



Houston Community College

Financial Statements and Single Audit Reports

August 31, 2013 and 2012



Prepared by:
Division of Finance and Planning
Department of Accounting and Finance
Houston Community College System

HOUSTON COMMUNITY COLLEGE SYSTEM

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HOUSTON COMMUNITY COLLEGE SYSTEM
ORGANIZATIONAL DATA
FOR THE YEAR ENDED AUGUST 31, 2013

BOARD OF TRUSTEES

OFFICERS OF THE BOARD OF TRUSTEES

Bruce A. Austin	Chairman
Sandie Mullins	Vice Chairwoman
Eva L. Loreda	Secretary

MEMBERS OF THE BOARD OF TRUSTEES

Term Expires
December 31,

Yolanda Navarro Flores	Houston, Texas	2013
Bruce A. Austin, <i>Chair</i>	Houston, Texas	2013
Neeta Sane	Houston, Texas	2013
Herlinda Garcia	Houston, Texas	2015
Sandie Mullins, <i>Vice Chair</i>	Houston, Texas	2015
Eva L. Loreda, <i>Secretary</i>	Houston, Texas	2015
Carroll G. Robinson	Houston, Texas	2017
Leila Feldman	Houston, Texas	2017
Christopher W. Oliver	Houston, Texas	2017

PRINCIPAL ADMINISTRATIVE OFFICERS

Renee Byas	Acting Chancellor
Thomas Estes, Ph.D.	Vice Chancellor/Finance & Planning
Charles M. Cook, Ed.D.	Vice Chancellor, Academic Affairs
William Carter, Ph.D.	Vice Chancellor, Information Technology
Janet May, M.A.	Chief Human Resources Officer
Irene Porcarello, Ed.D.	President, Southeast College
William Harmon, Ph.D.	President, Central College
Betty Young, Ph.D.	President, Coleman College of Health Sciences
Margaret Ford Fisher, Ed.D.	President, Northeast College
Zachary Hodges, Ed.D.	President, Northwest College
Orfelina Garza, Ph.D.	President, Southwest College
Winston Dahse, MBA	Chief Administration Officer
Diana Pino, Ph.D.	Vice Chancellor, Student Services
Karla Bender, Ed.D.	Controller
Ronald Defalco, CPA	Treasurer



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Houston Community College System
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Houston Community College System (the "System") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston Community College System as of August 31, 2013, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Houston Community College System as of August 30, 2012, were audited by other auditors whose report dated November 8, 2012, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supplementary schedules on pages 54 through 57 and statistical section on pages 60 through 81 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards and schedule of expenditures of state of Texas 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 supplementary schedules, the schedule of expenditures of federal awards and the schedule of expenditures of state of Texas awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules, schedule of expenditures of federal awards and schedule of expenditures of state of Texas awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2013, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance. That report is an integral party of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Carri Riggs & Ingram, L.L.C.

Houston, Texas
November 14, 2013

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

This section of the Houston Community College System's ("HCC" or the "System") Annual Financial Report presents management's discussion and analysis. Management's Discussion and Analysis is included to provide a narrative introduction, overview and analysis of the financial position and changes in financial position of the System's financial activity during the fiscal years ended August 31, 2013 and 2012. Since management's discussion and analysis is designed to focus on current activities, and currently known facts, please read this in conjunction with the System's basic financial statements and the notes thereto. Responsibility for the completeness and fairness of this information rests with the management of the System.

Financial Highlights

In fiscal year 2013, the System continued its efforts toward stabilization of its financial resources; identifying and implementing transformational strategies at the institutional level to reduce spending and address the issues brought on due to the State funding shortfall. Also, on-going strategic plans have been formulated to lay the foundation for further growth in enrollment and increased student success.

The System launched a three-year strategic plan, *Creating Opportunities for Our Shared Future*, with seven initiatives that will guide us through 2015. These goals have been approved by the Board of Trustees for 2012-2015 and implemented as part of the System's strategy and focus on student success.

Goal 1: Increase Student Completion through Advanced Educational Opportunities

HCC currently leads the state and is fifth in the nation in the number of students who complete associate degrees. While we are proud of this fact, we can do better. We will strengthen our efforts and scale up those strategies that have been proven to increase the rates of students' persistence and completion. We will continue to serve as a national Achieving the Dream (ATD) Leader College and work hand in hand with our high school partners to ensure more students enter our doors college-ready and leave well-prepared for successful transition to jobs, careers, and further education.

Goal 2: Respond to the Needs of Business and Industry for Skilled Workers

As the supplier of skilled workers to business and industry, we have a responsibility to build partnerships and to develop the means to respond quickly with the creation and design of programs and student-learning outcomes that meet their requirements. The employer is our customer. Our clear responsibility to both employers and to students is to narrow the jobs gap and the skills gap for both of these stakeholders.

Goal 3: Ensure Instructional Programs Provide the Knowledge and Skills Required for 21st Century Learners

HCC must prepare our students to become citizens and workers capable of productive and meaningful participation in the 21st century. Core competencies of critical thinking, effective communications, quantitative reasoning, teamwork, personal responsibility, and social responsibility must be taught in all of our instructional programs. All classrooms at HCC should meet minimum technology standards, and all faculty members must be trained and supported in using effective teaching and learning strategies to promote success for students in their learning today as well as throughout their lifetime.

Goal 4: Enrich Institutional Capacity for Faculty and Staff Professional Development and Student Leadership Development

HCC has celebrated its 40th year by enrolling and graduating more students than ever before. To ensure we continue to thrive as an essential and relevant institution for the educational development of our students and the economic development of our community, we must prepare students, faculty, and staff for the leadership roles of tomorrow. We will do this in multiple ways – through the expansion of external resources and support, purposeful mentoring of leadership candidates, infusion of opportunities for leadership development in our instructional programs, student services, extracurricular activities, and human resources.

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Goal 5: Support Innovation as a Means to Improve Institutional Resilience

HCC recognizes that in the near term there will be continuing economic turmoil to challenge the funding and stability of the institution. We also recognize that continuous technical challenges will create disruptions and opportunities in the delivery and transfer of knowledge and data. To counter and overcome these difficulties, we must be an institution where innovation is valued and promoted. However, nothing will be accepted merely on the basis of custom, anecdote, or fad – everything we do must be proven to have long-term value in terms of strengthening our institutional resilience and capacity to serve our students and our community.

Goal 6: Cultivate an Entrepreneurial Culture Across the Institution

Houston is an entrepreneurial, “opportunity city” where taking a risk, failing, and starting over again are valued. HCC is the “Opportunity College” and is grassroots in its approach to serving its constituents. Therefore, HCC is committed to strategic thinking that not only respects students wherever they are, but also inspires and gives them the tools and confidence to follow their dreams. HCC will commit to an entrepreneurial culture within the organization to serve as an example of the “spirit of Houston.” For this institution, fostering a culture that encourages inspiration and dreaming helps students actualize their potential.

Goal 7: Leverage Local and International Partnerships for Institutional and Community Development

Houston is a global leader. The diversity of our economic structure and our willingness to embrace and value the partnerships encourage innovation. HCC is a principle partner for educational and economic opportunities, enhancing and advancing the community’s quality of life. HCC is a catalyst for creating jobs. According to an American Council on Higher Education Blue Ribbon Panel on Global Engagement (November, 2011), “It is important that college graduates, whatever their location, be not only globally competitive but also globally competent, understanding their roles as citizens and workers in an international context. While identifying common problems, we might also discover common solutions (p.6).”

These are all important to moving the institution to the next level; however the focus is on student success and is HCC’s #1 priority.

HCC has become a leader and not a follower among its peers. The 2012-2015 Strategic Plan ensures institutional resiliency to weather the budgetary storms that plague all governmental agencies and the looming crisis of human capital due to an aging faculty and staff.

As the college takes on what is a bold and dramatic step in Houston’s future, there must be an equal commitment to change or to break old molds and to reallocate resources to fit the priorities of the 21st century. These next three years will be critical to what HCC is to become – essential to this community, the global Houston.

All of these action steps are designed to aid the System in realizing its bold vision: “To become the most relevant community college in the country.”

HCC continues to experience positive progress in building and creating innovative ways to progress in the classroom. That progress is measurable, meaningful, and making a dramatic impact on our community and the students we are entrusted to serve. With the support of the Board of Trustees, faculty, and staff, we have made considerable strides in support of the institution’s student recruitment, retention, and completion goals.

In conjunction with our efforts to align the institution around putting students first, there is no goal more visible and important to the community and our students than the fiscal well-being and transparency of HCC’s financial picture.

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

HCC is fiscally sound and financially prepared for the future. The demonstration is visible in our financial statements herein which highlights the institution's total net position of \$339 million; a net increase of \$16.7 million compared with the previous fiscal year. HCC also continues to maintain a Standard & Poor's bond rating of AA+; a rating that did not change with the last bond issuance.

In November 2012, a general election was held in which the public approved the issuance of \$425 million in general obligation bonds. In March 2013, the System issued \$398,775,000 in Limited Tax General Obligation Bonds, Series 2013 at a premium of approximately \$55 million. The bonds will be used for the construction, maintenance, and equipment of school buildings in the System and the purchase of necessary sites.

Fiscal Planning and Budget

A successful budget development process involves two elements: (1) it aligns scarce resource allocation with the mission, vision and planning of the organization using data and (2) it conducts the process in an open, transparent way such that members of the organization find it to be fair. Recognizing that planning and budgeting is an interrelated process which requires continuous review, assessment, and improvement, in fiscal year 2010, HCC developed an Institutional Effectiveness (IE) Model that shows how it is actually done. Phase I of the process, the strategic review, was implemented in fiscal year 2011. Phase II commenced in January 2012; incorporating the annual planning and budget development process. In fiscal year 2013, Phase III was implemented to include an enhanced prioritization process. This exercise was designed to derive strategic investments across the colleges and administrative units that are in the best interest of HCC as a whole.

The purpose of the integrated strategic planning and budgeting process is to create a standardized annual process that links strategic priorities and goals with budget planning. The process is intended to provide a consistent approach for instructional and administrative divisions and departments, to allow for timely preparation of the budget, and to clearly link instructional, departmental, and college activities and initiatives with institutional priorities and goals.

As part of the process, college and administrative unit annual plans are developed and represent the strategic aspect of engaging in integrated and institution-wide research-based planning. Although the plans are on a four-year cycle, there is an annual component that is in the Operational/Procedures Loop and is linked to budgeting. An essential element for success within this process entails continuous communication, collaboration, and transparency.

This document provides an over-view of the collaborative work of the administration in representing the financial highlights of the institution.

Statement of Net Position

The Statement of Net Position represents the System's financial position at the end of the fiscal year and includes all assets and liabilities of the System. Net Position is the difference between assets and liabilities and serves as a general indicator of financial stability.

Current liabilities are generally those liabilities which are due within one year, and current assets are those assets which are available to satisfy current liabilities. Noncurrent assets include restricted cash and cash equivalents, capital assets, investments and other assets not classified as current. Noncurrent liabilities include bonds payable and other long-term commitments.

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Statement of Net Position - Continued

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting. The accrual basis of accounting is similar to the accounting basis utilized by most private-sector institutions. This statement defines the financial position of the System and includes a comparison for fiscal years 2013, 2012 and 2011.

ASSETS:	2013	2012*	2011	Change	
				2012 to 2013	2011 to 2012
Other Assets	\$ 709,985,878	\$ 321,739,059	\$ 313,162,868	\$ 388,246,819	\$ 8,576,191
Capital Assets	782,119,403	726,798,884	696,519,999	55,320,519	30,278,885
TOTAL ASSETS	\$ 1,492,105,281	\$ 1,048,537,943	\$ 1,009,682,867	\$ 443,567,338	\$ 38,855,076
DEFERRED OUTFLOWS OF RESOURCES:					
Advance Funding Valuation	\$ 8,681,035	\$ 9,389,394	\$ -	\$ (708,359)	\$ 9,389,394
LIABILITIES:					
Current Liabilities	\$ 113,309,337	\$ 107,472,707	\$ 123,995,933	\$ 5,836,630	\$ (16,523,226)
Noncurrent Liabilities	1,048,413,740	628,137,837	603,262,244	420,275,903	24,875,593
TOTAL LIABILITIES	\$ 1,161,723,077	\$ 735,610,544	\$ 727,258,177	\$ 426,112,533	\$ 8,352,367
NET POSITION:					
Investment in Plant, Net	\$ 230,705,769	\$ 234,824,583	\$ 207,976,763	\$ (4,118,814)	\$ 26,847,820
Restricted-Expendable	1,215,548	488,477	488,477	727,071	-
Unrestricted	107,141,922	87,003,733	73,959,450	20,138,189	13,044,283
TOTAL NET POSITION	\$ 339,063,239	\$ 322,316,793	\$ 282,424,690	\$ 16,746,446	\$ 39,892,103

*Fiscal Year 2012 has been restated

Assets

Fiscal Year 2013:

In comparing fiscal year 2013 to fiscal year 2012, there was an increase of \$396 million in cash and cash equivalents, short-term investments, and long-term investments. This increase is due mainly due to investments resulting from the issuance of the Limited Tax General Obligation Bonds, Series 2013 of \$454.2 million, net of \$58.5 million spent on capital assets.

Overall returns on investments increased by .03% in fiscal 2013 to a weighted average interest rate of .38% at August 31, 2013. The investment portfolio is highly liquid with 92% of the assets invested in local government pools, money market funds and short-term certificates of deposit. All pools and money market funds are rated at the highest level. Certificates of deposit, high yield savings and other bank deposits are secured with U.S. Treasuries or United States agencies which have the full faith and credit of the United States government. The balance of the portfolio is invested in government-sponsored entities/agencies with "AAA" credit ratings.

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Statement of Net Position - Continued

Fiscal Year 2012:

In comparing fiscal year 2012 to fiscal year 2011, there was an increase of \$14.3 million in cash and cash equivalents, short-term investments, and long-term investments. This increase is due mainly due to investments resulting from the issuance of the Maintenance Tax Notes, Series 2011A of \$19.6 million, \$8.6 million savings on defeasance of bonds, \$24.2 million generated from operations, and net of \$38.1 million spent on capital assets.

Overall returns on investments increased by .08% in fiscal 2012 to a weighted average interest rate of .31%. The investment portfolio is highly liquid with 92% of the assets invested in local government pools, money market funds and short-term certificates of deposit. All pools and money market funds are rated at the highest level. Certificates of deposit, high yield savings and other bank deposits are secured with U.S. Treasuries or United States agencies which have the full faith and credit of the United States government. The balance of the portfolio is invested in government-sponsored entities/agencies with "AAA" credit ratings.

Deferred Outflows of Resources

The System adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* during fiscal year 2013. The System's deferred charge on refunding of debt is now reported as a deferred outflow of resources as the amount is deferred and amortized over the life of the refunded debt. Prior to the adoption of GASB Statement No. 63, this amount was reported with long-term bonds payable.

Liabilities

Fiscal Year 2013:

Overall liabilities increased by approximately \$425 million from fiscal 2012 to fiscal 2013. General obligation bonds increased by \$459.6 million, due to the issuance of the Limited Tax General Obligation Bonds, Series 2013 on March 19, 2013. Principal payments of \$7.6 million were made on all maintenance tax notes. There were principal payments made on all revenue bonds of \$13.3 million and principal payments of \$3.9 million were made on PFC lease revenue bonds.

Fiscal Year 2012:

Overall liabilities decreased by approximately \$1.5 million from fiscal 2011 to fiscal 2012. Notes payable increased by \$14.4 million due to the issuance of the Maintenance Tax Notes, Series 2011A of \$19.6 million on October 12, 2011. Principal payments of \$6.3 million were made on all maintenance tax notes. Revenue bonds increased by approximately \$3.4 million due to the issuance of Senior Lien Revenue Bonds, Series 2011T on November 15, 2011 of \$16.0 million. There were principal payments made on all revenue bonds of \$12.7 million. Principal payments of \$3.7 million were made on PFC lease revenue bonds. General obligation bonds decreased by \$4.4 million due to the issuance of the Limited Tax Refunding Bonds, Series 2011 on October 12, 2011 of \$109.5 million, net of the defeasance of the Limited Tax Bonds, Series 2003 of \$112.2 million and defeasance of the Limited Tax Building and Refunding Bonds, Series 2005 of \$4.9 million. Capital lease obligations decreased by \$1.3 million due to principal payments. There was a decrease in accounts payable of \$6.1 million and a decrease in accrued liabilities of \$.7 million. Unearned revenues decreased by \$3.2 million.

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position present the System's results of operations for the fiscal year. Operating revenues are generated from the services provided to students and other customers of the System. Operating expenses include those costs incurred in the production of goods and services which result in operating revenues, as well as depreciation and amortization. All other activity is classified as nonoperating revenues, expenses, gains and losses. Since a large portion of the revenue including Ad valorem taxes, State appropriations and Title IV funds are classified as nonoperating revenues; Texas public community colleges may reflect an operating loss with the increase or decrease in net position reflective of all activity.

Total revenues and total expenses should be considered in assessing the change in the System's financial position. When total revenues exceed total expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. Further detail is presented in the Statements of Revenues, Expenses and Changes in Net Position and notes to the financial statements.

A summarized comparison of the System's revenues, expenses and changes in net position for the years ended August 31, 2013, 2012, and 2011 is presented in table below.

	2013	2012	2011	Change	
				2012 to 2013	2011 to 2012
Operating Revenues	\$ 111,074,122	\$ 112,435,472	\$ 106,884,254	\$ (1,361,350)	\$ 5,551,218
Operating Expenses	360,977,093	342,878,460	357,021,152	18,098,633	(14,142,692)
Operating Loss	(249,902,971)	(230,442,988)	(250,136,898)	(19,459,983)	19,693,910
Nonoperating Revenue, Net	266,649,417	270,335,091	265,016,893	(3,685,674)	5,318,198
Increase (Decrease) in Net Position	\$ 16,746,446	\$ 39,892,103	\$ 14,879,995	\$ (23,145,657)	\$ 25,012,108

*Fiscal year 2012 has been restated

Revenues

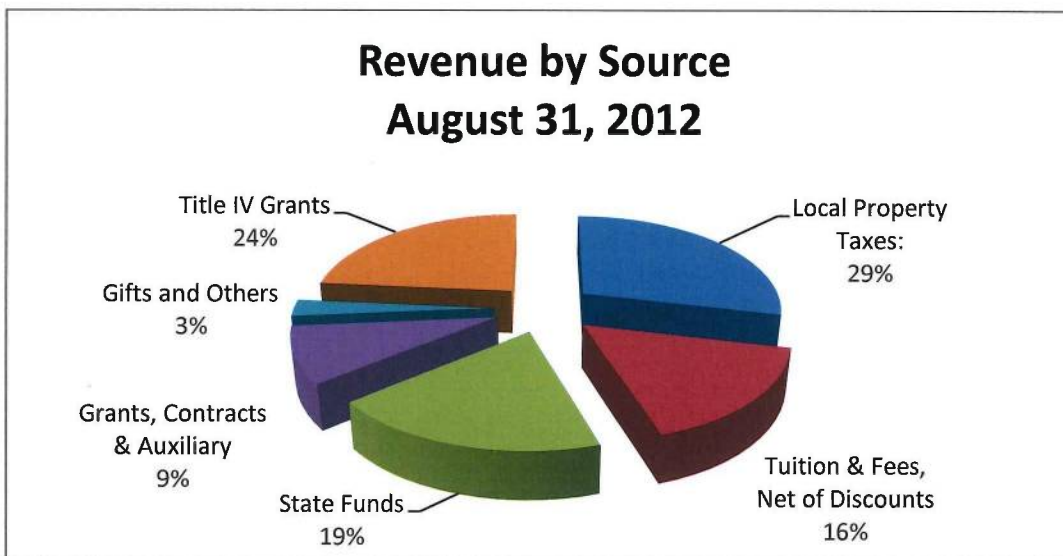
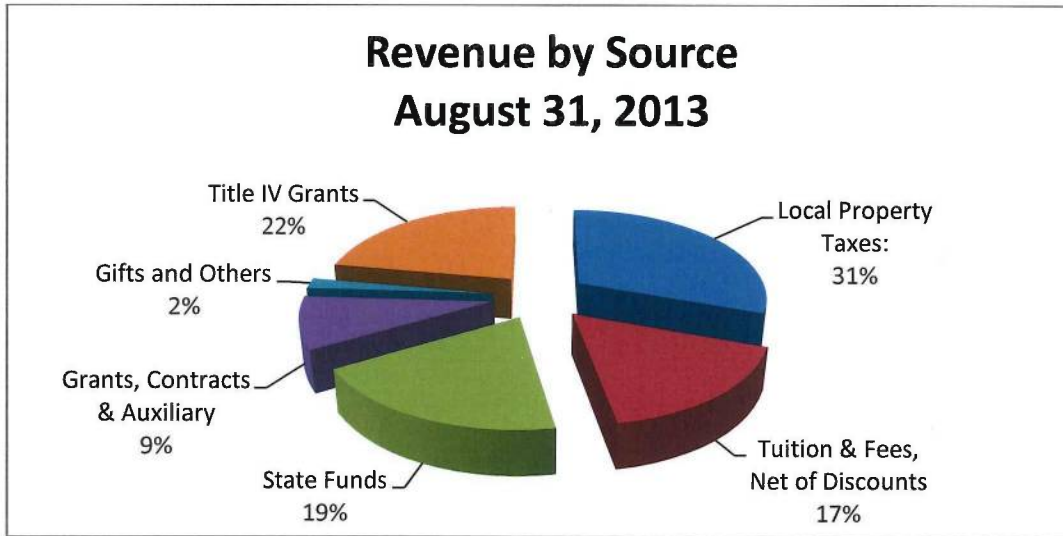
Operating revenues decreased 1% in fiscal year 2013 as compared to fiscal year 2012 namely due to a decrease in Federal Grants and Contract revenue. Non-operating revenues decreased by 1.9% over the previous year due to decreases in Title IV grants and a decrease in other nonoperating revenue. There was a \$0.9 million decrease in investment income in fiscal 2013 related to unrealized losses of \$1.6 million on the portfolio as of August 31, 2013. Actual interest earned for fiscal 2013 was \$1.5 million.

Operating revenues increased 5.2% in fiscal year 2012 as compared to fiscal year 2011 namely due to increases in tuition and fee rates, in-district and out-of-district fees, and technology fees. Non-operating revenues increased by 5.6% over the previous year due to increases in Title IV grants and an increase in tax revenue resulting from the restructuring of debt service. Also, there was a \$0.2 million increase in investment income in fiscal 2012 related to a 0.31% increase in interest rates

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Statement of Revenues, Expenses and Changes in Net Position– Continued

Revenues - Continued



HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Statement of Revenues, Expenses and Changes in Net Position – Continued

Revenue by Source

	2013	2012*	2011	Change	
				2012 to 2013	2011 to 2012
OPERATING REVENUES:					
Tuition & Fees, Net of Discounts	\$ 71,433,953	\$ 71,415,957	\$ 67,907,897	\$ 17,996	\$ 3,508,060
Grants, Contracts & Auxiliary					
Federal	14,702,419	16,848,269	16,064,089	(2,145,850)	784,180
State	6,156,585	5,152,251	6,448,589	1,004,334	(1,296,338)
Local, Private & Non-Governmental	2,688,266	2,922,500	1,927,765	(234,234)	994,735
Auxiliary	16,092,899	16,096,494	14,535,914	(3,595)	1,560,580
Total Grants, Contracts & Auxiliary	<u>39,640,169</u>	<u>41,019,514</u>	<u>38,976,357</u>	<u>(1,379,345)</u>	<u>2,043,157</u>
TOTAL OPERATING REVENUES	111,074,122	112,435,471	106,884,254	(1,361,349)	5,551,217
NONOPERATING REVENUES:					
State Funds:					
Unrestricted	70,014,003	70,232,038	65,788,668	(218,035)	4,443,370
Restricted	12,091,225	11,607,788	19,049,647	483,437	(7,441,859)
Total State Funds	<u>82,105,228</u>	<u>81,839,826</u>	<u>84,838,315</u>	<u>265,402</u>	<u>(2,998,489)</u>
Local Property Taxes:					
Maintenance and Operations	106,097,476	105,943,722	94,083,625	153,754	11,860,097
Debt Service	23,158,801	17,694,297	21,736,440	5,464,504	(4,042,143)
Total Local Property Taxes	<u>129,256,277</u>	<u>123,638,019</u>	<u>115,820,065</u>	<u>5,618,258</u>	<u>7,817,954</u>
Title IV Grants	94,423,841	102,023,662	96,171,936	(7,599,821)	5,851,726
Gifts and Others:					
Gifts	1,591,888	2,053,638	1,573,601	(461,750)	480,037
Other	6,417,420	10,145,084	6,588,259	(3,727,664)	3,556,825
Total Gifts and Other	<u>8,009,308</u>	<u>12,198,722</u>	<u>8,161,860</u>	<u>(4,189,414)</u>	<u>4,036,862</u>
TOTAL NONOPERATING REVENUES	<u>313,794,654</u>	<u>319,700,229</u>	<u>304,992,176</u>	<u>(5,905,575)</u>	<u>14,708,053</u>
TOTAL REVENUES	\$ <u>424,868,776</u>	\$ <u>432,135,700</u>	\$ <u>411,876,430</u>	\$ <u>(7,266,924)</u>	\$ <u>20,259,270</u>

* Operating and nonoperating revenues are restated for fiscal year 2012

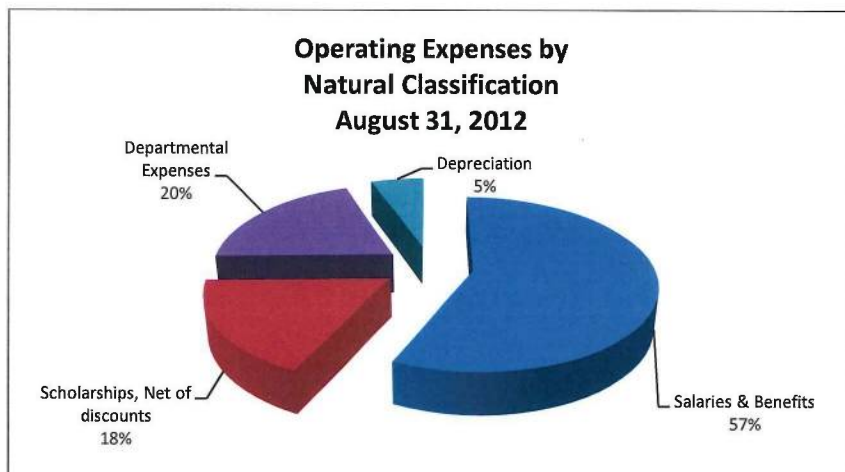
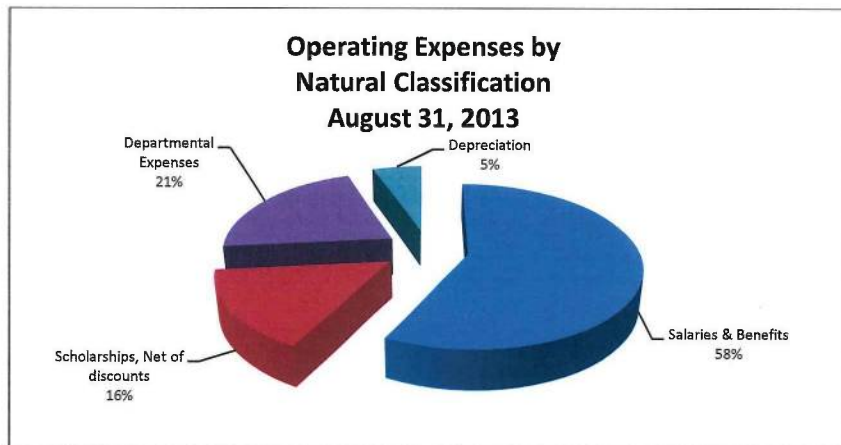
HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Statement of Revenues, Expenses and Changes in Net Position –Continued

Expenses

The schedules below provide a three-year historical record of the use of funds by functionality and natural classification. The expenses reported include both restricted and unrestricted funds, and are on the accrual basis.

	Operating Expenses by Natural Classification						Change	
	2013	% of Total	2012	% of Total	2011	% of Total	2012 to 2013	2011 to 2012
Salaries & Benefits	\$ 207,209,330	57.4%	\$ 193,822,146	56.5%	\$ 201,275,614	56.4%	\$ 13,387,184	\$ (7,453,468)
Scholarships, Net of Discounts	57,092,409	15.8%	61,504,372	17.9%	65,346,087	18.3%	(4,411,963)	(3,841,715)
Departmental Expenses	77,183,320	21.4%	68,703,141	20.0%	73,331,985	20.5%	8,480,179	(4,628,844)
Depreciation	19,492,034	5.4%	18,848,801	5.5%	17,067,466	4.8%	643,233	1,781,335
	<u>\$ 360,977,093</u>	100%	<u>\$ 342,878,460</u>	100%	<u>\$ 357,021,152</u>	100%	<u>\$ 18,098,633</u>	<u>\$ (14,142,692)</u>



HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Statement of Revenues, Expenses and Changes in Net Position – Continued

	Operating Expenses by Functional Classification						Change	
	2013	Total	2012*	Total	2011	Total	2012 to 2013	2011 to 2012
Instructional	\$ 107,489,818	29.8%	\$ 100,319,497	29.3%	\$ 112,617,878	31.5%	\$ 7,170,321	\$ (12,298,381)
Public Service	11,532,590	3.2%	11,868,925	3.5%	11,766,675	3.3%	(336,335)	102,250
Academic Support	23,946,350	6.6%	22,771,173	6.6%	19,616,391	5.5%	1,175,177	3,154,782
Student Services	27,822,091	7.7%	24,906,487	7.3%	31,901,438	8.9%	2,915,604	(6,994,951)
Institutional Support	67,226,240	18.6%	58,952,631	17.2%	55,747,070	15.6%	8,273,609	3,205,561
Operation Management	27,614,804	7.7%	27,969,778	8.2%	28,350,817	7.9%	(354,974)	(381,039)
Scholarship/Fellowship	57,092,409	15.8%	61,504,372	17.9%	65,346,087	18.3%	(4,411,963)	(3,841,715)
Depreciation	19,492,034	5.4%	18,848,802	5.5%	17,067,466	4.8%	643,232	1,781,336
Auxiliary Enterprises	18,760,757	5.2%	15,736,795	4.6%	14,607,330	4.1%	3,023,962	1,129,465
Total Expense	\$ 360,977,093	100%	\$ 342,878,460	100%	\$ 357,021,152	100%	\$ 18,098,633	\$ (14,142,692)

* Fiscal year 2012 has been restated

Operating expenses increased in fiscal year 2013 by \$18.1 million or 5.3% compared to fiscal year 2012 namely due to the following:

- Increase in employee benefits costs related to the reduction in the State's contribution to TRS and ORP and an increase in health insurance premiums.
- Payment of the 2012 TRS contribution, in the amount of \$2.5 million, which was withheld at the advisement of TACC due to pending litigation.
- Increased new hires to enhance student services and investment in instructional materials and software needed for online course improvements.

Operating expenses decreased in fiscal year 2012 by \$14.1 million or 4% compared to fiscal year 2011 namely due to a cost savings program implemented to help offset the decrease in state funding.

Statements of Cash Flows

The Statements of Cash Flows provide information about the sources of cash and the use of cash in the operations of the System. The Statements of Cash Flows help determine the entity's ability to meet its obligations as they come due and the impact of external financing. The Statement summarizes cash inflows and outflows by operating activities, non-capital financing activities, capital financing activities and investing activities.

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Capital Assets and Debt Administration

Fiscal Year 2013:

Changes in net capital assets are the result of acquisitions, improvements, deletions and changes in accumulated depreciation and amortization. In accordance with GASB Statements No. 34 and 35, the System does not record the cost of capital assets as an expense at the time of acquisition or completion of the asset, but rather shows the expense systematically over the expected life of the asset as depreciation and amortization 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 Statements of Net Position may decrease from one year to another, even though new assets have been acquired during the year. Capital assets subject to depreciation and amortization include improvements to land (such as parking lots and signage), buildings, library books, furniture and equipment. Land is not depreciated.

There was a significant increase in net capital assets of approximately \$55.3 million from fiscal 2012 to fiscal 2013. This increase was due primarily to a \$43.2 million net increase in construction in progress, an increase in land of \$3.9 million, an increase in building, real estate improvement and equipment of \$8.2 million (net of accumulated depreciation) which were funded from various bond proceeds. See Footnote 6 of the financial statements.

Fiscal Year 2012:

There was a significant increase in net capital assets of approximately \$30.3 million from fiscal 2011 to fiscal 2012. This increase was due primarily to an \$11.7 million net increase in construction in progress, an increase in land of \$11.0 million, and increases in buildings, real estate improvements and equipment of \$9.0 million (net of accumulated depreciation) which were funded from various bond proceeds. See Footnote 6 of the financial statements.

Capital Assets:	2013	2012*	2011	Change	
				2012 to 2013	2011 to 2012
Land	\$114,019,147	\$110,100,164	\$99,081,861	\$3,918,983	\$11,018,303
Construction in Progress	114,762,207	71,553,414	59,856,934	43,208,793	11,696,480
Buildings	457,973,817	452,033,580	449,363,928	5,940,237	2,669,652
Other Real Estate Improvements	58,068,902	55,615,624	47,797,506	2,453,278	7,818,118
Library Books	3,495,011	3,689,900	3,882,640	(194,889)	(192,740)
Furniture, Machinery, Vehicles and Other Equipment	24,102,940	22,096,420	29,366,402	2,006,520	(7,269,983)
Telecommunications and Peripheral Equipment	9,697,379	11,709,782	7,170,727	(2,012,403)	4,539,055
Total Capital Assets	\$782,119,403	\$726,798,884	\$696,519,999	\$55,320,519	\$30,278,884

* Totals for fiscal year 2012 have been restated

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Capital Assets and Debt Administration – Continued

Outstanding debt:	Change				
	2013	2012*	2011	2012 to 2013	2011 to 2012
Leases	\$ -	\$ -	\$ 1,304,824	\$ -	\$ (1,304,824)
Notes Payable	177,016,888	184,862,036	170,296,243	(7,845,148)	14,565,794
Revenue Bonds	215,574,705	230,326,639	225,485,223	(14,751,934)	4,841,416
PFC Lease Revenue Bonds	107,747,989	111,744,549	115,601,108	(3,996,560)	(3,856,560)
General Obligation Bonds	578,139,157	126,509,613	122,965,814	451,629,544	3,543,799
Total Outstanding Debt	<u>\$ 1,078,478,739</u>	<u>\$ 653,442,837</u>	<u>\$ 635,653,212</u>	<u>\$ 425,035,900</u>	<u>\$ 17,789,625</u>

* Fiscal year 2012 has been restated

Fiscal Year 2013:

Bonds and notes payable increased as follows:

- Increase of \$459,593,311 due to the issuance of Limited Tax General Obligation Bonds.
- Decrease of \$7,685,150 for principal payments on Maintenance Tax Notes.
- Decrease of \$13,326,306 due to principal payments on Revenue Bonds.
- PFC Lease Revenue Bonds decreased by \$3,996,560 due to principal payments.

Fiscal Year 2012:

Leases decreased by \$1,304,824 from fiscal year 2011 to fiscal year 2012 due to principal payments. Bonds and notes payable increased as follows:

- Increase of \$22,057,247 due to the issuance of Maintenance Tax Notes.
- Decrease of \$7,651,453 for principal payments on Maintenance Tax Notes.
- Increase of \$16,000,000 due to the issuance of Senior Lien Revenue Bonds.
- Decrease of \$12,584,211 due to principal payments on Revenue Bonds.
- PFC Lease Revenue Bonds decreased by \$3,856,560 due to principal payments.
- General Obligation Bonds decreased by \$4,419,967 due to principal payments.

Future Outlook

Houston Community College impacts students, the regional economy, and taxpayers in a number of significant ways. Students benefit from improved lifestyles and increased earnings. Taxpayers benefit from a larger economy and lower social costs. The community as a whole benefits from increased job and investment opportunities, higher business revenues, greater availability of public funds, and an eased tax burden. HCC plays a vital role in training the region's workforce, ensuring that the area can compete in today's global marketplace.

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Future Outlook - Continued

The future of our city is not preordained. The future of our city is our responsibility to fashion and create. We must have a skilled, trained workforce to compete in the 21st century global economy. HCC is committed to enhancing the community and delivering quality higher education to produce a skilled, educated workforce that leverages the diversity of all to create global citizens. Our students must have the skills to compete for the jobs of the future. One of the great attributes of this institution is our ability to respond quickly to the needs of employers and businesses.

Houston Community College is working to be the most innovative, forward-thinking institution. We are so fortunate to have a strong, vibrant economy in Houston. But the reality is that many people don't have access to affordable higher education. At HCC, we work to bring new opportunities, new experiences, and new programs to our students. This enables our students to benefit and our communities. As one of the largest community colleges in the country, our top priority and mission are to serve both students and communities.

With the execution of our strategic plan for 2012-2015, *Creating Opportunities for Our Shared Future*, HCC will move forward into the next phase of its commitment, focusing with intentionality on student access and success.

HCC does not exist as an "island" within our community. In fact, more than most institutions, we are a point for the intersection of many interests and similar efforts. We have expanded partnerships with our school districts, our universities, chambers of commerce, the United Way, Project Grad, Alliance for all Kids, Communities in Schools, KIPP, Capital IDEA, A+ Challenge, Workforce Solutions, the Houston Endowment, the Greater Houston Partnership, and numerous others to achieve greater student success, economic and workforce development, and an improved quality of life for citizens in our Houston service area. Listed below are several innovative partnerships that will enable HCC to provide students with opportunities to go further than many would have ever dreamed.

- (1) Futures Academy (formerly known as the Houston Innovative Learning Zone) – We have worked with HISD to create six certificate/Associate of Applied Science (AAS) programs in HISD high schools. After one year of operation, cohort one has 83 students on track for the AAS degree and 24 on track for certificates in Advanced Manufacturing, Computer Networking, Engineering Technology, Pharmacy Technology, Logistics, or Process Technology. We just agreed to work with HISD and the University of Texas M. D. Anderson Cancer Center on the 7th Futures Academy program, one that would prepare students with an AS in a field of science for entry into the U.T. M.D. Anderson baccalaureate programs.
- (2) Early College High Schools (ECHS) – our five ECHS continue to perform at an extraordinary level. Currently, students are graduating from the ECHS with an average of 48 SCH of college credit and 52 percent of students are graduating from high school with an earned associate degree. Compare that to the recent study by the Houston Endowment that showed of Houston's current 8th graders; only about 20 percent go on to earn any post-secondary certificate or degree within 6 years of high school graduation.
- (3) Middle College High Schools (MCHS) – in Spring 2014, we look to partner with HISD to open two or possibly three MCHS – located at Southwest, Southeast, and Central Colleges. The MCHS differs from the ECHS in that it will be smaller (about 120 students v. 400) and consist of students at lower levels and greater risk for drop out. The goal for these students will be to complete high school and to earn 6-12 SCH of college credit.

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Future Outlook - Continued

Houston Community College's focus is on Student success; our #1 priority. We have made significant progress toward aligning the institution to meet this student centered focus. HCC has worked diligently to rethink how we have traditionally done things – how we recruit students, how to retain them, how to teach them, and how we help them to succeed with their education. We continue to find new and innovative ways to develop the total student experience that engages students in the education process and improve their lives through the many educational opportunities that HCC provides.

In 2012 the voters approved a \$425,000,000 bond referendum. Significant planning is underway to construct several new HCC facilities over the next five years. The bond program will provide each HCC college with new or renovated facilities and the technology to meet student needs, especially in high-demand areas such as science, technology, engineering, and math (STEM) education, as well as health sciences.

HCC is committed to innovation that creates resiliency. The seven initiatives adopted in the strategic plan encompass our efforts to address and meet the needs of our students and community. Stewardship, being one of our guiding principles, is the path to fulfilling HCC's mission and acknowledges our guardianship of its resources and positive impact on the lives of our students and community at large. Sound stewardship incorporates adherence to the highest ethical standards in all professional and personal duties and responsibilities: to deal honestly with others; to stand for what is right; and to secure the benefit of all by the wise care and utilization of our resources, including time, money, and people.

Through a combination of cost savings strategies, collegial efforts, and actions by the Board of Trustees, HCC has worked smartly to reduce expenditures and find new revenue to close the funding gap created by the reduction in State appropriations.

During the 83rd legislative session, the State approved the Texas Higher Education Coordinating Board's recommended methodology for the distribution of State appropriations to Community Colleges. The student success funding methodology includes the following:

- \$50 million for core operations (\$1 million for the biennium to each community college)
- 10% set-aside, about \$86 million per year, for Student Success (based on outcome versus inputs)
- 90% distribution, based on contact hours: about \$1.54 billion in general revenue for the biennium.

Funding by the State for group health insurance was significantly reduced during the previous legislative session. During the 83rd legislative session, funding levels were increased, although not completely restored. The State contributions to TRS and ORP are as follows:

- TRS contribution is limited to 50% of state contribution of 6.4% and 6.8% in fiscal years 2014 and 2015, respectively.
- ORP contribution is limited to 50% of state contribution of 6.6% of total covered.
- Each community college district's retirement allocation is contingent upon repayment of the amount owed to the state for fiscal year 2012-2013.

State funding has been reduced considerably over the last ten years. Appropriation funding per contact hour has decreased from \$3.23 to \$2.93 over the last ten years; disproportionately with subsequent growth in enrollment. For the 2013-2014 biennium, the State of Texas will allocate the full amount of the 10% set-aside for student success. Future allocations will be based on success points earned annually. Although State funding for TRS and ORP contributions increased, HCC's contribution has also increased; thereby increasing operational expenses related to employee benefits. Our challenge is to support more students despite declining state funds.

HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Future Outlook - Continued

The ad valorem tax rate for fiscal year 2012 was reduced to the effective tax rate, \$0.097173. In October 2013, the Board of Trustees approved to maintain the current property tax rate of \$.097173 for fiscal year 2014.

HCC anticipated the state budget shortfall and began conserving its resources through the Cost Savings program in place for the last five years. The Budget Task Force worked to address a focused, critical issue of identifying transformational strategies at the institutional level to reduce spending through one-time and on-going savings and generate one-time and on-going revenue. To date the reports and recommendations for action have resulted in significant savings that have allowed the college to protect the integrity of our instructional program, maintain our course offerings and student services, and honor our commitment to retain jobs.

Despite the economic slowdown at both the national, state and local levels, HCC's outlook for the foreseeable future is positive as a result of its strategic leadership, fiscal management and stable local economy.

Contacting the System's Financial Management

This financial report is designed to provide the System's citizens, taxpayers, students, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office at 3100 Main, Houston, Texas 77002.

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF NET POSITION
AUGUST 31, 2013 AND 2012

ASSETS	2013	(Restated) 2012
CURRENT ASSETS:		
Cash and Cash Equivalents (Note 4)	\$ 94,519,529	\$ 83,019,127
Accounts Receivable and Other Receivable, Net (Note 5)	37,013,426	42,835,262
Deferred Charges	3,330,595	3,857,966
Prepaid Expenses	8,274,232	9,686,846
	<u>143,137,782</u>	<u>139,399,201</u>
Total Current Assets		
NONCURRENT ASSETS:		
Restricted Cash and Cash Equivalents (Note 4)	25,533,681	15,476,875
Other Long-Term Investments (Note 4)	18,765,869	14,987,276
Restricted Long Term Investment (Note 4)	522,548,546	151,875,707
Capital Assets Net (Note 6)	782,119,403	726,798,884
	<u>1,348,967,499</u>	<u>909,138,742</u>
Total Noncurrent Assets		
TOTAL ASSETS	<u>1,492,105,281</u>	<u>1,048,537,943</u>
DEFFERED OUTFLOWS OF RESOURCES		
Advance Funding Valuation	<u>8,681,035</u>	<u>9,389,394</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable (Note 5)	7,756,834	10,174,643
Accrued Liabilities	17,202,942	12,261,271
Compensated Absences (Note 17)	2,261,499	2,351,464
Funds Held for Others	819,447	791,454
Unearned Revenues	55,203,615	56,588,875
Notes Payable - Current Portion (Note 7 and 12)	7,495,000	7,250,000
Bonds Payable - Current Portion (Note 7 and 8)	22,570,000	18,055,000
	<u>113,309,337</u>	<u>107,472,707</u>
Total Current Liabilities		
NONCURRENT LIABILITIES:		
Notes Payable (Note 7 and 12)	169,521,888	177,612,037
Bonds Payable (Note 7 and 8)	878,891,852	450,525,800
	<u>1,048,413,740</u>	<u>628,137,837</u>
Total Noncurrent Liabilities		
TOTAL LIABILITIES	<u>1,161,723,077</u>	<u>735,610,544</u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	230,705,769	234,824,583
Restricted - Expendable	1,215,548	488,477
Unrestricted	107,141,922	87,003,733
	<u>\$ 339,063,239</u>	<u>\$ 322,316,793</u>
TOTAL NET POSITION		

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

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	2013	(Restated) 2012
OPERATING REVENUES:		
Tuition and Fees, Net of Discounts	\$ 71,433,953	\$ 71,415,957
Federal Grants and Contracts	14,702,419	16,848,269
State Grants and Contracts	6,156,585	5,152,251
Local Grants and Contracts	81,407	95,226
Non-Governmental Grants and Contracts	2,413,531	2,497,892
Sales and Services of Educational Activities	193,328	329,382
Auxiliary Enterprises	16,092,899	16,096,494
Total Operating Revenues (Schedule A)	<u>111,074,122</u>	<u>112,435,471</u>
OPERATING EXPENSES:		
Instruction	107,489,818	100,319,497
Public Service	11,532,590	11,868,925
Academic Support	23,946,350	22,771,173
Student Services	27,822,091	24,906,487
Institutional Support	67,226,240	58,952,631
Operations and Maintenance	27,614,804	27,969,778
Scholarships and Fellowships	57,092,409	61,504,372
Auxiliary Enterprises	18,760,757	15,736,795
Depreciation	19,492,034	18,848,802
Total Operating Expenses (Schedule B)	<u>360,977,093</u>	<u>342,878,460</u>
OPERATING LOSS	<u>(249,902,971)</u>	<u>(230,442,989)</u>
NONOPERATING REVENUES (EXPENSES):		
State Appropriations	82,105,228	81,839,826
Maintenance Ad Valorem Taxes	106,097,476	105,943,722
Debt Service Ad Valorem Taxes	23,158,801	17,694,297
Gifts	1,591,888	2,053,638
Investment Income (Loss), Net	(140,747)	789,917
Interest on Capital Related Debt	(36,827,644)	(28,498,392)
Title IV Grants	94,423,841	102,023,662
Nursing Shortage Reduction	111,309	14,038
Hurricane Ike Expenses (Net of Recoveries)	40,887	11,635
Other Nonoperating Revenues	6,393,540	9,329,498
Other Nonoperating Expenses	(10,305,162)	(20,866,749)
Net Nonoperating Revenues (Schedule C)	<u>266,649,417</u>	<u>270,335,092</u>
INCREASE IN NET POSITION	16,746,446	39,892,103
NET POSITION, BEGINNING OF YEAR, AS RESTATED (Note 25)	<u>322,316,793</u>	<u>282,424,690</u>
NET POSITION, END OF YEAR	<u>\$ 339,063,239</u>	<u>\$ 322,316,793</u>

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

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Students and Other Customers	\$ 88,845,895	\$ 100,424,139
Receipts from Grants and Contracts	23,153,269	25,393,351
Payments to Suppliers for Goods and Services	(71,905,480)	(73,631,760)
Payments to or on Behalf of Employees	(206,171,462)	(196,791,005)
Payments for Scholarships and Fellowships	(57,312,596)	(62,242,741)
Other Receipts (Payments)	-	(460,152)
	<u>(223,390,374)</u>	<u>(207,308,168)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Receipts from Ad Valorem Taxes	128,883,247	122,375,914
Receipts from State Allocations	81,970,943	84,102,978
Receipts from Private Gifts	1,591,888	2,053,638
Received Federal Direct Student Loans	108,583,044	82,489,952
Disbursement of Federal Direct Student Loans	(108,426,338)	(82,489,952)
Other Non-Operating Revenue	1,312,528	1,295,274
Receipts from Title IV Grants	94,890,727	102,023,662
Receipts from Nursing	(93,490)	14,038
Receipts from IKE Relief	40,887	11,635
	<u>308,753,436</u>	<u>311,877,139</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Receipts from the Issuance of Capital Debt	454,167,571	164,314,822
Bond Issue Cost Paid on New Capital Debt Issue	(2,570,661)	(1,317,537)
Purchases of Capital Assets	(46,213,517)	(39,942,481)
Payments of Expenses Relating to Capital Assets in Plant Funds	(6,278,325)	(7,483,194)
Payments on Capital Debt and Leases - Principal	(25,305,000)	(141,976,408)
Payments on Capital Debt and Leases - Interest and Fees	(36,275,743)	(28,496,958)
	<u>337,524,325</u>	<u>(54,901,756)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales and Maturities of Investments	28,829,580	48,149,267
Interest on Investments	1,158,220	807,947
Purchase of Investments	(431,317,978)	(89,435,804)
	<u>(401,330,178)</u>	<u>(40,478,590)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	21,557,209	9,188,625
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>98,496,001</u>	<u>89,307,376</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 120,053,210</u>	<u>\$ 98,496,001</u>

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

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH		
USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (249,902,971)	\$ (230,442,988)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	19,492,035	18,848,802
Addback Non-Cash Charges (Add in the Reserve) for Doubtful Accounts	1,007,341	1,072,013
Changes in assets and liabilities		
Accounts and Other Receivables, Net	5,821,836	(6,452,755)
Prepays	(1,412,616)	(1,384,941)
Deferred Charges	527,371	1,302,715
Accounts Payables and Accruals	2,433,897	6,465,086
Unearned Revenues	(1,385,260)	3,219,142
Deposits Held for Others	27,993	64,758
	<u>26,512,597</u>	<u>23,134,820</u>
Total Adjustments		
Net Cash Used in Operating Activities	<u><u>\$ (223,390,374)</u></u>	<u><u>\$ (207,308,168)</u></u>

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

HOUSTON COMMUNITY COLLEGE SYSTEM NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY

Houston Community College System (the “System”) was established on May 8, 1971, in accordance with the laws of the State of Texas, to serve the educational needs of the Houston Independent School District, Alief Independent School District, City of Stafford and City of Missouri City. The System also serves the school districts of Katy, North Forest and Spring Branch at those districts’ requests. The System is a comprehensive public two-year institution offering academic, general, occupational, development, and continuing adult education programs through a network of colleges.

Houston Community College System is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB). While the System receives funding from local, state and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

GASB gives guidance in determining whether certain organizations for which the System is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. It requires reporting as a component unit if the organization raises and holds economic resources for the direct benefit of the governmental unit and the component unit is significant compared to the primary government. GASB guidance has been applied as required in the preparation of these financial statements.

The Houston Community College System Public Facility Corporation (“PFC”) was incorporated on January 18, 2005. The PFC is a nonprofit public facility corporation and instrumentality formed by the System pursuant to the Public Facility Corporation Act and a resolution of the Board of Trustees of the System. The PFC 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 System. The PFC is reported as a blended component unit in the financial statements of the System. The PFC is a legally separate entity and is included in the System’s financial reporting entity because of the nature of its relationship to the System. Financial information for the PFC may be obtained from its administrative office.

The Houston Community College Foundation (the “Foundation”) is a legally separate not-for-profit corporation controlled by a separate board of trustees, whose sole purpose is to advance and assist in the development, growth and operation of the System. The System does not appoint any of the Foundation’s board members nor does it fund or is it obligated to pay debt related to the Foundation. The financial position of the Foundation as of August 31, 2013 and 2012 and the cost of services provided by the System to the Foundation during the years then ended are not significant to the System. The Foundation has therefore not been included as a component unit in the financial statements of the System. Financial information for the Foundation may be obtained from its administrative office.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

The significant accounting policies followed by the System in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. The accompanying financial statements are also in accordance with the Texas Higher Education Coordinating Board’s *Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The System is reported as a special-purpose government engaged in business-type activities.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Adoption of New Accounting Standards

Effective with the fiscal year ended August 31, 2013, the System adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. With the implementation of GASB 63, the Statement of Net Assets now becomes the Statement of Net Position. Along with the name change, the Standard requires that the Statement of Net Position now include two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are required to be reported in Statement of Net Position in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are required to be reported in Statement of Net Position in a separate section following liabilities.

Effective with the fiscal year ended August 31, 2013, the System early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

Basis of Accounting

The financial statements of the System have been prepared on the accrual basis of accounting 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.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse at August 31 of each year and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

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 §56.0333). When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Title IV, Higher Education Act (HEA) Program Funds - Certain Title IV Higher Education Act Program (HEA) funds are received by the System to pass-through to the student. These funds are initially received by the System and recorded as grant revenue. When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Other Tuition Discounts - Student tuition and fees revenue are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual amount for tuition and fees charged by the System and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the System has recorded a scholarship discount. Schedule A provides a detail of tuition discounts.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgetary Data

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

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits with original maturities of three months or less from the date of acquisition. The System has classified public funds investment pools comprised of Lone Star Investment Pool (First Public) and Texas Local Government Investment Pool (TexPool) to be cash equivalents.

Investments

Investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at the time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase. Investment funds related to bond issues set aside for construction of capital assets are classified as restricted long-term investments.

Deferred Charges

Expenses and costs paid in advance which pertain to the subsequent fiscal year(s), such as scholarships disbursed to students before August 31 for fall semester classes are accounted for as deferred charges.

Capital Assets

Capital assets are stated at cost at the date of acquisition, or fair value at the date of donation. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the lesser of their related lease terms or their estimated productive lives. The System reports depreciation under a single line-item, as would be done by an entity reporting as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets and is not allocated to the functional expenditure categories. The threshold for capitalization of assets is \$5,000. Renovations of \$100,000 to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred. The following estimated useful lives are used for depreciable assets:

Buildings	50 years
Facilities and Other Improvements	20 years
Furniture, Machinery, Vehicles and Other Equipment	10 years
Telecommunications and Peripheral Equipment	5 years
Library Books	15 years
Leasehold Improvements	Lease Term

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflow of Resources

The Statement of Net Position includes a separate section for deferred outflows of resources which represents a consumption of net position that applies to future periods and thus, will not be recognized as an outflow of resources (expenses) until then. The System's deferred charge on refunding of debt results from the different in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Unearned Revenues

Tuition, fees, and other revenues received and related to the period after August 31 of any one year have been reported as unearned revenues. Also reported as unearned revenues are public education grant revenues that must be matched to certain scholarship disbursements reported as deferred charges.

Income Taxes

The System is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, etc. Organizations*. The System had no unrelated business income tax liability for the years ended August 31, 2013 and 2012.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of tuition and taxes receivable, the useful lives of property and equipment, certain accrued liabilities, and the allocation of expenses among functional areas. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Operating and Nonoperating Revenues and Expenses

The System presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB. Operating revenues and expenses generally result from providing services in connection with the System's principal ongoing operations. The principal operating revenues are tuition and related fees and contracts and grants. The major non-operating revenues are allocations from the State, property tax collections and Title IV financial aid funds. Property taxes are recognized as revenues in the year for which they are levied. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. The bookstore and vending machine operations are owned and managed by third parties. Accordingly, no discounts or allowances related to these operations are recorded by the System.

Federal Financial Assistance Programs

The System participates in several federally-funded programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Circular A-133 *Audit of States, Local Governments and Non-Profit Organizations*, and the OMB Circular A-133 Compliance Supplement.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications and Restatement

Certain 2013 amounts have been reclassified to conform with fiscal year 2012 presentation.

Certain 2012 amounts have been restated to conform with GASB65, correct prior year errors and to reflect current year reporting practices (See Note 25).

Subsequent Events

The System has evaluated events through the date the financial statements were available for issuance on November 14, 2013. No matters were identified affecting the accompanying financial statements and related disclosures that have not been disclosed elsewhere in these financial statements.

NOTE 3 – AUTHORIZED INVESTMENTS

The System is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (PFIA) (Sec. 2256.001 Texas Government Code). 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.

NOTE 4 – DEPOSITS AND INVESTMENTS

The carrying amount (book balance) of the System's demand deposits with financial institutions as of August 31, 2013 and 2012 was \$25,431,564 and \$21,087,536, respectively, and total bank balances equaled \$37,150,344 and \$31,585,506, respectively. Of the bank balances for fiscal year 2013, \$250,000 is covered by FDIC and \$36,900,344 was covered by collateral pledged in the System's name. Of the bank balances for fiscal year 2012, \$250,000 was covered by FDIC, \$12,264,065 was covered by Dodd Frank Act (expired December 31, 2012) and \$19,071,441 was collateralized. Restricted Long-Term investments include collateralized investments of \$229,979,016 and \$68,572,779 as high yield savings, \$13,175,030 and \$31,629,272 as Money Market and \$211,972,691 and \$3,945,150 as Certificate of Deposits. The collateral was held in an account of and independent third party agent.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

Cash and deposits included on Exhibit 1, Statement of Net Position, consist of the items reported below:

	<u>2013</u>	<u>2012</u>
Bank Deposits:		
Demand Deposits	<u>\$ 25,431,564</u>	<u>\$ 21,087,536</u>
Cash and Cash Equivalents:		
Petty Cash on Hand	50,710	51,114
Money Market Funds	34,709,335	7,164,359
High Yield Savings	23,972,410	33,164,042
Certificates of Deposit	33,277,309	26,304,850
TexPool	1,017,445	9,132,448
Lonestar	<u>1,594,437</u>	<u>1,591,653</u>
	<u>94,621,647</u>	<u>77,408,466</u>
Total Cash and Deposits	120,053,210	98,496,002
Restricted Cash and Cash Equivalents	<u>(25,533,681)</u>	<u>(15,476,875)</u>
Cash and Cash Equivalents (Exhibit 1)	<u>\$ 94,519,529</u>	<u>\$ 83,019,127</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

Items consisting of cash and investments included on Exhibit 1, Statements of Net Position, continue as shown below:

Type of Security	Fair Value at August 31,	
	2013	2012
U.S. Agency Securities	\$ 52,817,630	\$ 14,987,276
Texpool, Money Market, CD's, High Yield Savings		
Other securities and Checking Accounts	488,496,785	151,875,708
Total Investments	541,314,415	166,862,984
Total Cash and Deposits	120,053,210	98,496,001
Total Deposits and Investments	\$ 661,367,625	\$ 265,358,985
Cash and Cash Equivalents (Exhibit 1)	94,519,529	83,019,127
Restricted Cash and Cash Equivalents (Exhibit 1)	25,533,681	15,476,875
Other securities & Checking Accounts (Exhibit 1)	522,548,546	151,875,707
Other Long-Term Investments (Exhibit 1)	18,765,869	14,987,276
Total Deposits and Investments	\$ 661,367,625	\$ 265,358,985

As of August 31, 2013 Houston Community College System had the following investments and maturities:

Investment Type	Fair Value	Weighted Average Maturity(Years)
U.S. Agency Securities	\$ 52,817,630	5.32
Investment Pools	30,117,838	0.00
Certificates of Deposit	245,250,000	2.48
Cash and Money Market Funds (excluding \$449,553 of Operating Cash)	332,732,604	0.00
Total Fair Value	\$ 660,918,072	
Portfolio weighted average maturity		1.36

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

Interest Rate Risk - In accordance with state law and System policy, the System does not purchase any investments with maturities greater than ten years. The System manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to two years or less. The System's philosophy is to hold all investments to their maturity.

Credit Risk and Concentration of Credit Risk - In accordance with state law and the System's investment policy, investments in mutual funds and investment pools must be rated at least "AAA", commercial paper must be rated at least "A-1" or "P-1", and investments in obligations from other states, municipalities, counties, etc. must be rated at least "A". The System limits the amount it may invest in any one issuer to no more than 50 % of its total investment portfolio. In August 2011 Standard & Poor rating services downgraded the credit rating of the United States to AA+.

The credit quality (ratings) and concentration of credit exposure of securities in excess of 5% of total investments as of August 31, 2013 is as follows:

	Credit Rating	Credit Exposure
Fannie Mae (Federal National Mortgage Association)	AAA	2%
Freddie Mac (Federal Home Loan Mortgage Corporation)	AAA	1%
FHLB (Federal Home Bank)	AAA	4%
FFCB (Federal Farm Credit Bank)	AAA	1%

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

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables at August 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Accounts Receivable (net of allowance for doubtful accounts of \$287,236 for 2013 and 2012)	\$ 3,811,934	\$ 4,845,390
Student Receivables (net of allowance for doubtful accounts of \$8,276,204 for 2013 and \$7,268,864 for 2012)	27,075,231	32,017,851
Taxes Receivable (net of allowance for doubtful accounts of \$5,542,091 for 2013 and 2012)	2,531,873	2,956,266
Federal Receivables	1,977,638	2,278,712
Other Receivables	<u>1,616,750</u>	<u>737,043</u>
 Total Receivables	 <u>\$ 37,013,426</u>	 <u>\$ 42,835,262</u>

Taxes receivable at August 31, 2013 and 2012 includes an accrual of \$225,312 and \$400,896 respectfully, for property taxes assessed to service debt related to the Limited Tax Bonds, Series 2003 and Limited Tax Building and Refunding Bonds, Series 2005.

Payables at August 31, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Vendors Payable	\$ 4,562,398	\$ 5,935,858
Salaries & Benefits Payable	1,003,134	13,311
Student Payables	3,384	1,912,618
Other Payables	<u>2,187,918</u>	<u>2,312,856</u>
 Total Payables	 <u>\$ 7,756,834</u>	 <u>\$ 10,174,643</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2013 was as follows:

	(Restated) Balance August 31, 2012	Increases	Decreases	Balance August 31, 2013
Not Depreciated				
Land	\$ 110,100,164	\$ 3,918,983	\$ -	\$ 114,019,147
Construction in Process	71,553,414	44,490,805	1,282,012	114,762,207
Total Not Depreciated	<u>181,653,578</u>	<u>48,409,788</u>	<u>1,282,012</u>	<u>228,781,354</u>
Capital Assets Subject to Depreciation:				
Buildings	518,915,028	14,940,392	-	533,855,420
Other Real Estate Improvements	65,209,145	5,457,673	-	70,666,818
Total Building and Other Real Estate Improvements	584,124,173	20,398,065	-	604,522,238
Library Books	16,835,197	339,132	12,423	17,161,906
Furniture, Machinery, Vehicles and Other Equipment	67,982,609	6,975,791	123,749	74,834,651
Telecommunications and Peripheral Equipment	37,185,804			37,185,804
Subtotal	<u>706,127,783</u>	<u>27,712,988</u>	<u>136,172</u>	<u>733,704,599</u>
Accumulated depreciation:				
Buildings	66,881,447	9,000,156	-	75,881,603
Other Real Estate Improvements	9,593,520	3,004,395	-	12,597,915
Total Building and Other Real Estate Improvements	76,474,967	12,004,551	-	88,479,518
Library Books	13,145,297	534,021	12,423	13,666,895
Furniture, Machinery, Vehicles and Other Equipment	45,886,190	4,941,060	95,538	50,731,712
Telecommunications and Peripheral Equipment	25,476,023	2,012,402	-	27,488,425
Subtotal	<u>160,982,477</u>	<u>19,492,034</u>	<u>107,961</u>	<u>180,366,550</u>
Net Other Capital Assets	<u>545,145,306</u>	<u>8,220,954</u>	<u>28,211</u>	<u>553,338,049</u>
Net Capital Assets	<u>\$ 726,798,884</u>	<u>\$ 56,630,742</u>	<u>\$ 1,310,223</u>	<u>\$ 782,119,403</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS – CONTINUED

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

	Balance August 31, 2011	Increases	Decreases	(Restated) Balance August 31, 2012
Not Depreciated:				
Land	\$ 99,081,861	\$ 11,018,303	\$ -	\$ 110,100,164
Construction in Process	59,856,934	11,696,480	-	71,553,414
Total Not Depreciated	<u>158,938,795</u>	<u>22,714,783</u>	<u>-</u>	<u>181,653,578</u>
Capital Assets Subject to Depreciation:				
Buildings	507,427,899	11,487,129	-	518,915,028
Other Real Estate Improvements	54,738,950	10,470,195	-	65,209,145
Total Building and Other Real Estate Improvements	<u>562,166,849</u>	<u>21,957,324</u>	<u>-</u>	<u>584,124,173</u>
Library Books	16,519,809	345,354	29,966	16,835,197
Furniture, Machinery, Vehicles and Other Equipment	65,268,502	5,201,858	2,487,751	67,982,609
Telecommunications and Peripheral Equipment	<u>36,862,964</u>	<u>322,840</u>	<u>-</u>	<u>37,185,804</u>
Subtotal	680,818,124	27,827,376	2,517,717	706,127,783
Accumulated Depreciation:				
Buildings	58,182,600	8,752,748	53,901	66,881,447
Other Real Estate Improvements	6,944,149	2,651,245	1,874	9,593,520
Total Building and Other Real Estate Improvements	<u>65,126,749</u>	<u>11,403,993</u>	<u>55,775</u>	<u>76,474,967</u>
Library Books	12,637,169	538,093	29,965	13,145,297
Furniture, Machinery, Vehicles and Other Equipment	43,587,128	3,933,953	1,634,891	45,886,190
Telecommunications and Peripheral Equipment	<u>23,299,394</u>	<u>2,972,763</u>	<u>796,134</u>	<u>25,476,023</u>
Subtotal	<u>144,650,440</u>	<u>18,848,802</u>	<u>2,516,765</u>	<u>160,982,477</u>
Net Other Capital Assets	<u>536,167,684</u>	<u>8,978,574</u>	<u>952</u>	<u>545,145,306</u>
Net Capital Assets	<u>\$ 695,106,479</u>	<u>\$ 31,693,357</u>	<u>\$ 952</u>	<u>\$ 726,798,884</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liability activity for the years ended August 31, 2013 and 2012 was as follows:

	Balance as of September 1, 2012	Additions	Reductions	Balance as of August 31, 2013	Current Portion	Noncurrent Portion
Long-Term Notes Payable	\$ 184,862,037	\$ -	\$ (7,845,149)	\$ 177,016,888	\$ 7,495,000	\$ 169,521,888
Bonds:						
Revenue Bonds	230,326,638	-	(14,751,933)	215,574,705	11,320,000	204,254,705
PFC Lease Revenue	111,744,549	-	(3,996,560)	107,747,989	4,035,000	103,712,989
General Obligation Bonds	126,509,613	454,167,571	(2,538,026)	578,139,158	7,215,000	570,924,158
Total Bonds	468,580,800	454,167,571	(21,286,519)	901,461,852	22,570,000	878,891,852
Compensated absences (Note 17)	-	-	-	-	-	-
Total Noncurrent Liabilities	<u>\$ 653,442,837</u>	<u>\$ 454,167,571</u>	<u>\$ (29,131,668)</u>	<u>\$ 1,078,478,740</u>	<u>\$ 30,065,000</u>	<u>\$ 1,048,413,740</u>
	Balance as of September 1, 2011	Additions	Reductions	Balance as of August 31, 2012	Current Portion	Noncurrent Portion
Leases	\$ 1,304,824	\$ -	\$ (1,304,824)	\$ -	\$ -	\$ -
Long-Term Notes Payable	170,456,243	22,057,247	(7,651,453)	184,862,037	7,250,000	177,612,037
Bonds:						
Revenue Bonds	226,910,850	16,000,000	(12,584,212)	230,326,638	13,435,000	216,891,638
PFC Lease Revenue	115,601,109	-	(3,856,560)	111,744,549	3,880,000	107,864,549
General Obligation Bonds	130,929,581	126,257,575	(130,677,543)	126,509,613	740,000	125,769,613
Total Bonds	473,441,540	142,257,575	(147,118,315)	468,580,800	18,055,000	450,525,800
Compensated absences (Note 17)	-	-	-	-	-	-
Total Noncurrent Liabilities	<u>\$ 645,202,607</u>	<u>\$ 164,314,822</u>	<u>\$ (156,074,592)</u>	<u>\$ 653,442,837</u>	<u>\$ 25,305,000</u>	<u>\$ 628,137,837</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE

Student Fee Revenue Bonds:

The System issued several Student Fee Revenue Bonds during the fiscal years 1997 through 2011 with interest rates ranging from 3.0% to 5.62% and maturities ranging from 2008 through 2031 (see table below for details). Debt service requirements are payable solely from and secured by a first lien on certain pledged revenues which include general fees, out-of-district fees and any other revenues or receipts of the System which may, in the future, be pledged to the payment of the bonds. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indenture. All authorized bonds have been issued. The System has never defaulted on any bond or interest payment.

Public Facility Corporation Lease Revenue Bonds:

The Houston Community College System Public Facility Corporation (PFC) issued \$58,885,000 in Lease Revenue Bonds, Series 2007 on February 1, 2007 with interest rates ranging from 4.00% to 5.62%. The Bonds were issued at a premium of \$3,094,498. Bond maturities range from April 15, 2009 through April 15, 2031. Bonds maturing on or after April 15, 2018 are subject to redemption prior to their scheduled maturities on April 15, 2017. Bonds maturing in the years 2020, 2022, 2027 and 2031 are subject to mandatory redemption prior to maturity on various dates. Proceeds of the Bonds were used to construct a four-story 112,000 square foot building for the System's Northline Mall Campus.

The System and the PFC entered into a Lease with an Option to Purchase effective February 1, 2007, whereby the System will lease the facility from the PFC and will make semiannual lease payments to the PFC sufficient to pay principal and interest on the PFC Lease Revenue Bonds.

Under terms of a Security Agreement dated February 1, 2007 the PFC has granted a first mortgage lien on and first deed of trust title on the Northline Mall Campus Project (the Northline Project) to a bank trustee on behalf of the owners of the Bonds. The PFC has also granted a first priority security interest in the personal property associated with the Northline Project.

The PFC issued \$36,950,000 in Lease Revenue Bonds, Series 2006 on October 1, 2006 with interest rates ranging from 4.00% to 5.00%. The Bonds were issued at a discount of \$546,238. Bond maturities range from April 15, 2008 through April 15, 2031. Bonds maturing on or after April 15, 2017 are subject to redemption prior to their scheduled maturities on April 15, 2016. Bonds maturing in the years 2028 and 2031 are subject to mandatory redemption prior to maturity on various dates. Proceeds of the Bonds were used to acquire and renovate a 285,000 square foot building for the System's Alief Campus.

The System and the PFC entered into a Lease with an Option to Purchase effective October 1, 2006, whereby the System will lease the facility from the PFC and will make semiannual lease payments to the PFC sufficient to pay principal and interest on the PFC Lease Revenue Bonds.

Under terms of a Security Agreement dated October 1, 2006 the PFC has granted a first mortgage lien on and first deed of trust title on the Alief Campus Project (the Alief Project) to a bank trustee on behalf of the owners of the Bonds. The PFC has also granted a first priority security interest in the personal property associated with the Alief Project.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

The PFC issued \$19,155,000 in Lease Revenue Bonds, Series 2005C on December 1, 2005 with interest rates ranging from 4.00% to 5.00%. The Bonds were issued at a discount of \$170,064. Bond maturities range from April 15, 2007 through April 15, 2030. Bonds maturing on or after April 15, 2016 are subject to redemption prior to their scheduled maturities on April 15, 2015. Bonds maturing in the years 2026, 2028 and 2030 are subject to mandatory redemption prior to maturity on various dates. Proceeds of the Bonds were used to acquire 39.03 acres of land at a cost of \$3,658,550 on the Northeast campus for construction of a Public Safety Institute. The Public Safety Institute consists of three facilities: a six-story fire tower, a two-story burn building and a shooting range at an approximate cost of \$13,000,000.

The System and the PFC entered into a Lease with an Option to Purchase effective December 1, 2005, whereby the System will lease the facility from the PFC and will make semiannual lease payments to the PFC sufficient to pay principal and interest on the PFC Lease Revenue Bonds.

Under terms of a Security Agreement dated December 1, 2005 the PFC has granted a first mortgage lien on and first deed of trust title on the Public Safety Institute Project (the PSI Project) to a bank trustee on behalf of the owners of the Bonds. The PFC has also granted a first priority security interest in the personal property associated with the PSI Project.

The PFC issued \$11,605,000 in Lease Revenue Bonds, Series 2005A and 2005B on June 1, 2005 with interest rates ranging from 3.50% to 5.00%. The Bonds were issued at a premium of \$492,931. Bond maturities range from April 15, 2006 through April 15, 2028. Bonds maturing on or after April 15, 2016 are subject to redemption prior to their scheduled maturities on April 15, 2015. Proceeds of the Bonds were used to acquire the land and building comprising the System's Westgate campus and 24.27 acres of land adjacent to the building.

The System and the PFC entered into a Lease with an Option to Purchase effective June 1, 2005, whereby the System will lease the facility from the PFC and will make semiannual lease payments to the PFC sufficient to pay principal and interest on the PFC Lease Revenue Bonds.

Under terms of a Security Agreement dated June 1, 2005 the PFC has granted a first mortgage lien on and first deed of trust title on the Westgate Campus Project (the Westgate Project) to a bank trustee on behalf of the owners of the Bonds. The PFC has also granted a first priority security interest in the personal property associated with the Westgate Project.

Limited Tax Bonds:

The System issued \$144,155,000 in Limited Tax Bonds, Series 2003 ("Series 2003") on December 1, 2003 with interest rates ranging from 2.0% to 5.0%. The Bonds were issued at a premium of \$6,593,497. Bond maturities range from February 15, 2006 through February 15, 2028. Bonds maturing on or after February 15, 2014 are subject to redemption prior to their scheduled maturities on February 15, 2013. On September 1, 2005 the System issued \$1,825,000 in bonds as part of the \$8,924,992 in Limited Tax Building and Refunding Bonds, Series 2005 (Series 2005). The Series 2003 Bonds are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Series 2003 Bonds were used for the construction, maintenance and equipment of school buildings in the System and the purchase of necessary sites therefore, and to pay the costs of issuance related to the Bonds. The majority of the Series 2003 bonds were defeased in 2012. See Note 9.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

Limited Tax Bonds - Continued:

On September 1, 2005 the System issued \$1,825,000 in bonds as part of the \$8,924,992 in Limited Tax Building and Refunding Bonds, Series 2005 (Series 2005). The Series 2003 Bonds are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Series 2003 Bonds were used for the construction, maintenance and equipment of school buildings in the System and the purchase of necessary sites therefore, and to pay the costs of issuance related to the Bonds. The Series 2005 bonds were defeased in 2012. See Note 9.

The System issued \$398,775,000 in Limited Tax General Obligation Bonds, Series 2013 (“Series 2013”) on March 19, 2013 with interest rates ranging from 3.0% to 5.0%. The Bonds were issued at a premium of \$55,392,571. Bond maturities range from February 15, 2015 through February 15, 2043. Bonds maturing on or after February 15, 2024, except those maturing in 2027, 2036 and 2037 are subject to redemption prior to their scheduled maturities on February 15, 2023. Bonds maturing on February 15, 2027 are subject to redemption on February 15, 2015. Bonds maturing on February 15, 2036 are subject to redemption on February 15, 2020. Bonds maturing on February 15, 2037 are subject to redemption on February 15, 2017. The Series 2013 Bonds are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Series 2013 Bonds will be used for the construction, maintenance and equipment of school buildings in the System and the purchase of necessary sites therefore, and to pay the costs of issuance related to the Bonds.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

Date Series		Par Value	Maturity Date	Interest Rate	Outstanding	Outstanding
Issued	Balances at				Balances at	
					August 31, 2013	August 31, 2012
Student Fee Revenue Bonds:						
2005	\$	51,285,000	04/15/2009 - 2020	3.250% - 5.250%	\$ 33,045,000	\$ 37,745,000
2006		72,815,000	04/15/2007 - 2030	4.000% - 5.000%	53,930,000	57,455,000
2008		54,540,000	04/15/2009 - 2030	4.000% - 5.250%	46,730,000	48,425,000
2010		27,250,000	04/15/2012 - 2031	3.000% - 5.250%	25,475,000	26,375,000
2011		28,975,000	04/15/2012 - 2025	4.000% - 5.250%	28,975,000	31,590,000
2011T		16,000,000	04/15/2015 - 2021	2.430% - 4.270%	16,000,000	16,000,000
PFC Lease Revenue Bonds (Blended Component Unit):						
2005A	\$	11,605,000	04/15/2006 - 2028	3.500% - 5.000%	8,725,000	9,120,000
2005C		19,155,000	04/15/2007 - 2030	4.000% - 5.000%	15,400,000	16,000,000
2006		36,950,000	04/15/2008 - 2031	4.000% - 5.000%	30,660,000	31,815,000
2007		58,885,000	04/15/2009 - 2031	4.000% - 5.625%	50,870,000	52,600,000
Limited Tax Bonds:						
2003	\$	144,155,000	02/15/06 - 2028	2.000% - 5.000%	455,000	1,195,000
2011		109,490,000	02/15/14 - 2028	4.000% - 5.000%	109,490,000	109,490,000
2013		398,775,000	02/15/15 - 2043	3.000% - 5.000%	398,775,000	-
Total Principal Payable					818,530,000	437,810,000
Unamortized Premium and Discount, Net					82,931,852	30,770,800
Total Bonds Payable					\$ 901,461,852	\$ 468,580,800

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

Debt service requirements to maturities as of August 31, 2013 are summarized as follows:

Year ending August 31,	Student Fee Revenue Bonds			PFC Lease Revenue Bonds			Limited Tax Bonds			Total Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2014	\$11,320,000	\$9,658,049	\$20,978,049	\$4,035,000	\$4,923,179	\$8,958,179	\$7,215,000	\$24,080,244	\$31,295,244	\$22,570,000	\$38,661,471	\$61,231,471
2015	13,545,714	9,232,249	22,777,963	4,240,000	4,726,279	8,966,279	7,740,000	23,789,519	31,529,519	25,525,714	37,748,046	63,273,761
2016	14,290,714	8,737,624	23,028,338	4,445,000	4,519,204	8,964,204	8,880,000	23,423,369	32,303,369	27,615,714	36,680,196	64,295,911
2017	14,895,714	8,039,399	22,935,113	4,665,000	4,303,854	8,968,854	10,145,000	22,961,494	33,106,494	29,705,714	35,304,746	65,010,461
2018	15,550,714	7,345,911	22,896,626	4,875,000	4,090,554	8,965,554	10,035,000	22,488,644	32,523,644	30,460,714	33,925,109	64,385,823
2019 - 2023	71,997,143	24,732,531	96,729,674	27,950,000	16,856,831	44,806,831	62,255,000	103,931,019	166,186,019	162,202,143	145,520,381	307,722,524
2024 - 2028	42,775,000	10,701,294	53,476,294	34,885,000	9,929,963	44,814,963	69,355,000	87,478,469	156,833,469	147,015,000	108,109,725	255,124,725
2029 - 2033	70,850,000	1,596,050	72,446,050	20,560,000	1,991,725	22,551,725	110,455,000	66,880,922	177,335,922	150,795,000	70,468,697	221,263,697
2034 - 2038	-	-	-	-	-	-	113,640,000	38,136,500	151,776,500	113,640,000	38,136,500	151,776,500
2039 - 2043	-	-	-	-	-	-	109,000,000	12,250,250	121,250,250	109,000,000	12,250,250	121,250,250
	<u>\$255,225,000</u>	<u>\$80,043,106</u>	<u>\$335,268,106</u>	<u>\$105,655,000</u>	<u>\$51,341,588</u>	<u>\$156,996,588</u>	<u>\$508,720,000</u>	<u>\$425,420,428</u>	<u>\$934,140,428</u>	<u>\$818,530,000</u>	<u>\$556,805,122</u>	<u>\$1,375,335,122</u>

Debt service requirements to maturities as of August 31, 2012 are summarized as follows:

Year ending August 31,	Student Fee Revenue Bonds			PFC Lease Revenue Bonds			Limited Tax Bonds			Total Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$13,435,000	\$10,254,199	\$23,689,199	\$3,880,000	\$5,077,391	\$8,597,391	\$740,000	\$5,350,475	\$6,090,475	\$18,055,000	\$20,682,065	\$38,737,065
2014	11,320,000	9,658,049	20,978,049	4,035,000	4,923,179	8,958,179	7,215,000	5,184,475	12,399,475	22,570,000	19,765,703	42,335,703
2015	13,545,714	9,232,249	22,777,963	4,240,000	4,726,279	8,966,279	5,610,000	4,925,700	10,535,700	23,395,714	18,884,228	42,279,942
2016	14,290,714	8,737,624	23,028,338	4,445,000	4,519,204	8,964,204	5,865,000	4,666,875	10,531,875	24,600,714	17,923,703	42,524,417
2017	14,895,714	8,039,399	22,935,113	4,665,000	4,303,854	8,968,854	6,150,000	4,380,250	10,530,250	25,710,714	16,723,503	42,434,217
2018 - 2022	78,717,858	28,603,731	107,321,589	26,715,000	18,097,122	44,812,122	35,755,000	16,910,625	52,665,625	141,187,858	63,611,478	204,799,336
2023 - 2027	43,310,000	12,845,025	56,155,025	33,395,000	11,415,537	44,810,537	45,830,000	6,829,500	52,659,500	122,535,000	31,090,062	153,625,062
2028 - 2031	28,075,000	2,927,030	31,002,030	28,160,000	3,356,413	31,516,413	3,520,000	88,000	3,608,000	59,755,000	6,371,443	66,126,443
	<u>\$217,590,000</u>	<u>\$90,297,305</u>	<u>\$307,887,305</u>	<u>\$109,535,000</u>	<u>\$56,418,979</u>	<u>\$165,953,979</u>	<u>\$110,685,000</u>	<u>\$48,335,900</u>	<u>\$159,020,900</u>	<u>\$437,810,000</u>	<u>\$195,052,184</u>	<u>\$632,862,184</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – DEFEASANCE OF LONG-TERM DEBT

The System issued \$109,490,000 in Limited Tax Refunding Bonds, Series 2011 (“Series 2011 Bonds”) on October 12, 2011 with interest rates ranging from 4.00% to 5.00%. The Series 2011 Bonds were used to partially refund \$112,195,000 of outstanding Limited Tax Bonds, Series 2003 (“Series 2003 Bonds”) with interest rates ranging from 5.00% to 5.25%. The optional redemption date of the Series 2003 Bonds is February 14, 2013. Additionally, the Series 2011 Bonds were used to totally refund \$4,955,000 of outstanding Limited Tax Building and Refunding Bonds, Series 2005 (“Series 2005”) with interest rates of 5.00%. The optional redemption date of the Series 2005 Bonds was November 14, 2011.

Net proceeds of \$125,612,347, after payment of \$645,228 in underwriting fees were used as follows: 1) \$125,221,930 for the purchase of U.S. government securities; and 2) \$389,917 to pay insurance and other issuance costs.

Proceeds of \$125,221,930 of the Series 2011 Bonds were placed in an irrevocable trust with an escrow agent and were used to redeem the 2003 Bonds on the call date of February 14, 2013. The 2005 Bonds were called and retired on November 14, 2011. The liability for these refunded bonds and the securities held by the escrow agent have been excluded from the Statement of Net Position.

The current refunding had the following results:

- \$7,632,450 in future cash flow savings resulting from a decrease in the aggregate debt service payments over the next seventeen years.
- Economic gain of \$8,592,860, which is the difference between the present values of the old and new debt service payments.
- Advance funding valuation of \$8,071,930 was created, which is the difference between the reacquisition price of \$125,221,930 and the carrying amount of the refunded bonds of \$117,150,000. The valuation is deferred and amortized as a component of interest expense over the term of the defeased Series 2003 Bonds.

NOTE 10 – DEFEASED BONDS OUTSTANDING

The defeased bonds outstanding at August 31, 2013 and 2012 were as follows:

Bond issue	Year Refunded	Par Value Outstanding	
		August 31, 2013	August 31, 2012
Series 2003 Limited TaxBonds	2006/2012	-	119,295,000
Series 2005 Limited TaxBonds	2012	-	4,955,000
Total		\$ -	\$ 124,250,000

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – FUNDS HELD IN TRUST BY OTHERS

The balances of funds held in trust by others on behalf of the Public Facility Corporation are reflected in the financial statements. At August 31, 2013 and 2012, there were ten funds for the benefit of the Public Facility Corporation. These trust assets represent bond proceeds to be utilized for construction purposes. The assets of these funds are reported by the trustee at values totaling \$1,794,080 and \$3,113,910 at August 31, 2013 and August 31, 2012, respectively.

NOTE 12 – NOTES PAYABLE

The System issued \$19,590,000 in Maintenance Tax Notes, Series 2011A (“Notes”) on October 12, 2011 with interest rates ranging from 3.00% to 5.25%. The Notes were issued at a premium of \$2,467,247. Note maturities range from February 15, 2013 through February 15, 2031. Notes maturing on or after February 15, 2022 are subject to redemption prior to their scheduled maturities on February 15, 2021. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes will be used for the renovation and equipment of existing facilities and replacement of information technology systems, and to pay the costs of issuance related to the Notes.

The System issued \$41,560,000 in Maintenance Tax Notes, Series 2011 (“Notes”) on March 10, 2011 with interest rates ranging from 3.00% to 5.25%. The Notes were issued at a premium of \$1,800,441. Note maturities range from February 15, 2012 through February 15, 2031. Notes maturing on or after February 15, 2022 are subject to redemption prior to their scheduled maturities on February 15, 2021. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes will be used for the renovation and equipment of existing facilities and replacement of information technology systems, and to pay the costs of issuance related to the Notes.

The System issued \$47,645,000, in Maintenance Tax Notes, Series 2010 (“Notes”) on July 29, 2010 with interest rates ranging from 2.00% to 5.00%. The Notes were issued at a premium of \$4,925,575. Note maturities range from February 15, 2012 through February 15, 2029. Notes maturing on or after February 15, 2021 are subject to redemption prior to their scheduled maturities on February 15, 2020. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes will be used for the renovation and equipment of existing facilities, and to pay the costs of issuance related to the Notes.

In 2009, the System entered into an agreement to finance the purchase of software licenses from Oracle Credit Corporation. The note is payable over three years and is non-interest bearing. The note was paid-off in 2012.

The System issued \$13,830,000, in Maintenance Tax Notes, Series 2009 (“Notes”) on September 1, 2009 with interest rates ranging from 2.50% to 5.00%. The Notes were issued at a premium of \$451,444. Note maturities range from February 15, 2011 through February 15, 2025. Notes maturing on or after February 15, 2020 are subject to redemption prior to their scheduled maturities on February 15, 2019. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes will be used to pay for rehabilitation and energy conservation renovations to existing facilities, and to pay the costs of issuance related to the Notes.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – NOTES PAYABLE – CONTINUED

The System issued \$54,975,000 in Maintenance Tax Notes, Series 2008 (“Notes”) on March 1, 2008 with interest rates ranging from 3.00% to 5.00%. The Notes were issued at a premium of \$1,937,320. Note maturities range from February 15, 2009 through February 15, 2028. Notes maturing on or after February 15, 2019 are subject to redemption prior to their scheduled maturities on February 15, 2018. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes will be used for the renovation and equipment of existing facilities, and to pay the costs of issuance related to the Notes.

The System issued \$12,000,000 in Maintenance Tax Notes, Series 2006 (“Notes”) on February 1, 2006 with interest rates ranging from 3.00% to 4.50%. The Notes were issued at a discount of \$88,756. Note maturities range from February 15, 2007 through February 15, 2026. Notes maturing on or after February 15, 2007 are subject to redemption prior to their scheduled maturities on February 15, 2016. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes were used for the construction of a central utility plant on the Central campus, and to pay the costs of issuance related to the Notes.

Maturities of notes payable at August 31, 2013 were as follows:

<u>Year ending August 31</u>	<u>Central Utility Plant</u>	<u>Capital Improvements</u>	<u>Total</u>
2014	\$ 889,950	\$ 14,279,220	\$ 15,169,170
2015	888,550	14,272,383	15,160,933
2016	891,250	14,264,983	15,156,233
2017	888,050	14,257,958	15,146,008
2018	888,566	14,277,426	15,165,992
2019 - 2023	4,442,569	71,240,328	75,682,897
2024 - 2028	2,666,291	67,425,744	70,092,035
2029 - 2031	-	18,553,074	18,553,074
	<u>11,555,226</u>	<u>228,571,116</u>	<u>240,126,342</u>
Total Payments	11,555,226	228,571,116	240,126,342
Less Amounts Representing Interest	<u>(2,776,068)</u>	<u>(60,333,386)</u>	<u>(63,109,454)</u>
Total Principal Payable	<u>\$ 8,779,158</u>	<u>\$ 168,237,730</u>	<u>\$ 177,016,888</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – NOTES PAYABLE – CONTINUED

Maturities of notes payable at August 31, 2012 were as follows:

<u>Year ending August 31</u>	<u>Central Utility Plant</u>	<u>Capital Improvements</u>	<u>Total</u>
2013	\$ 890,550	\$ 14,290,045	\$ 15,180,595
2014	889,950	14,279,220	15,169,170
2015	888,550	14,272,383	15,160,933
2016	891,250	14,264,983	15,156,233
2017	888,050	14,257,958	15,146,008
2018 - 2022	4,443,227	71,275,456	75,718,683
2023 - 2027	3,554,197	68,686,949	72,241,146
2028 - 2031	-	31,534,169	31,534,169
Total Payments	12,445,774	242,861,163	255,306,937
Less Amounts Representing Interest	(3,166,056)	(67,278,844)	(70,444,900)
Total Principal Payable	<u>\$ 9,279,718</u>	<u>\$ 175,582,319</u>	<u>\$ 184,862,037</u>

NOTE 13 – OPERATING LEASES

The System leases certain educational facilities, offices and other equipment. Future minimum rental payments under non-cancelable operating leases having remaining terms in excess of one year as of August 31, 2013 for each of the next five years and thereafter, and in the aggregate are as follows:

<u>Year ending August 31</u>	<u>Amount</u>
2014	\$ 1,064,333
2015	962,224
2016	967,596
2017	268,430
2018	274,095
Thereafter	<u>195,179</u>
Total	<u>\$ 3,731,857</u>

Rent expense totaled approximately \$1.2 million and \$1.9 million for the years ended August 31, 2013 and 2012, respectively.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 – LEASED FACILITIES

The System leases office space to other entities under operating leases. Minimum lease payments due to the System under these operating leases as of August 31, 2013 are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2014	\$ 4,523,320
2015	4,447,061
2016	2,425,814
2017	30,000
2018	<u>30,000</u>
Total	<u>\$ 11,456,195</u>

The System received approximately \$5.0 million in rental income for the years ended August 31, 2013 and 2012, respectively.

NOTE 15 – RETIREMENT PLANS

The State of Texas has joint contributory retirement plans for almost all its employees. On-behalf payments of these benefits are recognized as restricted revenues and restricted expenses during the year. One of the primary plans in which the system participates is administered by the Teacher Retirement System of Texas.

Teacher Retirement System of Texas

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6% 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; (2) A state statute prohibits benefits improvements or contribution reductions if, as result of a ~~the~~ particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if that amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member conrtion rate of 6.4% for fiscal years 2011 through 2013 and a state contribution rate of 6.4%, 6.0% and 6.664% for fiscal years 2013, 2012 and 2011, respectively.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 – RETIREMENT PLANS – CONTINUED

Optional Retirement Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.0% and 6.65%, respectively. As part of the College cost saving initiatives for fiscal year 2012, the College no longer provides subsidies for employees who participate in ORP. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

Retirement Expense

The retirement expense to the State for the System was \$4,407,127, \$3,956,728 and \$8,423,783 for the fiscal years ended August 31, 2013, 2012 and 2011, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the System. The retirement expense to the State on behalf of the System did not reflect a shortfall of \$3,982,129 in fiscal year 2012 for Teacher Retirement System of Texas. However, in fiscal year 2013, the state legislator determined that the shortfall of \$2,985,498 and \$3,982,129 for the fiscal years 2012 and 2013 is an expense to the System. The shortfall for both years is expensed in fiscal year 2013.

The total payroll for all System employees was \$174,038,989 and \$169,182,563 for fiscal years 2013 and 2012, respectively. The total payroll of employees covered by the Teacher Retirement System was \$ 100,405,708 and \$96,247,712 and the total payroll of employees covered by the Optional Retirement Program was \$41,672,052 and \$42,254,561 for fiscal years 2013 and 2012, respectively.

NOTE 16 – DEFERRED COMPENSATION PROGRAM

The System's employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. Both a 403(b) plan and a 457 plan are available. The plans are funded by employee contributions such that the employer is not liable for the diminution in value or loss of all or part of the participating employees' deferred amounts or investment income due to market conditions or the failure, insolvency or bankruptcy of a qualified vendor. The total number of employees participating in the programs at August 31, 2013 and 2012 were 638 and 659, respectively.

During fiscal years ended August 31, 2013 and August 31, 2012, employee contributions amounting to \$4,106,672 and \$4,127,303 were invested in the plans respectively.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 – COMPENSATED ABSENCES

Full-time employees earn personal leave at the rate of 12 hours for every month of service in the System up to a maximum of 680 hours. Each pay period 4 sick leave hours and 2 catastrophic leave hours will be accrued. Leave hours are not available for use until accrued. After the 680 hour maximum is reached, the full-time employee will accrue catastrophic leave of 12 hours per month up to a maximum of 1000 hours. Earned personal or catastrophic leave unused by employees is not under any circumstances compensated by the System. Earned personal or catastrophic days may be used by employees for sick leave.

Employees earn up to 160 vacation hours depending on the number of years employed with the System. Up to 40 earned vacation hours may be carried forward by employees from one fiscal year to another, but must be utilized before the end of February of the following year or be lost. An employee is compensated for any earned but unused vacation hours upon termination of employment with the System. Accrued compensable absences of \$2,261,498 and \$2,351,464 for earned but unused vacation hours in accordance with the vacation earning and carry-forward policy of the System has been included in the financial statements for the years ended August 31, 2013 and 2012, respectively.

NOTE 18 – COMMITMENTS

The System has entered into contracts for the planning and construction of new facilities, as well as the renovation and repair of existing campuses. Commitments remaining under such contracts were \$36,471,334 at August 31, 2013. The System has also entered into contracts for technology capital projects, with commitments of \$8,417,333 remaining at August 31, 2013. Proceeds from the sales of various bonds and notes will fund the purchase and construction of new facilities and the technology projects.

The Public Facility Corporation has entered into contracts for the planning and construction of new facilities, as well as the renovation and repair of existing campuses. Commitments remaining under such contracts were \$146,582 at August 31, 2013. Proceeds from the sale of the Public Facility Corporation Lease Revenue Bonds will fund the construction of new facilities.

Community College of Qatar

In May 2010, the System entered into a five-year service agreement with The Community College of Qatar (CCQ) to develop the community college model to meet the educational needs of Qatar. The agreement for the five-year period represents a \$45.6 million commitment by the CCQ for HCC services plus other necessary costs. Either party may terminate the agreement with a 180 calendar day notice provided that the 180 day notice shall not end prior to the last day of the academic year. The System is developing a custom curriculum and will institute a fully operational community college. HCC is also providing the faculty and staff while the CCQ is in development. Classes at the CCQ began in Fall 2010. The CCQ will reimburse the System in accordance with the terms of the agreement. At August 31, 2013 and 2012, amounts due under this agreement totaled \$1,352,007 and \$1,999,842, respectively, and are included in other receivables in the accompanying Statements of Net Position.

NOTE 19 – CONTINGENCIES

From time to time, the System is a defendant in legal proceedings related to its operations as a college. In the best judgment of the System's management, after consultation with its legal counsel, the outcome of any present legal proceedings will not have a materially adverse effect on the accompanying financial statements.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 – CONTINGENCIES – CONTINUED

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

January 2013, State of Texas House Bill Section III-Rider 21 mandated Junior Colleges to pay the retirement shortfall for the 2012-13 biennium by August 2013. Houston Community College paid \$2,985,498 for fiscal year 2012 and \$3,982,129 for fiscal year 2013.

A penalty in the amount of \$724,100 was assessed by IRS for incorrect filing of 1098's for the year of 2011. These filings violated Internal Revenue code (IRC) section 6721. The System has responded to IRS in an attempt to mitigate this matter and has included a contingent liability in the amount of \$724,100 in the fiscal year 2013 financial statements.

NOTE 20 – CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the requirements of the accounting principles generally accepted in the United States of America. Funds received, but not expended during the reporting period, are recorded as unearned revenues. Revenues are recognized as funds are actually expended. For Federal and State contract and grant awards, funds expended, but not collected, are reported as accounts receivable. Contract and grant awards that are not yet funded and for which the System has not yet performed services are not included in the financial statements.

Revenues are disclosed on Exhibit 2. For Federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended, but not collected, are reported as Accounts Receivable on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g., multi-year awards, or funds awarded during fiscal years 2013 and 2012 for which monies have not been received nor funds expended totaled \$8,160,160 and \$13,410,654 respectively. Of these amounts, \$4,213,051 and \$10,169,394 were from Federal Contract and Grant Awards; \$1,434,172 and \$768,138 were from State Contract and Grant Awards; \$87,379 and \$78,785 from Local Contract and Grant Awards; and \$2,425,558 and \$2,394,337 were from Non-Governmental Contract and Grant Awards for the fiscal years ended August 31, 2013 and 2012, respectively.

NOTE 21 – POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for both active and retired employees. Almost all of the employees may become eligible for these benefits if they reach normal retirement age while working for the State. These and similar benefits for active employees are provided through a self-funded State plan which is administered by an insurance company. The premiums are based on benefits paid during the previous year. The State's contribution per full-time employee ranged from \$470.38 and \$919.82 per month for the year ended August 31, 2013 (\$438.30 and \$856.94 per month for the year ended August 31, 2012) and totaled \$18,427,127, for the year ended August 31, 2013 (\$16,791,073 for the year ended August 31, 2012).

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 – POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS – CONTINUED

The cost of premiums for 517 retirees in the year ended August 31, 2013 was \$3,055,213 (retiree benefits for 509 retirees cost \$2,691,906 in the year ended August 31, 2012). For 2,261 active employees, the cost of premiums was \$15,371,915 for the year ended August 31, 2013 (active employee benefits for 2,193 employees cost \$14,099,170 for the year ended August 31, 2012). On behalf payments of these benefits were recognized as restricted revenues and restricted expenses during the year.

NOTE 22 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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

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

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

The System's contributions to SRHP for the years ended August 31, 2013 and 2012 were \$3,049,496 and \$2,683,786, respectively, which equaled the required contributions each year.

NOTE 23 – PROPERTY TAX

The System's property tax is levied each October 1 on the basis of assessed values listed as of the prior January 1 for all real and business personal property located in System.

At August 31:	2013	2012
Assessed valuation of the System	\$ 145,875,030,461	\$ 159,141,889,758
Less: Exemptions	(12,890,703,534)	(31,729,564,366)
Net Assessed Valuation of the System	\$ 132,984,326,927	\$ 127,412,325,392

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 – PROPERTY TAX – CONTINUED

Harris County’s reporting methodology is that totally exempted properties are included at their fully appraised value in the current year. Effective fiscal year 2013 (Tax year 2012), significant changes were made to category D, category G and totally exempt category. Due to the conversion property in the X category has been removed from the appraised value, this is the methodology that will be used going forward.

Taxes levied for the years ended August 31, 2013 and 2012, based on the certified rolls, as reported by the taxing authorities amounted to \$129,224,860 and \$123,873,185, respectively, which includes any penalty and interest assessed if applicable.

Taxes are due by January 31 of the year following the levy and are delinquent if not paid before February 1 of that year.

The authorized and assessed tax rate for the system were as follows:

	August 31, 2013			August 31, 2012		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Authorized Rate per \$100 valuation	\$ 0.50	\$ 0.50	\$ 1.00	\$ 0.50	\$ 0.50	\$ 1.00
Assessed Rate per \$100 Valuation	\$ 0.079673	\$ 0.017500	\$ 0.097173	\$ 0.083399	\$ 0.013823	\$ 0.097222

Tax collections for the years ended August 31, 2013 and 2012 were as follows:

	2013	2012
Current Taxes Collected	\$ 126,900,573	\$ 121,247,023
Delinquent Taxes Collected	1,639,206	2,645,821
Penalties and Interest Collected	1,496,150	1,371,984
Total	\$ 130,035,929	\$ 125,264,828

For the years ended August 31, 2013 and 2012 tax collections represent 98% and 98% of the tax levy, respectively. Taxes assessed are recorded in the System’s financial statements net of the related allowance for uncollectable taxes, based upon the System’ expected collection experience. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

The Harris County, City of Missouri City, and the Fort Bend Appraisal Districts (the Appraisal Districts), separate governmental entities, are responsible for the recording and appraisal of property for all taxing units in their respective counties, including the System. The Appraisal Districts are required by State law to assess property at 100% of its appraised value. Further, real property must be reappraised at least every four years. Under certain circumstances, taxpayers and taxing units, including the System, may challenge orders of the appraisal review boards through various appeals and, if necessary, institute legal action.

The System has entered into agreements with the county tax assessors to bill and collect the System’s property taxes, net of a collection fee.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 – RELATED PARTY TRANSACTIONS

The Houston Community College Foundation (the “Foundation”) is a nonprofit organization with the sole purpose of supporting the educational and other activities of the System. The Foundation solicits donations and acts as coordinator of gifts made to the System. The Foundation remitted \$405,768 and \$688,266 to the System for scholarship awards during the years ended August 31, 2013 and August 31, 2012, respectively. The Foundation remitted \$1,752,006 and \$2,380,823 to the System to fund grant programs during the years ended August 31, 2013 and August 31, 2012, respectively.

During the years ended August 31, 2013 and August 31, 2012, the System provided staff assistance to the Foundation at no cost. The System’s management estimates the value of the services provided to the Foundation in fiscal years August 31, 2013 and August 31, 2012 to be approximately \$1,056,000 and \$1,128,000, respectively. As of August 31, 2013 and 2012, no amounts were due to the System from the Foundation. In January 2011 the Foundation signed a lease with the System for rental of office space at \$1,200 per month. The Foundation paid the System \$14,400 in rent during the years ended August 31, 2013 and 2012.

NOTE 25 – RESTATEMENTS

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The System implemented these changes for the year ended August 31, 2013. Accordingly, the System expensed the issuance costs of \$2,570,661 for bonds issued in the current fiscal year, and also wrote-off to beginning net position those capitalized bond issuance costs from prior years.

In addition, management of the System noted a capital asset correction was required for the year ended August 31, 2012 and accordingly, a prior period adjustment was recorded..

The net position as of September 1, 2012 has been adjusted for the effect of the restatements of the prior years. The cumulative effect on the beginning net position is as follows:

Net Position as of August 31, 2012, as Previously Reported	\$ 331,926,824
Capitalized Bond Issuance Costs Written-Off	(8,196,515)
Capital Asset Correction	<u>(1,413,516)</u>
Net Position as of August 31, 2012, as Restated	<u>\$ 322,316,793</u>

SUPPLEMENTARY SCHEDULES

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED AUGUST 31, 2013
(With Memorandum Totals for the Year Ended August 31, 2012)

	Unrestricted	Restricted	Total		August 31, 2013	August 31, 2012
			Educational Activities	Auxiliary Enterprises	Total	Total
Tuition:						
State Funded Courses:						
In-District Resident Tuition	\$ 22,286,600	\$ -	\$ 22,286,600	\$ -	\$ 22,286,600	\$ 23,087,311
Out-of-District Resident Tuition	7,878,193	-	7,878,193	-	7,878,193	8,383,137
TPEG (Credit)	1,752,919	-	1,752,919	-	1,752,919	1,851,224
State Funded Continuing Education:	7,653,992	-	7,653,992	-	7,653,992	7,518,363
TPEG (Non-Credit)	392,584	-	392,584	-	392,584	401,130
Non-Resident Tuition	15,008,933	-	15,008,933	-	15,008,933	15,508,306
Non-State Funded Continuing Education	630,500	-	630,500	-	630,500	917,193
Total Tuition	55,603,721	-	55,603,721	-	55,603,721	57,666,664
Fees:						
Installment Plan Fees	1,056,555	-	1,056,555	-	1,056,555	1,270,570
Non-Instructional Contract Training Fees	139	-	139	-	139	11,124
General Fees	35,068,637	-	35,068,637	-	35,068,637	36,609,903
Laboratory Fees	4,486,634	-	4,486,634	-	4,486,634	4,585,556
Other Fees	11,265,617	-	11,265,617	-	11,265,617	11,626,671
Out-of-District Fees	15,872,087	-	15,872,087	-	15,872,087	16,673,190
Student Service Fees	1,964,786	-	1,964,786	2,061,020	4,025,806	3,880,923
Total Fees	69,714,455	-	69,714,455	2,061,020	71,775,475	74,657,937
Scholarship Allowances and Discounts:						
Remissions and Exemptions-State	(7,245,331)	-	(7,245,331)	-	(7,245,331)	(7,892,947)
Remissions and Exemptions-Local	(1,881,166)	-	(1,881,166)	(21,634)	(1,902,800)	(1,587,844)
Title IV Federal Grants	(39,702,624)	-	(39,702,624)	-	(39,702,624)	(44,061,830)
Other Federal Grants	(2,734,302)	-	(2,734,302)	-	(2,734,302)	(2,744,115)
TPEG Awards	(1,249,419)	-	(1,249,419)	-	(1,249,419)	(1,607,786)
Other State Grants	(1,949,721)	-	(1,949,721)	-	(1,949,721)	(1,813,665)
Other Local Grants	(1,161,046)	-	(1,161,046)	-	(1,161,046)	(1,200,457)
Total Scholarship Allowances	(55,923,609)	-	(55,923,609)	(21,634)	(55,945,243)	(60,908,644)
Total Net Tuition and Fees	69,394,567	-	69,394,567	2,039,386	71,433,953	71,415,957
Other Operating Revenues:						
Federal Grants and Contracts	-	14,702,419	14,702,419	-	14,702,419	16,848,269
State Grants and Contracts	-	6,156,585	6,156,585	-	6,156,585	5,152,251
Local Grants And Contracts	-	81,407	81,407	-	81,407	95,226
Non-Governmental Grants And Contracts	-	2,413,531	2,413,531	-	2,413,531	2,497,892
Sales And Services	192,963	-	192,963	365	193,328	329,383
Total Other Operating Revenues	192,963	23,353,942	23,546,905	365	23,547,270	24,923,021
Auxiliary Enterprises:						
Bookstore	-	-	-	2,732,804	2,732,804	2,864,738
Long-Term Parking	-	-	-	654,237	654,237	530,948
Qatar	-	-	-	7,082,446	7,082,446	6,682,193
Rental Of Facilities	-	-	-	4,939,220	4,939,220	5,365,882
Restaurant	-	-	-	507,256	507,256	510,315
Vending And Other Commissions	-	-	-	176,936	176,936	142,418
Total Auxiliary Enterprises	-	-	-	16,092,899	16,092,899	16,096,494
Total Operating Revenues	\$ 69,587,530	\$ 23,353,942	\$ 92,941,472	\$ 18,132,650	\$ 111,074,122	\$ 112,435,472

*In accordance with Education Code 50.033 \$2,145,503 and \$2,252,354 of tuition for fiscal years ended August 31, 2013 and 2012, respectively were set aside for Texas Public Education Grants (TPEG).

See Independent Auditor's Report

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF OPERATING EXPENSES BY OBJECT
 FOR THE YEAR ENDED AUGUST 31, 2013
 (With Memorandum Totals for the Year Ended August 31, 2012)

	Operating Expenses			2013 Total	Restated 2012 Total	
	Salaries and Wages	Benefits				Other Expenses
		State	Local			
Unrestricted Educational Activities						
Instruction	\$ 85,427,941	\$ -	\$ 10,185,667	\$ 3,305,066	\$ 98,918,674	\$ 92,216,858
Public Service	581,219	-	69,794	545,019	1,196,032	1,165,261
Academic Support	16,614,679	-	1,980,835	2,335,665	20,931,179	19,399,649
Student Services	18,544,961	-	2,210,967	3,288,171	24,044,099	21,255,300
Institutional Support	35,590,627	-	4,243,186	24,637,137	64,470,950	56,258,896
Operation and Maintenance of Plant	2,068,002	-	248,329	25,298,473	27,614,804	27,969,778
Total Unrestricted Educational Activities	158,827,429	-	18,938,778	59,409,531	237,175,738	218,265,742
Restricted Educational Activities						
Instruction	882,251	6,614,010	135,648	939,235	8,571,144	8,102,639
Public Service	4,482,127	-	496,580	5,357,851	10,336,558	10,703,664
Academic Support	831,602	1,286,245	144,122	753,202	3,015,171	3,371,524
Student Services	1,808,114	1,435,680	35,361	498,837	3,777,992	3,651,187
Institutional Support	-	2,755,290	-	-	2,755,290	2,693,735
Scholarship and Fellowship	-	-	-	57,092,409	57,092,409	61,504,372
Total Restricted Educational Activities	8,004,094	12,091,225	811,711	64,641,534	85,548,564	90,027,121
Total Educational Activities	166,831,523	12,091,225	19,750,489	124,051,065	322,724,302	308,292,863
Auxiliary Enterprises	1,663,204	-	339,906	9,908,145	11,911,255	9,608,219
Auxiliary Enterprises - Qatar Expenses	5,544,240	-	988,743	316,519	6,849,502	6,128,576
Depreciation - Buildings	-	-	-	12,004,551	12,004,551	11,403,994
Depreciation - Equipment	-	-	-	6,953,462	6,953,462	6,906,714
Depreciation - Library Books	-	-	-	534,021	534,021	538,094
Total Operating Expenses	<u>\$ 174,038,967</u>	<u>\$ 12,091,225</u>	<u>\$ 21,079,138</u>	<u>\$ 153,767,763</u>	<u>\$ 360,977,093</u>	<u>\$ 342,878,460</u>
				(Exhibit 2)	(Exhibit 2)	

See Independent Auditor's Report

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF NONOPERATING REVENUES AND EXPENSES
 FOR THE YEAR ENDED AUGUST 31, 2013
 (With Memorandum Totals for the Year Ended August 31, 2012)

	Unrestricted	Restricted	Auxiliary Enterprises	Total 2013	RESTATED Total 2012
NONOPERATING REVENUES:					
State Appropriations:					
Educational and General State Support	\$ 70,014,003	\$ -	\$ -	\$ 70,014,003	\$ 70,232,038
State Group Insurance	-	8,065,635	-	8,065,635	7,651,060
State Retirement Matching	-	4,025,590	-	4,025,590	3,956,728
Total State Appropriations	70,014,003	12,091,225	-	82,105,228	81,839,826
Maintenance Ad-Valorem Taxes	106,097,476	-	-	106,097,476	105,943,722
Debt Service Ad-Valorem Taxes	23,158,801	-	-	23,158,801	17,694,297
Gifts	-	1,591,888	-	1,591,888	2,053,638
Investment Income (Loss), Net	(140,747)	-	-	(140,747)	789,917
Title IV Grants	-	94,423,841	-	94,423,841	102,023,662
Nursing Shortage Reduction	-	111,309	-	111,309	14,038
Hurricane Ike	53,318	-	-	53,318	11,635
Other Nonoperating Revenue	6,393,540	-	-	6,393,540	9,329,498
Total Nonoperating Revenues	205,576,391	108,218,263	-	313,794,654	319,700,233
NONOPERATING EXPENSES:					
Interest on Capital-Related Debt	(36,827,644)	-	-	(36,827,644)	(28,498,392)
Hurricane Ike Expenses	(12,431)	-	-	(12,431)	(626,194)
Other Nonoperating Expenses	(10,305,162)	-	-	(10,305,162)	(20,240,555)
Total Nonoperating Expenses	(47,145,237)	-	-	(47,145,237)	(49,365,141)
NET NONOPERATING REVENUES	<u>\$ 158,431,154</u>	<u>\$ 108,218,263</u>	<u>\$ -</u>	<u>\$ 266,649,417</u> (Exhibit 2)	<u>\$ 270,335,092</u> (Exhibit 2)

See Independent Auditor's Report

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
FOR THE YEAR ENDED AUGUST 31, 2013
(With Memorandum Totals for the Year Ended August 31, 2012)

	Detail by Source				Available for Current Operations		
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 98,037,161	\$ -	\$ -	\$ -	\$ 98,037,161	\$ 98,037,161	\$ -
Auxiliary enterprises	9,104,761	-	-	-	9,104,761	9,104,761	-
Loan	-	1,215,548	-	-	1,215,548	-	1,215,548
Plant:							
Unexpended	3,149,255	-	-	-	3,149,255	-	3,149,255
Investment in Plant	-	-	-	227,556,514	227,556,514	-	227,556,514
Total Net Position August 31, 2013	110,291,177	1,215,548	-	227,556,514	339,063,239 (Exhibit 1)	107,141,922	231,921,317
Total Net Position August 31, 2012, as Restated	90,742,417	488,477	-	231,085,899	322,316,793 (Exhibit 1)	87,003,729	235,313,064
Net Increase(Decrease) in Net Position	\$ 19,548,760	\$ 727,071	\$ -	\$ (3,529,385)	\$ 16,746,446 (Exhibit 2)	\$ 20,138,193	\$ (3,391,747)

See Independent Auditor's Report

STATISTICAL SECTION
(Unaudited)

HOUSTON COMMUNITY COLLEGE SYSTEM STATISTICAL SECTION NARRATIVE

Statistical Section

This part of the System's Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the System's overall financial health.

Financial Trends

This segment contains trend information to help the reader understand how the System's financial performance and well-being have changed over time.

Revenue Capacity

This segment includes information to help the reader assess the System's most significant local revenue source, the property tax.

Debt Capacity

This segment presents information to help the reader assess the affordability of the System's current levels of outstanding debt and the System's ability to issue additional debt in the future.

Economic & Demographic Information

This segment depicts demographic and economic indicators to help the reader understand the environment within which the System's financial activities take place.

Operating information

This segment displays service and capital asset data to help the reader understand how the information in the System's financial report relates to the services the System provides and the activities it performs.

Sources: Unless otherwise stated, the information in this section is derived from the annual financial reports for the relevant year.

Table 1

HOUSTON COMMUNITY COLLEGE SYSTEM
 NET POSITION BY COMPONENT
 LAST TEN FISCAL YEARS
 (Amounts Expressed in Thousands)
 (Unaudited)

	For the Year Ended August 31,									
	2013	2012*	2011	2010	2009	2008	2007	2006	2005	2004
Invested in Capital Assets, Net of Related Debt	\$ 230,706	\$ 234,825	\$ 207,977	\$ 197,013	\$ 197,253	\$ 190,084	\$ 173,412	\$ 146,493	\$ 148,651	\$ 130,356
Restricted - Expendable	1,216	488	488	449	449	449	449	582	450	449
Restricted - Nonexpendable	-	-	-	-	-	-	-	-	-	-
Unrestricted	107,142	87,004	73,959	70,083	62,731	62,334	55,872	60,092	42,439	47,880
Total Primary Government, Net Position	<u>\$ 339,063</u>	<u>\$ 322,317</u>	<u>\$ 282,424</u>	<u>\$ 267,545</u>	<u>\$ 260,433</u>	<u>\$ 252,867</u>	<u>\$ 229,733</u>	<u>\$ 207,166</u>	<u>\$ 191,540</u>	<u>\$ 178,685</u>
Net Increase in Position	<u>\$ 16,746</u>	<u>\$ 39,893</u>	<u>\$ 14,879</u>	<u>\$ 7,112</u>	<u>\$ 7,566</u>	<u>\$ 23,134</u>	<u>\$ 22,567</u>	<u>\$ 15,626</u>	<u>\$ 12,855</u>	

*FY2012 has been restated

See Independent Auditor's Report

Table 2

HOUSTON COMMUNITY COLLEGE SYSTEM
PROGRAM REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Unaudited)

	For the Year Ended August 31,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
OPERATING REVENUES:										
Tuition and Fees, Net of Discounts*	\$ 71,433,953	\$ 71,415,957	\$ 67,907,897	\$ 65,655,752	\$ 64,689,510	\$ 58,939,437	\$ 54,389,997	\$ 50,027,656	\$ 50,300,876	\$ 50,673,972
Federal Grants and Contracts	14,702,419	16,848,269	16,064,089	16,243,394	12,480,512	13,001,562	12,924,612	13,579,195	13,678,022	13,259,434
State Grants and Contracts	6,156,585	5,152,251	6,448,589	5,157,058	3,695,688	2,988,267	2,796,870	2,349,662	2,322,147	2,920,100
Local Grants and Contracts	81,407	95,226	275,085	79,055	77,955	81,761	77,116	90,392	84,962	85,978
Non-Governmental Grants and Contracts	2,413,531	2,497,892	1,283,150	1,286,822	854,759	467,151	605,832	705,186	305,459	625,785
Sales and Services of Educational Activities	193,328	329,382	369,530	315,835	261,861	203,207	208,228	470,021	161,349	162,254
Other Operating Revenues	-	-	-	-	-	-	527,125	589,409	717,187	664,457
Auxiliary Enterprises*	16,092,899	16,096,494	14,535,914	10,493,233	8,709,724	7,937,176	7,351,627	5,294,890	5,519,502	4,671,611
Total Operating Revenues	111,074,122	112,435,472	106,884,254	99,231,149	90,770,009	83,618,561	78,881,407	73,106,411	73,089,504	73,063,591
NONOPERATING REVENUES:										
State Appropriations	82,105,228	81,839,826	84,838,315	84,665,409	81,677,836	80,863,825	77,302,202	76,641,509	76,553,540	73,784,624
Ad Valorem Taxes	129,256,277	123,638,019	115,820,065	119,273,809	107,746,487	97,214,316	88,882,876	82,580,297	72,873,881	70,731,329
Gifts	1,591,888	2,053,638	1,573,601	1,555,967	1,115,895	964,033	491,270	578,333	424,138	368,401
Investment Income	(140,747)	789,917	566,945	900,323	4,213,587	11,160,656	17,507,157	11,102,588	5,058,363	4,146,332
Disaster Relief Grants	-	-	-	1,415,592	1,525,611	-	-	-	-	-
Title IV (Pell)*	94,423,841	102,023,662	96,171,936	75,639,561	41,239,311	31,591,860	30,325,297	26,288,282	26,445,601	26,868,509
Nursing Shortage Reduction	111,309	14,038	151,786	73,453	19,969	33,974	66,969	16,091	-	-
Other Nonoperating Revenues	6,446,858	9,341,129	6,153,631	3,455,364	2,241,061	7,768,434	3,866,533	2,438,678	1,717,391	2,567,407
Total Nonoperating Revenues	313,794,655	319,700,229	305,276,279	286,979,477	239,779,757	229,597,098	218,442,304	199,645,778	183,072,914	178,466,602
TOTAL REVENUES	\$ 424,868,777	\$ 432,135,701	\$ 412,160,533	\$ 386,210,626	\$ 330,549,766	\$ 313,215,659	\$ 297,323,711	\$ 272,752,189	\$ 256,162,418	\$ 251,530,193

See Independent Auditor's Report

Table 3

HOUSTON COMMUNITY COLLEGE SYSTEM
PROGRAM EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS
(Unaudited)

	For the Year Ended August 31,									
	2013	2012*	2011	2010	2009	2008	2007	2006	2005	2004
OPERATING EXPENSES:										
Instruction	\$ 107,489,818	\$ 100,319,497	\$ 112,617,877	\$ 113,319,505	\$ 105,158,760	\$ 96,006,367	\$ 92,249,139	\$ 88,156,430	\$ 86,655,657	\$ 86,189,526
Public Service	11,532,590	11,868,925	11,766,675	11,477,787	9,988,399	9,868,651	11,362,415	11,435,129	11,199,015	11,464,838
Academic Support	23,946,350	22,771,173	19,616,391	23,449,473	20,632,551	19,645,603	17,972,637	16,355,817	15,315,072	13,627,831
Student Services	27,822,091	24,906,487	31,901,438	30,902,922	27,473,142	25,822,223	24,659,370	24,919,075	24,754,156	22,014,138
Institutional Support	67,226,240	58,952,631	55,747,071	53,302,151	47,880,656	44,359,869	43,163,084	40,884,807	36,375,786	36,569,971
Operation and Maintenance of Plant	27,614,805	27,969,778	28,350,817	35,937,690	32,628,588	26,917,292	26,782,535	23,055,592	20,213,768	20,686,221
Scholarships and Fellowships	57,092,409	61,504,372	65,346,087	49,920,320	24,796,647	18,201,589	16,474,485	15,634,651	15,426,494	16,330,334
Auxiliary Enterprises	18,760,757	15,736,795	14,607,330	9,740,078	8,718,772	6,698,807	6,726,829	3,919,787	2,454,330	1,756,611
Depreciation	19,492,034	18,848,802	17,067,466	14,832,747	11,098,086	10,096,713	10,524,141	9,965,132	9,748,580	9,085,523
Total Operating Expenses	360,977,093	342,878,460	357,021,152	342,882,673	288,375,601	257,617,114	249,914,635	234,326,420	222,142,858	217,724,993
NON-OPERATING EXPENSES:										
Interest on Capital Related Debt	36,827,644	28,498,392	29,424,886	25,379,834	25,375,863	20,640,888	21,187,768	17,201,531	17,168,453	15,143,344
Hurricane Ike Expense, Net	12,431	626,194	284,103	561,861	297,616	-	-	-	-	-
Other Non-Operating Expenses	10,305,162	20,240,555	10,550,397	10,274,777	8,934,397	7,768,434	3,682,262	5,597,748	4,290,908	4,018,983
Total Non-Operating Expenses	47,145,237	49,365,141	40,259,386	36,216,472	34,607,876	28,409,322	24,870,030	22,799,279	21,459,361	19,162,327
Total Expenses	\$ 408,122,330	\$ 392,243,601	\$ 397,280,538	\$ 379,099,145	\$ 322,983,477	\$ 286,026,436	\$ 274,784,665	\$ 257,125,699	\$ 243,602,219	\$ 236,887,320

*FY2012 has been restated

See Independent Auditor's Report

Table 4

HOUSTON COMMUNITY COLLEGE SYSTEM
TUITION AND FEES
LAST TEN ACADEMIC YEARS
(Unaudited)

		SEMESTER CREDIT HOUR (SCH)								
		IN-DISTRICT								
Academic Year	Semester	In-District Tuition	Out-of-District Tuition	General Fees	Technology Fees	Student Activity / Services Fee	Recreation Fee	Cost for 12 SCH	Increase from Prior Year-Fall	
2012-2013	Fall	\$ 372	---	\$ 306	\$ 117.60	\$ 12	\$ 6	\$ 813.60	0.15%	
2011-2012	Fall	372	---	306	116.40	12	6	812.40	18.56%	
2010-2011*	Summer	372	---	306	115.20	12	6	811.20	n/a	
2010-2011	Fall	300	---	264	103.20	12	6	685.20	0.18%	
2009-2010	Fall	300	---	264	102.00	12	6	684.00	1.79%	
2008-2009*	Spring	300	---	264	96.00	12	6	678.00	n/a	
2008-2009	Fall	300	---	264	96.00	12	---	672.00	2.28%	
2007-2008	Fall	300	---	264	81.00	12	---	657.00	2.82%	
2006-2007	Fall	300	---	264	63.00	12	---	639.00	8.67%	
2005-2006*	Spring	300	---	264	48.00	---	---	612.00	n/a	
2005-2006	Fall	276	---	264	48.00	---	---	588.00	0.00%	
2004-2005	Fall	276	---	264	48.00	---	---	588.00	4.26%	
2003-2004	Fall	276	---	240	48.00	---	---	564.00	9.30%	
2002-2003*	Summer	276	---	240	48.00	---	---	564.00	n/a	
2002-2003	Fall	228	---	240	48.00	---	---	516.00	10.26%	
2001-2002	Fall	228	---	216	24.00	---	---	468.00	11.43%	

See Independent Auditor's Report

Table 4

HOUSTON COMMUNITY COLLEGE SYSTEM
TUITION AND FEES - CONTINUED
LAST TEN ACADEMIC YEARS
(Unaudited)

SEMESTER CREDIT HOUR (SCH)										
OUT-OF-DISTRICT										
Academic Year	Semester	In-District Tuition	Out-of-District Tuition	General Fees	Technology Fees	Student Activity / Services Fee	Recreation Fee	Cost for 12 SCH	Increase from Prior Year-Fall	
2012-2013	Fall	\$ 372	\$ 768	\$ 402	\$ 117.60	\$ 12	\$ 6	\$ 1,677.60	0.07%	
2011-2012	Fall	372	768	402	116.40	12	6	1,676.40	18.29%	
2010-2011*	Summer	372	708	402	115.20	12	6	1,615.20	n/a	
2010-2011	Fall	300	672	324	103.20	12	6	1,417.20	6.40%	
2009-2010	Fall	300	648	264	102.00	12	6	1,332.00	0.91%	
2008-2009*	Spring	300	648	264	96.00	12	6	1,326.00	n/a	
2008-2009	Fall	300	648	264	96.00	12	---	1,320.00	1.15%	
2007-2008	Fall	300	648	264	81.00	12	---	1,305.00	1.40%	
2006-2007	Fall	300	648	264	63.00	12	---	1,287.00	4.13%	
2005-2006*	Spring	300	648	264	48.00	---	---	1,260.00	n/a	
2005-2006	Fall	276	648	264	48.00	---	---	1,236.00	0.00%	
2004-2005	Fall	276	648	264	48.00	---	---	1,236.00	1.98%	
2003-2004	Fall	276	648	240	48.00	---	---	1,212.00	16.09%	
2002-2003*	Summer	276	528	240	48.00	---	---	1,092.00	n/a	
2002-2003	Fall	228	528	240	48.00	---	---	1,044.00	27.94%	
2001-2002	Fall	228	348	216	24.00	---	---	816.00	15.25%	

Note: After Spring 2011, Workforce students no longer pay extra \$1 per hour tuition; Recreation Fee previously known as Athletic Fee. In addition students may incur course related fees such as laboratory fees, testing fees, distance education fees and certification fees.

* Changes to Rates in Semester other than Fall.

See Independent Auditor's Report

Table 4

HOUSTON COMMUNITY COLLEGE SYSTEM
TUITION AND FEES - CONTINUED
LAST TEN ACADEMIC YEARS
(Unaudited)

		SEMESTER CREDIT HOUR (SCH)								
		OUT OF STATE/INTERNATIONAL								
Academic Year	Semester	Out of State / International Tuition	General Fees	Technology Fees	Student Activity / Services Fee	Recreation Fee	Cost for 12 SCH	Increase from Prior Year-Fall		
2012-2013	Fall	\$ 1,140	\$ 600	\$ 117.60	\$ 12	\$ 6	\$ 1,875.60	0.06%		
2011-2012	Fall	1140	600	116.40	12	6	\$ 1,874.40	10.70%		
2010-2011*	Summer	1080	600	115.20	12	6	1,813.20	n/a		
2010-2011	Fall	972	600	103.20	12	6	1,693.20	7.71%		
2009-2010	Fall	912	540	102.00	12	6	1,572.00	0.77%		
2008-2009	Spring	912	540	96.00	12	6	1,566.00	n/a		
2008-2009	Fall	912	540	96.00	12	---	1,560.00	0.97%		
2007-2008	Fall	912	540	81.00	12	---	1,545.00	1.18%		
2006-2007	Fall	912	540	63.00	12	---	1,527.00	3.46%		
2005-2006*	Spring	912	540	48.00	---	---	1,500.00	n/a		
2005-2006	Fall	888	540	48.00	---	---	1,476.00	0.00%		
2004-2005	Fall	888	540	48.00	---	---	1,476.00	1.65%		
2003-2004	Fall	888	516	48.00	---	---	1,452.00	3.42%		
2002-2003*	Summer	888	516	48.00	---	---	1,452.00	n/a		
2002-2003	Fall	840	516	48.00	---	---	1,404.00	3.54%		
2001-2002	Fall	840	492	24.00	---	---	1,356.00	3.67%		

Note: After Spring 2011, Workforce students no longer pay extra \$1 per hour tuition; Recreation Fee previously known as Athletic Fee. In addition students may incur course related fees such as laboratory fees, testing fees, distance education fees and certification fees.

* Changes to Rates in Semester other than Fall.

See Independent Auditor's Report

Table 5

HOUSTON COMMUNITY COLLEGE SYSTEM
 ASSESSED VALUE AND TAXABLE ASSESSED VALUE OF PROPERTY
 LAST TEN FISCAL YEARS
 (Unaudited)

Fiscal Year	Assessed Valuation of Property	Less: Exemptions & Abatements	Taxable Assessed Value (TAV)	Ratio of Taxable Assessed Value to Assessed Value	Maintenance & Operations	Debt Service	Total Direct Rate (a)
2013	\$ 145,875,030,461	\$ 12,890,703,534	\$ 132,984,326,927	91.16%	0.079673	0.017500	0.097173
2012	159,141,889,758	31,729,564,366	127,412,325,392	80.06%	0.083399	0.013823	0.097222
2011	157,165,651,239	31,190,173,147	125,975,478,092	80.15%	0.074901	0.017319	0.092220
2010	158,860,572,423	28,430,763,993	130,429,808,430	82.10%	0.077839	0.014381	0.092220
2009	141,650,283,263	24,628,568,950	117,021,714,313	82.61%	0.077504	0.014926	0.092430
2008	128,541,398,956	23,751,022,792	104,790,376,164	81.52%	0.077505	0.014926	0.092433
2007	114,880,333,614	23,035,765,722	91,844,567,892	79.95%	0.081333	0.013842	0.095175
2006	103,397,321,246	18,595,499,000	84,801,822,246	82.02%	0.081333	0.014436	0.095769
2005*	88,579,791,310	8,205,391,837	80,374,399,473	90.74%	0.081333	0.014644	0.095977
2004	86,111,454,090	5,851,840,810	80,259,613,280	93.20%	0.081333	-	0.081333

* In 2005 Harris County changed their reporting methodology. Totally exempt properties are included at their fully appraised value and that value was included in the exemptions. In the prior years these were reported at an appraised value of zero.

Source: Local Appraisal District

Notes: Property is assessed at full market value.

(a) Total Direct Rate is per \$100 Taxable Assessed Valuation

See Independent Auditor's Report

Table 6

HOUSTON COMMUNITY COLLEGE SYSTEM
STATE APPROPRIATION PER FSTE AND CONTACT HOURS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	State Appropriation (Unrestricted)	FTSE**	State Appropriation per FTSE
2012-2013	\$ 70,014,003	49,824	\$ 1,405
2011-2012	70,232,038 *	52,032	1,350
2010-2011	65,957,104	53,418	1,235
2009-2010	65,791,457	50,445	1,304
2008-2009	63,627,432	43,835	1,452
2007-2008	63,627,433	39,602	1,607
2006-2007	61,312,488	38,641	1,587
2005-2006	61,312,368	36,922	1,661
2004-2005	61,423,796	37,790	1,625
2003-2004	58,896,561	37,939	1,552

Fiscal Year	State Appropriation (Unrestricted)	Academic Contract Hours	Voc/Tech Contract Hours	CEU Contract Hours	Total Funded Contract Hours (1)	State Appropriation per Contact Hour
2012-2013	\$ 70,014,003	16,237,296	5,744,810	1,933,271	23,915,377	\$ 2.93
2011-2012	70,232,038 *	17,354,256	5,822,072	1,798,940	24,975,268	2.81
2010-2011	65,957,104	17,802,080	5,924,078	1,914,445	25,640,603	2.57
2009-2010	65,791,457	16,652,752	5,680,164	1,880,857	24,213,773	2.72
2008-2009	63,627,432	14,345,992	4,883,890	1,810,761	21,040,643	3.02
2007-2008	63,627,433	12,739,232	4,422,336	1,847,195	19,008,763	3.35
2006-2007	61,312,488	12,077,904	4,378,250	2,091,365	18,547,519	3.31
2005-2006	61,312,368	11,487,128	4,260,486	1,974,799	17,722,413	3.46
2004-2005	61,423,796	11,406,432	4,613,888	2,118,738	18,139,058	3.39
2003-2004	58,896,561	11,009,608	4,894,274	2,306,953	18,210,835	3.23

Note:

The methodology used to calculate FT SE (Full-time Student Equivalent) has been revised for FY2012 and the total FT SE has been restated for all years shown.

* Revised based on FY2011 AFR.

** One FTSE is equal to 480 annual contact hours [30 semester credit hours (Fall 12SCH + Spring 12SCH + Summer 6SCH) x 16 contact hours per SCH = 480 annual contact hours]. Total annual FT SE is equal to total funded contact hours divided by annual contact hours per student (480).

See Independent Auditor's Report

Table 7

HOUSTON COMMUNITY COLLEGE SYSTEM
PRINCIPAL TAXPAYERS (Taxable Value)
LAST TEN FISCAL YEARS
(Unaudited)

Taxpayer	Industry	Taxable Assessed Value (TAV) by Tax Year									
		2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Centerpoint Energy Inc	Utility	\$ 1,382,750,044	\$ 1,153,697,187	\$ 1,119,456,415	\$ 1,122,000,954	\$ 1,155,200,888	\$ 1,039,824,086	\$ 1,020,251,119	\$ 1,031,341,633	\$ 926,349,501	\$ 999,667,490
Crescent Real Estate	Real Estate	831,337,622	716,169,026	1,129,509,857	1,027,978,140	1,136,315,715	1,378,543,156	1,213,068,497	880,336,507	635,272,869	927,186,600
Cullen Allen Holdings Lp	Real Estate	-	-	-	632,088,821	679,738,613	740,183,451	597,559,584	-	-	-
Hines Interests Ltd Ptrrsp	Real Estate	-	1,163,749,277	967,638,791	855,622,627	649,533,262	962,302,817	982,519,591	574,840,017	634,172,927	663,084,820
AT&T Mobility Llc	Utility	-	318,206,364	446,070,581	499,096,180	573,892,778	584,854,404	-	-	-	-
Tpg 2101 Citywest 1 & 2 Lp	Real Estate	-	-	497,060,529	469,096,180	520,865,513	576,224,151	-	-	-	-
Chevron Chemical Co	Oil & Gas	982,653,385	724,298,902	627,685,117	469,387,624	460,639,861	478,700,396	407,061,688	343,365,607	251,494,288	225,039,730
Anheuser Busch Inc	Brewery	-	357,792,263	366,424,086	404,399,350	421,420,837	451,539,258	461,994,178	470,539,317	473,881,489	482,088,900
Houston Refining	Oil & Gas	-	-	-	-	407,442,917	-	-	-	-	-
Valero Energy Corp	Oil & Gas	426,028,458	363,437,432	-	-	374,025,572	386,831,716	309,554,958	-	-	-
Teachers Insurance	Insurance	-	-	-	-	-	578,530,234	512,401,996	300,049,967	-	-
Shell Oil Co	Oil & Gas	-	334,605,330	331,875,591	-	-	-	-	-	-	-
Southwestern Bell	Utility	-	-	-	-	-	-	529,778,957	554,904,933	603,569,106	551,237,140
HG Galleria I II III LP	Real Estate	385,054,953	363,274,752	319,442,735	315,388,094	-	-	324,487,276	-	-	-
Triachahn Allen Ctr LP	Real Estate	-	-	-	-	-	-	-	494,993,746	415,503,465	427,714,270
Lyondell Chemical Co	Oil & Gas	-	-	-	-	-	-	-	295,571,464	-	-
HG Shopping Centers LP	Real Estate	-	-	-	-	-	-	-	292,756,445	266,442,640	243,350,670
Block 98 Partners Lt D	Real Estate	-	-	-	-	-	-	-	-	335,909,200	-
Exxon Mobil Corp	Oil & Gas	-	317,979,103	305,020,231	305,281,064	-	-	-	-	302,072,770	191,526,250
Continental Airlines	Airline	-	-	-	-	-	-	-	-	-	236,174,370
1000 Louisiana LP	Real Estate	426,551,193	-	-	-	-	-	-	-	-	-
Texas Tower LTD	Real Estate	409,839,382	-	-	-	-	-	-	-	-	-
Four Oaks Place Operating	Real Estate	401,202,733	-	-	-	-	-	-	-	-	-
BGHOLDCO LLC	Real Estate	398,000,000	-	-	-	-	-	-	-	-	-
BUSYCON Properties LLC	Real Estate	453,269,103	-	-	-	-	-	-	-	-	-
Totals		\$ 6,096,686,873	\$ 5,813,209,636	\$ 6,110,183,933	\$ 6,100,339,034	\$ 6,379,075,956	\$ 7,177,533,669	\$ 6,358,677,844	\$ 5,238,699,636	\$ 4,844,668,255	\$ 4,947,070,240
Total Taxable Assessed Value		\$ 132,984,326,927	\$ 127,412,325,392	\$ 125,975,478,092	\$ 130,429,808,430	\$ 117,021,714,313	\$ 104,790,367,164	\$ 91,844,567,892	\$ 84,801,822,246	\$ 80,374,399,473	\$ 80,259,613,280

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Table 7

HOUSTON COMMUNITY COLLEGE SYSTEM
 PRINCIPAL TAXPAYERS (Taxable Value)
 LAST TEN FISCAL YEARS
 (Unaudited)

Taxpayer	Industry	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
		% of Taxable Assessed Value (TAV) by Tax Year									
Centerpoint Energy Inc	Utility	1.04%	0.91%	0.89%	0.86%	0.99%	0.99%	1.11%	1.22%	1.15%	1.25%
Crescent Real Estate	Real Estate	0.63%	0.56%	0.90%	0.79%	0.97%	1.32%	1.32%	1.04%	0.79%	1.16%
Cullen Allen Holdings Lp	Real Estate	0.00%	0.00%	0.00%	0.48%	0.58%	0.71%	0.65%	0.00%	0.00%	0.00%
Hines Interests Ltd Ptrnsp	Real Estate	0.00%	0.91%	0.77%	0.66%	0.56%	0.92%	1.07%	0.68%	0.79%	0.83%
AT&T Mobility Llc	Utility	0.00%	0.25%	0.35%	0.38%	0.49%	0.56%	0.00%	0.00%	0.00%	0.00%
Tpg 2101 Citywest 1 & 2 Lp	Real Estate	0.00%	0.00%	0.39%	0.36%	0.45%	0.55%	0.00%	0.00%	0.00%	0.00%
Chevron Chemical Co	Oil & Gas	0.74%	0.57%	0.50%	0.36%	0.39%	0.46%	0.44%	0.40%	0.31%	0.28%
Anheuser Busch Inc	Brewery	0.00%	0.28%	0.29%	0.31%	0.36%	0.43%	0.50%	0.55%	0.59%	0.60%
Houston Refining	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.35%	0.00%	0.00%	0.00%	0.00%	0.00%
Valero Energy Corp	Oil & Gas	0.32%	0.29%	0.00%	0.00%	0.32%	0.37%	0.34%	0.00%	0.00%	0.00%
Teachers Insurance	Insurance	0.00%	0.00%	0.00%	0.00%	0.00%	0.55%	0.56%	0.35%	0.00%	0.00%
Shell Oil Co	Oil & Gas	0.00%	0.26%	0.26%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Southwestern Bell	Utility	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.58%	0.65%	0.75%	0.69%
HG Galleria I II III LP	Real Estate	0.29%	0.29%	0.25%	0.24%	0.00%	0.00%	0.35%	0.00%	0.00%	0.00%
Triachahn Allen Ctr LP	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.58%	0.52%	0.53%
Lyondell Chemical Co	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.35%	0.00%	0.00%
HG Shopping Centers LP	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.35%	0.33%	0.30%
Block 98 Partners Lt D	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.42%	0.00%
Exxon Mobil Corp	Oil & Gas	0.00%	0.25%	0.24%	0.23%	0.00%	0.00%	0.00%	0.00%	0.38%	0.24%
Continental Airlines	Airline	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.29%
1000 Louisiana LP	Real Estate	0.32%									
Texas Tower LTD	Real Estate	0.31%									
Four Oaks Place Operating LP	Real Estate	0.30%									
BG HOLDCO LLC	Real Estate	0.30%									
BUSYCON Properties LLC	Real Estate	0.34%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Totals		4.58%	4.56%	4.85%	4.68%	5.45%	6.85%	6.92%	6.18%	6.03%	6.16%

Source: Local County Appraisal District

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Table 8

HOUSTON COMMUNITY COLLEGE SYSTEM
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN TAX YEARS
(Unaudited)

Fiscal Year	Tax Rate Per \$100	Tax Base (Assessed Value)	Total Tax Levy	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years *	Total Collections to Date	
				Actual Collections per AFR	% of Levy		Amount	% of Levy
2012-2013	0.097173	\$ 132,984,326,927	\$ 129,224,860	\$ 126,900,573	98.20%	\$ 3,135,356	\$ 130,035,929	100.63%
2011-2012	0.097222	127,412,325,392	123,872,811	121,247,023	97.88%	4,017,805	125,264,828	101.12%
2010-2011	0.092220	125,975,478,092	116,179,580	113,187,929	97.42%	3,994,879	117,182,808	100.86%
2009-2010	0.092220	130,429,808,430	120,614,601	116,730,716	96.78%	3,995,418	120,726,134	100.09%
2008-2009	0.092430	117,021,714,313	108,163,171	105,021,974	97.10%	4,064,764	109,086,738	100.85%
2007-2008	0.092433	104,790,367,164	96,860,880	93,854,407	96.90%	4,164,454	98,018,861	101.20%
2006-2007	0.095175	91,844,567,892	87,413,067	85,811,200	98.17%	3,882,996	89,694,196	102.61%
2005-2006	0.095769	84,801,822,246	81,213,857	79,013,014	97.29%	3,882,996	82,896,010	102.07%
2004-2005	0.095977	80,374,399,473	77,140,937	74,102,498	96.06%	3,110,739	77,213,237	100.09%
2003-2004	0.081333	80,259,613,280	65,277,551	62,655,173	95.98%	2,821,758	65,476,931	100.31%

* "Collection in Subsequent Years" includes penalties and interest.

Source: Local Tax Assessor/Collector's and District records.

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Table 9

HOUSTON COMMUNITY COLLEGE SYSTEM
RATIOS OF OUTSTANDING DEBT
LAST TEN FISCAL YEARS
(Unaudited)

	For the Year Ended August 31									
	2013	2012	2011	2010	2009*	2008*	2007*	2006*	2005*	2004*
General Obligation Bonds	\$ 578,139,157	118,545,846	122,965,813	\$ 128,335,993	\$ 133,079,110	\$ 137,982,325	\$ 142,755,540	\$ 147,393,756	\$ 150,308,930	\$ 150,572,670
Notes	177,016,887	184,862,037	169,764,659	129,970,994	65,596,500	67,968,928	11,595,000	12,000,000	-	-
Less: Funds Restricted for Debt Service	-	-	-	-	-	-	-	-	-	-
Net General Bonded Debt	755,156,045	303,407,883	292,730,472	258,306,987	198,675,610	205,951,253	154,350,540	159,393,756	150,308,930	150,572,670
Per Capita	\$ 333.59	\$ 136.12	\$ 134.63	\$ 118.77	\$ 92.82	\$ 95.80	\$ 72.86	\$ 76.23	\$ 72.84	\$ 73.37
Per FTSE	\$ 13,921.98	\$ 5,370.91	\$ 5,104.01	\$ 4,723.11	\$ 4,153.09	\$ 4,711.77	\$ 3,593.56	\$ 3,904.89	\$ 3,579.55	\$ 3,554.68
As a Percentage of Taxable Assessed Value	0.57%	0.24%	0.23%	0.20%	0.17%	0.20%	0.17%	0.19%	0.19%	0.00%
Revenue Bonds	\$ 215,574,705	340,645,560	341,086,330	\$ 356,162,958	\$ 338,468,001	\$ 352,607,948	\$ 304,517,738	\$ 163,843,158	\$ 151,122,041	\$ 143,740,627
Notes	-	-	691,584	1,383,167	2,074,750	-	631,285	29,912,400	5,882,947	2,548,128
Capital Lease Obligations	-	-	1,304,824	3,914,472	6,524,120	-	34,395,970	35,436,616	37,523,860	39,895,534
Total Outstanding Debt	\$ 970,730,750	\$ 644,053,443	\$ 635,813,210	\$ 619,767,584	\$ 545,742,481	\$ 558,559,201	\$ 493,895,533	\$ 388,585,930	\$ 344,837,778	\$ 336,756,959
Per Capita	\$ 429	\$ 289	\$ 292	\$ 285	\$ 255	\$ 260	\$ 233	\$ 186	\$ 167	\$ 164
Per FTSE	\$ 17,896	\$ 11,401	\$ 11,086	\$ 11,332	\$ 11,408	\$ 12,779	\$ 11,499	\$ 9,520	\$ 8,212	\$ 7,950
As a Percentage of Taxable Assessed Value	0.73%	0.51%	0.50%	0.48%	0.47%	0.53%	0.54%	0.46%	0.43%	0.42%

*The methodology used to calculate FTSE (Full-time Student Equivalent) has been revised for FY2012 and the "Per FTSE" calculations has been restated for all years shown.
(FTSE includes both fundable & non-fundable students)

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Table 10

HOUSTON COMMUNITY COLLEGE SYSTEM
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Unaudited)

	For the Year Ended August 31				
	2013	2012	2011	2010	2009
TAXABLE ASSESSED VALUE	\$ 132,984,326,927	\$ 127,412,325,392	\$ 125,975,478,092	\$ 130,429,808,430	\$ 117,021,714,313
GENERAL OBLIGATION BONDS:					
Statutory Tax Levy Limit for Debt Service	664,921,635	637,061,627	629,877,207	652,149,042	585,108,572
Less: Funds Restricted for Repayment of General Obligation Bonds	-	-	-	-	-
Total Net General Obligation Debt	664,921,635	637,061,627	629,877,207	652,149,042	585,108,572
Current Year Debt Service Requirements	22,600,842	18,904,514	20,616,717	16,768,273	11,034,759
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 642,320,793	\$ 618,157,113	\$ 609,260,490	\$ 635,380,769	\$ 574,073,813
Net Current Requirements as a % of Statutory Limit	3.40%	2.97%	3.27%	2.57%	1.89%
	For the Year Ended August 31				
	2008	2007	2006	2005	2004
TAXABLE ASSESSED VALUE	\$ 104,790,367,164	\$ 91,844,567,892	\$ 84,801,822,246	\$ 80,374,399,473	\$ 80,259,613,280
GENERAL OBLIGATION BONDS:					
Statutory Tax Levy Limit for Debt Service	523,951,836	459,222,839	424,009,111	401,871,997	401,871,997
Less: Funds Restricted for Repayment of General Obligation Bonds	-	-	-	-	-
Total Net General Obligation Debt	523,951,836	459,222,839	424,009,111	401,871,997	401,871,997
Current Year Debt Service Requirements	11,059,125	11,069,990	10,258,879	11,704,474	11,816,469
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 512,892,711	\$ 448,152,849	\$ 413,750,232	\$ 390,167,523	\$ 390,055,528
Net Current Requirements as a % of Statutory Limit	2.11%	2.41%	2.42%	2.91%	2.94%

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

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HOUSTON COMMUNITY COLLEGE SYSTEM
 PLEDGED REVENUE COVERAGE
 LAST TEN FISCAL YEARS
 (Unaudited)

Fiscal Year Ended August 31	Pledged Revenues										
	Total	Tuition	Technology Fee	Registration Fees	Laboratory Fees	Community Education Fees	Other Fees	Interest Income	Vending Commission	Bookstore Commission	Rental Revenue
2013	\$ 94,956,856	\$ 11,731,661	\$ 5,747,728	\$ 50,940,723	\$ 1,828,481	\$ 9,136,539	\$ 7,031,565	\$ 432,022	\$ 129,999	\$ 2,786,137	\$ 5,192,001
2012	98,214,059	12,206,115	5,998,853	53,283,093	1,974,359	9,330,828	7,234,999	303,384	151,823	2,864,738	4,865,866
2011	89,655,895	10,549,582	4,930,929	48,356,423	2,085,644	8,614,733	6,777,965	260,462	175,322	2,693,341	5,211,494
2010	81,401,974	9,587,926	4,543,879	43,168,485	3,393,362	8,699,410	4,250,888	405,337	167,930	2,166,708	5,018,051
2009	74,049,779	8,304,454	3,902,031	38,912,692	2,890,446	8,136,071	3,550,828	1,344,876	156,180	1,666,446	5,185,754
2008	68,374,594	7,346,541	3,485,805	35,489,400	2,434,803	7,982,248	2,700,926	2,636,536	167,813	1,545,225	4,585,297
2007	63,047,174	6,782,289	3,322,933	33,609,081	2,185,444	7,320,576	2,251,444	2,321,875	180,620	1,190,950	3,881,962
2006	57,789,907	6,013,923	3,173,494	32,368,441	2,026,721	5,287,298	1,297,184	2,697,279	181,235	1,345,057	3,399,274
2005	57,041,008	5,782,906	3,139,240	32,197,058	2,451,068	5,659,908	1,369,459	1,472,249	101,290	1,095,268	3,772,562
2004	55,771,693	5,786,377	3,122,539	31,344,052	3,092,399	5,259,843	1,931,520	920,095	226,488	1,458,468	2,629,912

Fiscal Year Ended August 31	Debt Service Requirements			
	Principal	Interest	Total	Coverage Ratio
2013	\$ 7,990,000	\$ 14,610,842	\$ 22,600,842	4.20
2012	6,375,000	12,529,514	18,904,514	5.20
2011	11,335,000	10,712,486	22,047,486	4.07 *
2010	10,770,000	10,325,724	21,095,724	3.86 *
2009	10,430,000	10,408,632	20,838,632	3.55
2008	7,520,000	8,402,868	15,922,868	4.29
2007	7,015,000	6,608,404	13,623,404	4.63
2006	5,750,000	6,867,244	12,617,244	4.58
2005	5,500,000	7,316,450	12,816,450	4.45
2004	4,300,000	7,516,469	11,816,469	4.72

*Coverage Ratio for FY2010 & FY2011 have been restated.

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Table 12

HOUSTON COMMUNITY COLLEGE SYSTEM
 DEMOGRAPHIC AND ECONOMIC STATISTICS - TAXING DISTRICT
 LAST TEN FISCAL YEARS
 (Unaudited)

<u>Calendar Year</u>	<u>Service Area Population</u>	<u>Service Area Personal Income</u>	<u>Service Area Personal Income Per Capita</u>	<u>Service Area Unemployment Rate</u>
2012	2,228,995	\$ 64,750,075,755	29,049	4.8%
2011	2,174,361	61,960,591,056	28,496	5.1%
2010	2,174,919	60,334,427,979	27,741	5.1%
2009	2,140,484	56,172,721,612	26,243	5.1%
2008	2,149,766	51,992,090,710	24,185	5.8%
2007	2,118,315	52,815,947,895	24,933	6.3%
2006	2,091,041	51,383,150,493	24,573	4.7%
2005	2,063,673	45,089,191,377	21,849	4.8%
2004	2,052,110	50,424,446,920	24,572	4.6%
2003	2,034,592	46,901,414,784	23,052	-

Sources: HCCS MapInfo Files with 2000 Board Redistricting Boundaries, PCensus v9.0, TETRAD Computer Applications, Inc., 2009; and Applied Geographic Solutions (AGS) on PCensus CD-ROM, TETRAD Computer Applications, Inc., Oct. 2012.

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HOUSTON COMMUNITY COLLEGE SYSTEM
PRINCIPAL EMPLOYERS
Fiscal Years 2010-2013
(Unaudited)

Houston-Sugar Land-Baytown MSA (Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty Montgomery, San Jacinto, Waller)	June 2013 (p)	June 2012*	June 2011	June 2010
	Number of Employees			
Total Nonagricultural				
Trade, Transportation, & Utilities	569,800	547,800	527,800	515,800
Professional, & Business Services	422,000	410,900	383,900	363,600
Government	372,100	359,300	372,400	381,800
Education & Health Services	340,500	327,000	314,700	308,900
Mining/Logging & Construction	294,900	279,600	261,000	252,800
Manufacturing	251,600	244,600	228,200	217,500
Leisure & Hospitality	277,600	264,300	250,400	241,100
Financial Activities	144,000	141,000	137,100	136,200
Other Services	95,800	96,900	93,600	92,700
Information	32,300	31,500	31,900	32,500
Total	<u>2,800,600</u>	<u>2,702,900</u>	<u>2,601,000</u>	<u>2,542,900</u>
	Percent of Employees			
Total Nonagricultural				
Trade, Transportation, & Utilities	20.35%	20.27%	20.29%	20.28%
Professional, & Business Services	15.07%	15.20%	14.76%	14.30%
Government	13.29%	13.29%	14.32%	15.01%
Education & Health Services	12.16%	12.10%	12.10%	12.15%
Natural Resources, Mining & Construction	10.53%	10.34%	10.03%	9.94%
Manufacturing	8.98%	9.05%	8.77%	8.55%
Leisure & Hospitality	9.91%	9.78%	9.63%	9.48%
Financial Activities	5.14%	5.22%	5.27%	5.36%
Other Services	3.42%	3.59%	3.60%	3.65%
Information	<u>1.15%</u>	<u>1.17%</u>	<u>1.23%</u>	<u>1.28%</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(p) preliminary

* Revise: use actuals.

Source: http://www.bls.gov/ro6/fax/houston_ces.htm

Note: Employees on nonfarm payrolls by industry supersector, not seasonally adjusted

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Table 14

HOUSTON COMMUNITY COLLEGE SYSTEM
FACULTY, STAFF AND ADMINISTRATORS STATISTICS
LAST TEN FISCAL YEARS
(Unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Faculty										
Full-Time	789	809	910	848	829	821	810	814	799	743
Part-Time	1,715	2,781	2,921	2,345	2,049	2,499	2,513	2,391	2,329	2,023
Total	<u>2,504</u>	<u>3,590</u>	<u>3,831</u>	<u>3,193</u>	<u>2,878</u>	<u>3,320</u>	<u>3,323</u>	<u>3,205</u>	<u>3,128</u>	<u>2,766</u>
Percent										
Full-Time	31.5%	22.5%	23.8%	26.6%	28.8%	24.7%	24.4%	25.4%	25.5%	26.9%
Part-Time	68.5%	77.5%	76.2%	73.4%	71.2%	75.3%	75.6%	74.6%	74.5%	73.1%
Staff and Administrators										
Full-Time	1,350	1,327	1,272	1,185	1,102	1,079	1,080	1,053	1,049	1,067
Part-Time	1,443	1,088	1,169	1,323	1,259	1,504	1,408	1,226	1,288	1,301
Total	<u>2,793</u>	<u>2,415</u>	<u>2,441</u>	<u>2,508</u>	<u>2,361</u>	<u>2,583</u>	<u>2,488</u>	<u>2,279</u>	<u>2,337</u>	<u>2,368</u>
Percent										
Full-Time	48.3%	54.9%	52.1%	47.2%	46.7%	41.8%	43.4%	46.2%	44.9%	45.1%
Part-Time	51.7%	45.1%	47.9%	52.8%	53.3%	58.2%	56.6%	53.8%	55.1%	54.9%
Students per Full-time										
Faculty	71.0	71.2	62.2	57.1	53.6	53.0	55.3	51.6	55.1	55.6
Staff Member	41.5	43.4	44.5	40.9	40.3	40.3	41.5	39.9	42.0	38.7
Average Annual 9/12 Month										
Faculty Salary*	\$ 63,366	\$ 63,473	\$ 62,533	\$ 62,833	\$ 60,378	\$ 56,047	\$ 54,766	\$ 55,228	\$ 54,264	\$ 51,928

* Prior to 2009, average annual 9 month faculty salary reported.

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Table 15

HOUSTON COMMUNITY COLLEGE SYSTEM
ENROLLMENT DETAILS
LAST EIGHT FISCAL YEARS
(Unaudited)

Student Classification*	Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Freshman	29,955	53.48%	32,304	56.07%	32,660	57.71%	28,401	58.23%	25,883	58.78%	25,559	57.95%	25,959	58.17%	24,444	55.99%
Sophomore	14,380	25.67%	14,529	25.22%	13,447	23.76%	10,695	22.24%	9,883	20.14%	8,756	19.67%	8,812	20.63%	8,669	20.26%
Unclassified	4,677	8.35%	4,437	7.70%	3,390	5.99%	2,374	4.59%	2,042	4.31%	1,872	4.15%	1,859	4.38%	1,840	4.04%
Assoc. Degree	53	0.09%	64	0.11%	120	0.21%	165	0.40%	177	0.39%	168	0.37%	164	0.45%	187	0.43%
BS & Above	171	0.31%	279	0.48%	361	0.64%	514	1.45%	644	1.38%	601	1.40%	627	1.63%	684	1.82%
Continuing Ed. Only	6,778	12.10%	6,002	10.42%	6,614	11.69%	6,256	13.09%	5,817	15.01%	6,528	16.47%	7,378	14.75%	6,198	17.46%
Total	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%	42,022	100.00%

Semester Hour Load**	Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than 3	660	1.18%	835	1.45%	748	1.32%	624	1.38%	613	0.71%	310	1.51%	677	0.64%	270	0.65%
3-5 semester hrs	13,116	23.42%	13,153	22.83%	13,516	23.88%	10,755	23.01%	10,229	23.45%	10,198	23.48%	10,519	22.86%	9,606	21.69%
6-8 Semester hrs	13,433	23.98%	14,622	25.38%	13,781	24.35%	11,575	23.70%	10,532	23.69%	10,301	23.08%	10,338	22.86%	9,608	21.88%
9-11 semester hrs	9,999	17.85%	10,856	18.84%	10,359	18.30%	8,750	17.07%	7,589	16.00%	6,956	15.82%	7,088	16.25%	6,827	15.66%
12-14 semester hrs	10,438	18.63%	10,645	18.48%	9,958	17.60%	8,950	18.40%	8,176	17.92%	7,791	16.75%	7,505	19.11%	8,030	19.14%
15-17 semester hrs	1,470	2.62%	1,364	2.37%	1,443	2.55%	1,341	2.97%	1,318	2.91%	1,264	2.54%	1,138	3.12%	1,310	3.02%
18 & over	120	0.21%	138	0.24%	173	0.31%	154	0.39%	172	0.31%	136	0.35%	156	0.41%	173	0.50%
Continuing Ed. Only	6,778	12.10%	6,002	10.42%	6,614	11.69%	6,256	13.09%	5,817	15.01%	6,528	16.47%	7,378	14.75%	6,198	17.46%
Total	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%	42,022	100.00%
Average course load	7.8 SCH		7.8 SCH		7.8 SCH		7.9 SCH		7.8 SCH		7.7 SCH		7.7 SCH		7.8 SCH	

Tuition Status***	Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Texas Resident (in-District)	32,735	58.44%	32,896	57.10%	31,267	55.25%	26,003	49.86%	22,159	50.18%	21,820	49.87%	22,343	51.14%	21,488	47.87%
Texas Resident (out-of-District)	10,821	19.32%	12,056	20.93%	12,298	21.73%	10,446	25.32%	11,254	24.67%	10,728	25.20%	11,289	26.00%	10,925	26.58%
Non-Resident Tuition	5,302	9.47%	6,332	10.99%	6,170	10.90%	5,528	11.39%	5,061	9.81%	4,264	8.07%	3,615	7.67%	3,222	7.59%
Tuition Waiver	378	0.67%	329	0.57%	243	0.43%	172	0.35%	155	0.33%	144	0.39%	174	0.45%	189	0.50%
Other	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	-	0.00%	-	0.00%
Not Applicable (Cont. Ed.)	6,778	12.10%	6,002	10.42%	6,614	11.69%	6,256	13.09%	5,817	15.01%	6,528	16.47%	7,378	14.75%	6,198	17.46%
Total	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%	42,022	100.00%

Notes: * Data source is the CBM1&A report. Files were combined and unduplicated in favor of retaining SCH students. Students taking Continuing education courses only are counted one time. SCH students taking SCH and CEU courses are counted one time as SC. ** Data source same as above. SCH students taking SCH and CEU courses are counted one time as SCH. *** Data source same as above. Continuing education students are not classified as to residency status.

See Independent Auditor's Report

Table 16

HOUSTON COMMUNITY COLLEGE SYSTEM
STUDENT PROFILE
LAST EIGHT FISCAL YEARS
(Unaudited)

Gender	Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Female	30,881	55.13%	31,985	55.52%	30,865	54.54%	26,452	54.65%	24,173	54.39%	23,603	54.28%	23,825	53.18%	22,505	53.56%
Male	25,133	44.87%	25,630	44.48%	25,727	45.46%	21,953	45.35%	20,273	45.61%	19,881	45.72%	20,974	46.82%	19,517	46.44%
Total	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%	42,022	100.00%
Ethnic Origin	Fall 2011*		Fall 2010*		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	10,242	18.28%	10,912	18.94%	11,393	20.13%	9,506	19.40%	8,623	21.40%	9,307	23.80%	10,663	24.26%	10,193	27.73%
African American	16,085	28.72%	17,346	30.11%	15,685	27.72%	11,558	22.85%	10,156	22.85%	9,938	23.18%	10,386	22.56%	9,480	22.82%
Hispanic	18,266	32.61%	17,812	30.92%	17,721	31.31%	14,160	29.83%	13,257	28.45%	12,371	27.94%	12,518	26.98%	11,337	28.03%
Asian	5,641	10.07%	6,107	10.60%	5,881	10.39%	4,832	10.52%	4,676	10.85%	4,718	10.63%	4,762	12.17%	5,116	10.53%
Native American	110	0.20%	131	0.23%	138	0.24%	121	0.23%	101	0.21%	91	0.24%	108	0.24%	101	0.30%
Foreign	3,884	6.93%	4,086	7.09%	4,270	7.55%	3,875	8.22%	3,654	7.34%	3,190	6.40%	2,867	10.77%	4,527	8.43%
Unknown	1,786	3.19%	1,221	2.12%	1,504	2.66%	4,353	8.95%	3,979	8.90%	3,869	7.80%	3,495	3.02%	1,268	2.16%
Total	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%	42,022	100.00%
Age	Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 18	4,639	8.28%	2,908	5.05%	3,046	5.38%	1,886	4.00%	1,778	6.50%	2,826	6.00%	2,687	4.94%	2,075	4.02%
18 -21	16,027	28.61%	17,222	29.89%	17,205	30.40%	15,275	31.93%	14,191	30.26%	13,157	29.03%	13,007	28.68%	12,051	27.19%
22 - 24	8,962	16.00%	9,760	16.94%	9,328	16.48%	8,303	17.43%	7,745	16.56%	7,203	16.62%	7,444	17.24%	7,245	17.44%
25 - 35	15,842	28.28%	17,194	29.84%	16,569	29.28%	14,186	28.49%	12,663	27.91%	12,137	28.05%	12,564	29.14%	12,247	29.93%
36 - 50	7,862	14.04%	8,055	13.98%	7,957	14.06%	6,749	13.99%	6,219	14.25%	6,198	15.57%	6,974	15.61%	6,558	16.80%
51 & over	2,664	4.76%	2,464	4.28%	2,468	4.36%	1,967	4.01%	1,783	4.24%	1,842	4.40%	1,973	4.06%	1,704	4.39%
Unknown	18	0.03%	12	0.02%	19	0.03%	39	0.15%	67	0.28%	121	0.33%	150	0.34%	142	0.24%
Total	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%	42,022	100.00%
Average Age	27.4 **		27.5 **		27.4		27.3		27.2		27.2		28.4		27.6	

*The methodology for indicating ethnicity change in Fall 2010 to comply with federal guidelines.

**Remove 'Unknown' age before calculating average.

All figures are calculated from the CBM001&A reports combined.

See Independent Auditor's Report

HOUSTON COMMUNITY COLLEGE SYSTEM
CONTACT HOURS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Funded Contact Hours			
	Academic*	Voc Tech*	Total	CEU **
2012-2013	16,237,296	5,744,810	21,982,106	1,933,271
2011-2012	17,354,256	5,822,072	23,176,328	1,798,940
2010-2011	17,802,080	5,924,078	23,726,158	1,914,445
2009-2010	16,652,752	5,680,164	22,332,916	1,880,857
2008-2009	14,345,992	4,883,890	19,229,882	1,810,761
2007-2008	12,739,232	4,422,336	17,161,568	1,847,195
2006-2007	12,077,904	4,378,250	16,456,154	2,091,365
2005-2006	11,487,128	4,260,486	15,747,614	1,974,799
2004-2005	11,406,432	4,613,888	16,020,320	2,118,738
2003-2004	11,009,608	4,894,274	15,903,882	2,306,953

Note:

In FY2012, the data in the table has been revised to reflect all fundable contact hours. The contact hours has been restated to reflect the change for all year shown.

Source: CBM 001 & 00A.

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HOUSTON COMMUNITY COLLEGE SYSTEM
 TRANSFERS TO SENIOR INSTITUTIONS
 2011-2012 GRADUATES*
 (Includes Only Public Senior Colleges in Texas)

	Total Student Count Academic	Total Student Count Technical	Total Student Count Tech-Prep	Total of all Sample Transfer Students	% of all Sample Transfer Students
1 Angelo State University	8			8	0.07%
2 Baylor College of Medicine	3			3	0.03%
3 Lamar University	164	5		169	1.42%
4 Midwestern State University	20	1	1	22	0.19%
5 Prairie View A&M University	301	30	3	334	2.82%
6 Sam Houston State University	323	15	1	339	2.86%
7 Stephen F. Austin State University	227	8		235	1.98%
8 Sul Ross State University				0	0.00%
9 Tarleton State University	9			9	0.08%
10 Texas A&M International University	1	1		2	0.02%
11 Texas A&M University	949	9	1	959	8.08%
12 Texas A&M University - Central Texas	4	2		6	0.05%
13 Texas A&M University - Commerce	8		1	9	0.08%
14 Texas A&M University - Corpus Christi	49			49	0.41%
15 Texas A&M University - Kingsville	16	2		18	0.15%
16 Texas A&M University - San Antonio	1	1		2	0.02%
17 Texas A&M University at Galveston	34		1	35	0.29%
18 Texas A&M University System Health Science	3			3	0.03%
19 Texas Southern University	734	53	3	790	6.66%
20 Texas State University - San Marcos	329	2		331	2.79%
21 Texas Tech University	256	5	1	262	2.21%
22 Texas Tech University Health Sciences Center	41			41	0.35%
23 Texas Woman's University	153	7	1	161	1.36%
24 The University of Texas - Pan American	10			10	0.08%
25 The University of Texas at Arlington	115	4		119	1.00%
26 The University of Texas at Austin	1,124	18		1,142	9.62%
27 The University of Texas at Brownsville	1	1		2	0.02%
28 The University of Texas at Dallas	53	2	1	56	0.47%
29 The University of Texas at El Paso	10			10	0.08%
30 The University of Texas at San Antonio	306	7		313	2.64%
31 The University of Texas at Tyler	23		1	24	0.20%
32 The University of Texas Health Science Center at	118	18	1	137	1.15%
33 The University of Texas Health Science Center at	18	1		19	0.16%
34 The University of Texas M.D. Anderson Cancer	50	9		59	0.50%
35 The University of Texas Medical Branch at	85	4		89	0.75%
36 The University of Texas of the Permian Basin	17	1		18	0.15%
37 University of Houston	3,640	130	16	3,786	31.91%
38 University of Houston - Clear Lake	214	25	1	240	2.02%
39 University of Houston - Downtown	1,485	114	9	1,608	13.55%
40 University of Houston - Victoria	315	24	5	344	2.90%
41 University of North Texas	81	4		85	0.72%
42 University of North Texas Health Science Center	10			10	
43 West Texas A&M University	7			7	0.06%
	<u>11,315</u>	<u>503</u>	<u>47</u>	<u>11,865</u>	<u>100.00%</u>

Source: Texas Higher Education Coordinating Board <http://www.txhighereddata.org/reports/performance/ctcasalf/ctcaddl/>

*Latest information available.

See Independent Auditor's Report

HOUSTON COMMUNITY COLLEGE SYSTEM
CAPITAL ASSET INFORMATION
FISCAL YEARS 2010 - 2013
(Unaudited)

	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010
<u>Academic buildings *</u>				
Number of Academic Buildings	56	56	63	72
Square footage	3,100,787	3,117,169	3,164,033	3,122,289
<u>Libraries</u>				
Number of Libraries	15	15	15	14
Square footage	148,020	148,020	148,020	147,058
Number of Volumes				
Circulating books	241,382	231,099	206,784	193,635
Reference books	24,299	24,190	24,553	24,674
Media items	28,016	21,886	27,471	27,068
Magazines, Journals, Newspapers	230	210	276	274
Electronic books (Digital video)	69,609	46,195	60,897	37,407
Electronic Journals	23,535	19,136	21,935	35,848
Total	<u>387,071</u>	<u>342,716</u>	<u>341,916</u>	<u>318,906</u>
<u>Administrative and support buildings</u>				
Number of Administrative and support buildings	4	4	3	3
Square footage	656,124	656,124	628,674	601,000
<u>Transportation</u>				
Bus	2	2	2	2
Cars	31	31	31	28
Golf Cart	28	29	19	19
Motorcycle/Segway	4	4	5	
Motor Home/Mobile Unit	3	3	2	2
SUV	2	2	4	2
Tank	2	2	2	2
Tractors	29	29	35	36
Trailers	49	49	45	46
Truck	14	13	11	14
Truck, Heavy (Fire Truck)	4	4	6	0
Vans	21	20	23	21
Utility Vehicles	1	1	6	4
Total	<u>190</u>	<u>189</u>	<u>191</u>	<u>176</u>

*Buildings include academic, workforce, administrative, central chiller plants, and warehouses. Not including parking lots. Also, include both capital and operating leases.

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SINGLE AUDIT



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

Board of Trustees
Houston Community College System
Houston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Houston Community College System (the "System") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 14, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Texas Public Funds Investment Act

We also performed tests of the System's compliance with the requirements of the Texas Public Funds Investment Act (the Act). The results of our tests disclosed no instances of noncompliance with the Act. However, providing an opinion on compliance with the Act was not an objective of our audit and accordingly, we do not express an opinion.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carly Riggs & Ingram, L.L.C.

Houston, Texas
November 14, 2013



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR

Board of Trustees
Houston Community College System
Houston, Texas

Report on Compliance for Each Major Federal and State of Texas Program

We have audited Houston Community College System (the "System") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and *The State of Texas Single Audit Circular* that could have a direct and material effect on each of System's major Federal and State of Texas programs for the year ended August 31, 2013. The System's major federal and state of Texas programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state of Texas programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal and state of Texas programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and *The State of Texas Single Audit Circular*. Those standards, OMB Circular A-133 and *The State of Texas Single Audit Circular* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state of Texas program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state of Texas program. However, our audit does not provide a legal determination of the System's compliance.

Opinion on Each Major Federal and State of Texas Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state of Texas programs for the year ended August 31, 2013.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and State of Texas program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state of Texas program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and *The State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and *The State of Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

Carly Riggs & Ingram, L.L.C.

Houston, Texas
November 14, 2013

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U. S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 1,397,120
Federal Work-Study Program	84.033		802,902
Federal Pell Grant Program	84.063		93,026,721
Federal Direct Student Loans	84.268		108,426,338
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		<u>52,500</u>
Total Student Financial Aid Cluster			203,705,581
TRIO Cluster			
TRIO - Student Support Services	84.042		410,822
TRIO - Upward Bound	84.047		<u>833,243</u>
Total TRIO Cluster			1,244,065
Higher Education - Institutional Aid	84.031A		128,219
Minority Science and Engineering Improvement	84.120A		209,718
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407A		431,428
Pass-Through From:			
Texas Educational Agency			
Adult Education - Basic Grants to States	84.002A	134100017110481	5,363,185
Adult Education - Basic Grants to States	84.002A	134100087110487	<u>126,596</u>
Total Adult Education - Basic Grants to States			5,489,781
University of St. Thomas			
Higher Education - Institutional Aid	84.031C	UST HSI STEM Art# 1- HCCS	781,265
Texas Higher Education Coordinating Board			
Career and Technical Education - Basic Grants to States	84.048	124246	4,745
Career and Technical Education - Basic Grants to States	84.048	134235	<u>824,843</u>
Total Career and Technical Education			829,588
College Access Challenge Grant Program	84.378	06020	15,000
College Access Challenge Grant Program	84.378A	11253	5,462
College Access Challenge Grant Program	84.378	09220	<u>144,140</u>
Total College Access Challenge Grant Program			164,602
Total U.S. Department of Education			212,984,247

See Independent Auditor's Report and accompanying notes to Schedule of Expenditures of Federal Awards.

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2013

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements and Expenditures
U.S. Department of Agriculture			
Direct Programs:			
Hispanic Serving Institutions Education Grants	10.223		\$ 121,041
Hispanic Serving Institutions Education Grants	10.223		18,308
Hispanic Serving Institutions Education Grants	10.223		17,950
Hispanic Serving Institutions Education Grants	10.223		130,292
Pass-Through From:			
Texas A&M University - Corpus Christi			
Hispanic Serving Institutions Education Grants	10.223	10-035	19,286
Sam Houston State University			
Capacity Building for Non-Land Grant College of Agriculture	10.326	22062A	<u>2,915</u>
Total U.S. Department of Agriculture			309,792
U.S. Department of Housing and Urban Development			
Pass-Through From:			
Child Care Council of Greater Houston, Inc.			
Community Development Block Grant Program for Entitlement Communities	14.218		<u>17,307</u>
Total U.S. Department of Housing And Urban Development			17,307
U.S. Department of Justice			
Direct Programs:			
Bulletproof Vest Partnership Program	16.607		<u>3,564</u>
Total U.S. Department of Justice			3,564
U.S. Department of Labor			
Pass-Through From:			
UT Health Science Center Houston			
Employment Service/Wagner-Peyser Funded Activities	17.207		28,246
North Central Texas Council of Government and Workforce Solutions for North Central Texas			
Community Based Job Training Grants	17.269	FY10-DOLCBJT-04	115,834
Harris County Department of Education			
Incentive Grants - WIA Section 503	17.267		63,720
Texas Workforce Commission			
WIA Dislocated Worker Formula Grants	17.278	2911WSW005	<u>10,262</u>
Total U.S. Department of Labor			218,062
U.S. Department of State			
Pass-Through From:			
Northern Virginia Community College			
Academic Exchange Programs- Undergraduate Programs	19.009		<u>112,162</u>
Total U.S. Department of State			112,162

See Independent Auditor's Report and accompanying notes to Schedule of Expenditures of Federal Awards.

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2013

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U.S. Department of Transportation Commercial Motor Vehicle Operator Training Grants	20.235		<u>\$ 14,633</u>
Total U.S. Department of Transportation			14,633
National Endowment for the Humanities Pass-Through From: American Library Association Promotion of the Humanities Public- Programs	45.164	2219	<u>2,659</u>
Total National Endowment of the Humanities			2,659
Institute of Museum & Library Services Pass-Through From: Texas State Library Archive Commission Grants to States Grants to States	45.310 45.310	479-13004	54,508 <u>7,500</u>
Total Institute of Museum & Library Services			62,008
National Science Foundation Direct Programs: Education and Human Resources Pass-Through From: University of Houston Education and Human Resources	47.076 47.076	R-09-0170	55,702 <u>41,191</u>
Total National Science Foundation			96,893
U. S. Department of Veterans Affairs Direct Programs: Post 9/11 Veterans Educational Assistance	64.028		<u>2,253,406</u>
Total U.S. Department of Veterans Affairs			2,253,406
U.S. Department of Energy Direct Programs: Renewable Energy Research and Development Pass-Through From: Texas Comptroller of Public Accounts State Energy Conservation Office (SECO) State Energy Program City Of San Antonio Energy Efficiency and Renewable Energy Information Dissemination Outreach, Training and Technical Analsis/Assistance	81.087 81.041 81.117	CS0106	220,653 37,180 <u>13,972</u>
Total U.S. Department of Energy			271,805

See Independent Auditor's Report and accompanying notes to Schedule of Expenditures of Federal Awards.

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2013

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U. S. Department of Health and Human Services			
Direct Programs:			
Head Start Cluster			
Head Start	93.600		\$ 174,881
Pass-Through From:			
University of Texas at Austin			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	UTA12-001074	13,587
Pass-Through from Texas Education Agency:			
TANF Cluster			
Temporary Assistance for Needy Families	93.558	123625017110390	10,178
Temporary Assistance for Needy Families	93.558	113625017110454	238,349
Total Temporary Assistance for Needy Families			<u>248,527</u>
YMCA of Greater Houston			
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	529-08-0181-00010C	19,869
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	529-08-0181-00010D	269,370
Total Refugee and Entrant Assistance - Targeted Assistance Grants			<u>289,239</u>
Pitt Community College			
ARRA - Health Information Technology Professionals in Health Care	93.721	90CC0078/02-05	<u>381,598</u>
Total U.S. Department of Health and Human Services			1,107,831
Corporation for National and Community Service			
Direct Programs:			
AmeriCorps	94.006		<u>81,731</u>
Total Corporation for National and Community Service			81,731
Department of Homeland Security			
Direct Programs:			
Scientific Leadership Awards	97.062		<u>16,497</u>
Total Department of Homeland Security			<u>16,497</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 217,552,598</u>

See Independent Auditor's Report and accompanying notes to Schedule of Expenditures of Federal Awards.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEUDLE

The Schedule of Expenditures of Federal Awards presents the federal grant activity of the Houston Community College System (the “System”) for the year ended August 31, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations, and includes awards received directly from federal agencies, as well as federal awards passed through other government agencies.

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

NOTE 2 – FEDERAL ASSISTANCE RECONCILIATION

Federal Grants and Contracts Revenue – per Schedule A	\$ 14,702,419
Reconciling items:	
Schedule C – Title IV Grants	94,423,841
Federal Direct Student Loans	<u>108,426,338</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 217,552,598</u>

NOTE 3 – SUBRECIPIENTS

The following were subrecipients of the Adult Education - Basic Grants to States (Adult Education and Family Literacy Act), CFDA 84.002. These amounts are included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

Alliance for Multicultural Community Services	\$ 192,066
Association for the Advancement of Mexican Americans	968,656
AVANCE	141,566
Chinese Community Center	174,139
Community Family Center	920,425
Gulf Coast Community Services	51,719
Harris County Community Supervision and Correction	64,789
Houston Center for Literacy	647,528
Houston International University	84,100
Houston Read Commission	51,530
Neighborhood Centers, Inc.	208,007
SEARCH	<u>21,300</u>
Total Passed-through to Subrecipients	<u>\$ 3,525,825</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 3 – SUBRECIPIENTS – CONTINUED

The following were subrecipients of Hispanic Serving Institutions Education Grants, CFDA 10.223. These amounts are included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

Del Mar College	\$	22,000
El Centro College		19,815
Texas A&M University		23,790
University of Houston		<u>9,269</u>
 Total Passed-through to subrecipients	 \$	 <u><u>74,874</u></u>

The following were subrecipients of the Renewable Energy Research and Development, CFDA 81.087. These amounts are included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

Central New Mexico State University	\$	1,250
Ontility		54,963
Sam Houston State University		1,438
SUL Ros State University		2,590
Texas State Technical College		<u>4,603</u>
 Total Passed-through to subrecipients	 \$	 <u><u>64,844</u></u>

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2013

State Grantor Program Title		Grantor's Number	Pass-Through Disbursements and Expenditures
Texas Education Agency			
ABE - GED	2121	120100017110415	\$ 24,618
ABE - GED	2122	130100017110481	1,811,991
Dropout Recovery Pilot Program Cycle	2243	101045587110008	65,543
Temporary Assistance for Needy Families	2231	1123625017110390	16,311
Temporary Assistance for Needy Families			
Total ABE - GED	2232	133625017110454	<u>118,953</u>
Total Texas Education Agency			2,037,416
Texas Higher Education Coordinating Board			
Adult Basic Education Innovation Grant	2142	03472	158,311
Collegiate G-Force Work-Study Mentorship Program	2332/2333	N/A	19,139
First Year Experience	2407	06838	5,577
Houston Pathways Initiative - College for Readiness	2305	N/A	7,200
Nursing Shortage Reduction Program	2301	N/A	37,147
Nursing Shortage Under 70 Program	2303	N/A	74,162
Rider 58 Funds	2291	N/A	4,800
Texas College Work Study Program	5454/5455	N/A	101,897
Texas Educational Opportunity Grant	5463/5465	N/A	975,659
Texas Grant Program	5462/5464	N/A	2,011,380
Pass-Through From:			
University of Texas Health Science Center at Houston			
Online Navigational Assessment Vehicle Intervention			
Guidance and Training of Risks (NAVIGATOR) for			
Undergraduate Minority Student Success	2440	0007828A	<u>28,522</u>
Total Texas Higher Education Coordinating Board			3,423,794
Texas Workforce Commission			
Skills for Small Business Program	2408	2812SSD001	409
Ben E. Keith Co.	2370	2813SDF003	61,051
The Methodist Hospital	2415	2112SDF006	579,459
VITAS	2371	2813SDF002	114,833
Pass-Through From:			
Texas State Technical College			
TYCO Valves and Controls GP Holdings Inc.	2372		<u>41,383</u>
Total Texas Workforce Commission			797,135
Texas State Board of Public Accountancy	5471	N/A	<u>9,549</u>
TOTAL EXPENDITURES OF STATE OF TEXAS AWARDS			<u>\$ 6,267,894</u>

See Independent Auditor's Report and accompanying notes to Schedule of Expenditures of State OF Texas Awards.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS

NOTE 1 – BASIS OF PRESENTATION

The Schedule of Expenditures of State of Texas Awards presents the activity of State of Texas awards programs of Houston Community College System (the “System”) for the year ended August 31, 2013. State of Texas awards received directly from State agencies, as well as State of Texas awards passed-through other government agencies, are included in this schedule.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of State of Texas Awards is presented using the accrual basis of accounting. Revenue is recognized when earned and expenditures are recognized when incurred. Revenues are reported only to the extent of expenditures for the current year. State receivables represent amounts expended in excess of revenue received.

NOTE 3 – STATE ASSISTANCE RECONCILIATION

State Grants and Contracts revenue – per Schedule A	\$ 6,156,585
Reconciling items:	
Schedule C – Other Nonoperating Revenue	<u>111,309</u>
Total State Assistance per Schedule of Expenditures of State of Texas Awards	<u>\$ 6,267,894</u>

NOTE 4 – SUBRECIPIENTS

The following were subrecipients of the Adult Basic Education (ABE) – GED program. These amounts are included as expenditures in the accompanying Schedule of Expenditures of State of Texas Awards.

Alliance for Multicultural Community Services	\$ 38,381
Association for the Advancement of Mexican Americans	76,454
AVANCE	15,664
Chinese Community Center	40,069
Community Family Center	187,730
Gulf Coast Community Services	8,841
Houston Center for Literacy	116,759
Houston International University	15,925
Neighborhood Centers, Inc.	26,019
Research and Development Institute	<u>10,735</u>
Total Passed-through to Subrecipients	<u>\$ 536,577</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS

NOTE 4 – SUBRECIPIENTS – CONTINUED

The following were subrecipients of the ABE Innovation Grant program. These amounts are included as expenditures in the accompanying Schedule of Expenditures of State of Texas Awards.

Alliance for Multicultural Community Services	\$	12,800
Chinese Community Center		10,600
Literacy Advance of Houston		<u>1,000</u>
Total Passed-through to Subrecipients	<u>\$</u>	<u>24,400</u>

The following were subrecipients of the Skills Development program. These amounts are included as expenditures in the accompanying Schedule of Expenditures of State of Texas Awards.

Gannett Satellite Information Network	\$	155,490
The Methodist Hospital		112,159
Vitas Healthcare of Texas		<u>23,750</u>
Total Passed-through to Subrecipients	<u>\$</u>	<u>291,399</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEUDLE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditors’ report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____	yes	_____	X	no
Significant deficiencies identified that are not considered to be material weaknesses?	_____	yes	_____	X	reported
Noncompliance material to financial statements noted?	_____	yes	_____	X	no

Federal and State of Texas Awards

Internal control over major programs:

Material weakness(es) identified?	_____	yes	_____	X	no
Significant deficiencies identified that are not considered to be material weaknesses?	_____	yes	_____	X	reported

Type of auditors’ report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 and the *State of Texas Single Audit Circular*?

_____	yes	_____	X	no
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Identification of Major Programs:

Federal - CFDA Number

Name of Federal Programs

Cluster of Programs – Student Financial Aid:

84.007	84.033	84.063	84.268	84.375	84.379	Federal Supplemental Educational Opportunity Grants
						Federal Work Study Program
						Federal Pell Grant Program
						Federal Direct Loan Program
						Academic Competitiveness Grants
						Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEUDLE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
 FOR THE YEAR ENDED AUGUST 31, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS – CONTINUED

<u>Federal - CFDA Number</u>	<u>Name of Federal Programs</u>
Cluster of Programs – TRIO:	
84.042	Student Support Services
84.047	Upward Bound
84.031	Higher Education - Instiitutional Aid
84.407A	Transition Program for Students with Intellectual Disabilities into Higher Education
93.584	Refugee and Entrant Assistance - Targeted Assistance Grants
93.721	ARRA – Health Information Technology Professionals in Healthcare

<u>State - Contract Number</u>	<u>Program Title</u>
N/A	Texas Grant Program
N/A	Texas Educational Opportunity Grant
N/A	Texas College Work Study Program
2415	The Methodist Hospital

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

Federal	\$415,411
State of Texas	\$300,000

Auditee qualified as low-risk auditee?

Federal	<u> X </u> yes	<u> </u> no
State of Texas	<u> X </u> yes	<u> </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AND STATE OF TEXAS AWARD PROGRAMS AUDIT

None

HOUSTON COMMUNITY COLLEGE SYSTEM
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2013

U.S. DEPARTMENT OF EDUCATION

Finding 2012-1

Programs: Federal Supplemental Educational Opportunity Grants, Federal Pell Grant Program and Federal Direct Student Loans, and Academic Competitiveness Grants (Student Financial Aid Cluster)

CFDA: 84.007, 84.063, 84.268, 84.375

Condition: The System incorrectly calculated the return of unearned funds to Title IV.

Recommendation: It was recommended that the System develop and implement formalized change management processes and controls over the PeopleSoft Campus Solutions Financial Aid System to ensure that changes to the application are appropriate, authorized, tested, tracked, documented, and monitored

Current Status: The recommendations were adopted during fiscal year ended August 31, 2013. No similar findings were noted in the 2013 audit.

Finding 2012 -2

Programs: Federal Pell Grant Program and Federal Direct Student Loans (Student Financial Aid Cluster)

CFDA: 84.063 and 84.268

Condition: During fiscal year 2011, we reported a finding whereby award adjustments were applied to the student's accounts after tuition and fees were assessed and credit balances were disbursed to the students. Due to increase in the number of students applying and receiving financial aid awards, the System experienced delays in performing timely reconciliations to ensure student's eligibility was verified prior to disbursement to the student's account. In addition, components of the financial aid process were not fully automated which would enable the System to ensure that funds are not refunded until a review and recalculation was performed to ensure continued eligibility. The System began corrective action to ensure compliance with applying financial aid awards to eligible students in fiscal year 2012.

Recommendation: It was recommended that the System continue to develop automated processes.

Current Status: The recommendation was fully adopted during fiscal year ended August 31, 2013. No similar findings were noted in the 2013 audit.