporation has covenanted in the Trust Indenture not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,