



Houston Community College

Financial Statements and Single Audit Reports

August 31, 2012 and 2011



Prepared by:
Division of Finance and Administration
Business Affairs Department
Houston Community College System

HOUSTON COMMUNITY COLLEGE SYSTEM

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HOUSTON COMMUNITY COLLEGE SYSTEM
ORGANIZATIONAL DATA
FOR THE YEAR ENDED AUGUST 31, 2012

BOARD OF TRUSTEES

OFFICERS OF THE BOARD OF TRUSTEES

Mary Ann Perez	Chairwoman
Bruce A. Austin	Vice Chairman
Neeta Sane	Secretary

MEMBERS OF THE BOARD OF TRUSTEES

**Term Expires
December 31,**

Yolanda Navarro Flores	Houston, Texas	2013
Bruce A. Austin, <i>Vice Chair</i>	Houston, Texas	2013
Neeta Sane, <i>Secretary</i>	Houston, Texas	2013
Mary Ann Perez, <i>Board Chair</i>	Houston, Texas	2015
Sandie Mullins	Houston, Texas	2015
Eva L. Loreda	Houston, Texas	2015
Carroll G. Robinson	Houston, Texas	2017
Richard Schechter	Houston, Texas	2017
Christopher W. Oliver	Houston, Texas	2017

PRINCIPAL ADMINISTRATIVE OFFICERS

Mary S. Spangler, Ed.D.	Chancellor
Arthur Tyler, Ph.D.	Deputy Chancellor/Chief Operating Officer
Charles M. Cook, Ed.D.	Vice Chancellor, Instruction
William Carter, MBA	Vice Chancellor, Information Technology
Diana Pino, Ph.D.	Vice Chancellor, Student Services
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
Mr. Willie Williams, Jr.	Chief Human Resources Officer
Winston Dahse, MBA	Chief Administration Officer
Ronald E. Defalco, CPA	Controller and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Houston Community College System
Houston, Texas

We have audited the accompanying financial statements of Houston Community College System (the "System") as of and for the years ended August 31, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston Community College System as of August 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 8, 2012 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the System as a whole. The required supplemental schedules on pages 54 to 57 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying 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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*, and are also not a required part of the financial statements. The required supplementary schedules, 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 relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Cramer Donnelly & Desrosiers LLP

November 8, 2012

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 of the System's financial activity during the fiscal years ended August 31, 2012 and 2011. 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 2012, 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 has launched a new 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.

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

Financial Highlights – Continued

- 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.
- 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).”

Over the last three years, the HCC team focused on the challenges of creating and enhancing opportunities in direct response to the vision. The actions taken by HCC contributed to unprecedented growth in the student body, expansion of new and study-abroad programs and restructured offerings such as Ready-When-U-R, Salzburg Global Seminar, and critical workforce and business development programs to enhance economic development such as the Goldman Sachs 10,000 Small Business Program. Having moved the institution significantly forward, based on the Strategic Plan 2008-2011 initiatives and goals, HCC is poised to reprioritize and focus on its vision – ensuring that students achieve their goals.

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

Financial Highlights – Continued

For years, much of the focus of HCC and most community colleges was access. Access is still a major element of what is needed to support Houston's growth, but access without successful academic and skills attainment provides little for the community's economic and social well-being. Initiatives like Achieving the Dream have been successful and need to be scaled up to ensure that all students can receive the benefits of systemic transformational teaching-learning and support techniques. To do this and to leverage what we have learned from the best practices found nationally, HCC must transform its faculty, its system of programmatic offerings, and its means of helping students learn as it reinvigorates the attitudes of entrepreneurialism and innovation that overcome challenges affecting students.

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.

After the close of the 82nd Legislative session, HCC sustained an estimated \$30 million shortfall. Faced with the continued decrease in our base formula funding, no funding for dramatic enrollment growth, and a 39.6% decrease in benefits funding from the State, a combination of cost cutting and revenue generating efforts were implemented. With recommendations from the Budget Task Force and courageous decisions made by the Board of Trustees, the System was able to maintain its service commitment level to the students and community; providing a high quality education at an affordable cost. Unlike most of the universities and community colleges in Texas that were affected by the State funding decreases, HCC was also able to successfully withstand the financial challenges without staff layoffs or furloughs.

A number of significant reorganizations and transformations at the institutional level were approved and implemented in fiscal year 2012. The following actions have been balanced and thoughtful, driven by efforts to use resources more efficiently while maintaining or improving services to students:

- Reorganized Department/Division Chair Structure – Fewer and larger instructional department/divisions presents opportunities for more interdisciplinary communication. Faculty will have opportunities for academic advising within their field of expertise. The reorganization saved approximately \$2.4 million in fiscal year 2012.
- 9 months/10.5 Month Faculty Contracts – As a result of restructuring, all instructional faculty members who are not faculty leaders were offered the option of 9 month or 10.5 month contracts. The new system replaces the 9 month contract with summer extensions and 12 month contracts. This change provides consistency, flexibility, and equity for faculty and planning and budgeting predictability for chairs and administration. The estimated savings resulting from the restructure is \$1.3 million.
- Chilled Staff and Administrative Positions – Holding the line on personnel costs leaves positions open as people resign or retire. While the positions are maintained in the organizational chart, the money associated with open positions can be used for other purposes. Although challenging during a time of strong enrollment, the chilled positions create a savings of approximately \$1.5 million.
- Save-it-Forward – the entire college participated in the program by not spending money unless absolutely necessary on such items as travel and supplies. The program has saved the college approximately \$1.5 million.

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

Financial Highlights – Continued

- Reduced ORP Retirement Benefits – The Board of trustees voted and approved to discontinue their long-standing practice of a college-paid supplement to the State minimum-required Optional Retirement Program matching contribution. Although a difficult decision, this resulting savings to HCC is approximately \$700,000.
- Restructuring of Debt Service – Tax revenue resulting from the restructuring of debt service has increased resources needed for operations.

The above recommendations are among a long list of cost savings and revenue generating strategies implemented by HCC in order to close the funding gap created by the loss of State funding. The System's financial outlook remains healthy and we will continue efforts to ensure that resources are allocated cost-effectively.

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."

Fiscal Planning and Budget

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.

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. This integrated process is a re-engineering of the strategic planning and budgeting approach taken over the last several years at Houston Community College. It builds on the work done previously, by linking goals and objectives directly to budgets.

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.

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

Overview of Financial Statements

The System qualifies as a special purpose government engaged in business-type activities and the financial statements are prepared on that basis. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, a statement of cash flows and notes to the financial statements. Comparative data from the prior year is shown in a separate column on the face of each of the statements.

The statement of net assets' focus is to report the total net resources available to finance future services. This statement presents all of the System's assets and liabilities, and net assets as of the end of the fiscal year. The statement is prepared on the accrual basis of accounting, in which revenues and assets are recognized when earned, and expenses and liabilities are recognized when incurred regardless of when cash is received or paid. The difference between total assets and total liabilities is net assets, and increases and decreases to net assets is one indicator of whether the overall financial condition has improved or deteriorated during the year when considered with other factors such as enrollment, contact hours of instruction, student retention and other non-financial information. The statement of net assets is useful in determining the assets available to continue operations as well as how much the System owes to vendors, bondholders, and other entities at the end of the year.

The statement of revenues, expenses, and changes in net assets focuses on the "bottom line results" of the System's operations. This approach summarizes and simplifies the user's analysis of the cost of various System services to its students and the burden to the public. The statement is divided into operating revenues and expenses and nonoperating revenues and expenses. The System (like all other community colleges) is primarily dependent upon three sources of revenue: State appropriations, tuition and fees, and local property taxes. Since the Governmental Accounting Standards Board (GASB) requires State appropriations, student financial aid (Title IV), grants and property taxes to be classified as nonoperating revenues, community colleges will generally display an operating deficit before taking into account other support. Essentially, this deficit represents the net costs of services to students that must be covered by local taxpayer support, the State and other sources of revenue.

The statement of cash flows reports the cash receipts and cash payments that occurred during the fiscal year. This statement helps users assess: 1) the entity's ability to generate future cash flows; 2) its ability to meet its obligations as they come due; and 3) its needs for external financing. The statement of cash flows presents information relative to cash inflows and outflows summarized by operating, financing, and investing activities. The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the System's accounting policies, significant account balances, activities, and contingencies.

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

Statement of Net Assets

The Statement of Net Assets 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 2012, 2011 and 2010.

ASSETS:	2012	2011	2010	Change	
				2011 to 2012	2010 to 2011
Other Assets	\$ 329,935,572	\$ 313,162,868	\$ 316,985,213	\$ 16,772,704	\$ (3,822,345)
Capital Assets	728,212,404	696,519,999	665,669,143	31,692,405	30,850,856
TOTAL ASSETS	\$ 1,058,147,976	\$ 1,009,682,867	\$ 982,654,356	\$ 48,465,109	\$ 27,028,511
LIABILITIES:					
Current Liabilities	\$ 107,472,707	\$ 123,996,373	\$ 121,797,866	\$ (16,523,666)	\$ 2,198,507
Noncurrent Liabilities	618,748,445	603,261,804	593,311,795	15,486,641	9,950,009
TOTAL LIABILITIES	\$ 726,221,152	\$ 727,258,177	\$ 715,109,661	\$ (1,037,025)	\$ 12,148,516
NET ASSETS:					
Investment in Plant, Net	\$ 244,434,618	\$ 207,976,763	\$ 197,012,726	\$ 36,457,855	\$ 10,964,037
Restricted-Expendable	488,477	488,477	449,237	-	39,240
Unrestricted	87,003,729	73,959,450	70,082,732	13,044,279	3,876,718
TOTAL NET ASSETS	\$ 331,926,824	\$ 282,424,690	\$ 267,544,695	\$ 49,502,134	\$ 14,879,995

Assets

Fiscal Year 2012:

In comparing fiscal year 2012 to fiscal year 2011, there was an increase of \$21.1 million in cash and cash equivalents, short-term investments, and long-term investments. This increase is 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, \$31.0 million generated from operations, and net of \$38.1 million spent on capital assets.

Overall returns on investments increased by .08% in fiscal year 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.

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

Statement of Net Assets - Continued

Fiscal Year 2011:

In comparing fiscal year 2011 to fiscal year 2010, there was a decrease of \$6.2 million in cash and cash equivalents, short-term investments, and long-term investments. This net decrease is mainly due to investments resulting from the issuance of the Maintenance Tax Notes, Series 2011 of \$43.3 million, net of \$38.6 million spent on capital assets and \$10.9 consumed in general operations.

Overall returns on investments decreased by .17% in fiscal year 2011 due to adverse market conditions and the economy. The investment portfolio is highly liquid with 99% of the assets invested in local government pools, money market funds and short-term certificates of deposit. All local government pools and money market funds are rated at the highest level. Certificates of deposit, high yield savings and other bank deposits are secured with United States 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.

Liabilities

Fiscal Year 2012:

Overall liabilities decreased by approximately \$1.5 million from fiscal year 2011 to fiscal year 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.

Fiscal Year 2011:

Overall liabilities increased by approximately \$12.1 million from fiscal year 2010 to fiscal year 2011. Notes payable increased by \$39.1 million due to the issuance of the Maintenance Tax Notes, Series 2011 of \$43.3 million on March 10, 2011. Principal payments of \$4.2 million were made on Maintenance Tax Notes. Revenue bonds decreased by approximately \$2.3 million due to the issuance of Junior Lien Revenue Refunding Bonds, Series 2011 on March 10, 2011 of \$36.3 million, net of defeasance of \$38.6 million in Junior Lien Revenue Bonds, Series 2001A. Principal payments made on Revenue Bonds totaling \$9 million; principal payments totaling \$3.7 million were made on PFC Lease Revenue Bonds; and general obligation bond principal payments of \$5.4 million during fiscal year 2011. Capital lease obligations decreased by \$2.6 million due to principal payments. There was a decrease in accounts payable of \$9.6 million and a decrease in accrued liabilities of \$4.9 million. Unearned revenues increased by \$9.9 million due to the increase in student enrollment.

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

Statement of Revenues, Expenses and Changes in Net Assets

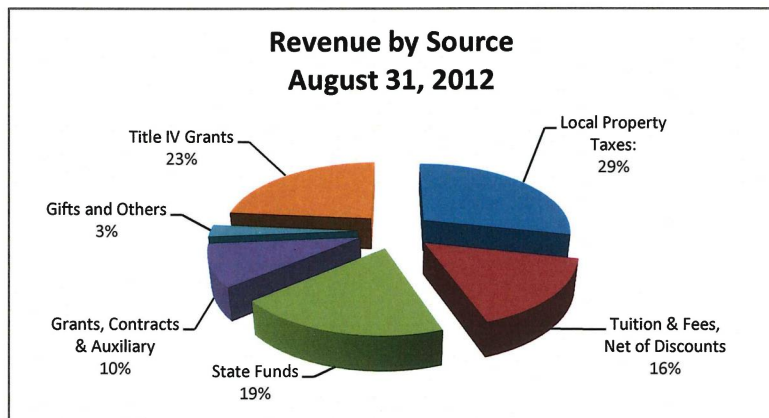
The Statement of Revenues, Expenses and Changes in Net Assets depicts the operating results of the System, as well as the non-operating revenues and expenses. Ad valorem taxes and State of Texas appropriations, while budgeted for operations, are classified as non-operating revenues according to accounting standards. Operating and non-operating revenues have been reclassified for all years presented to comply with Governmental Accounting Standards Board (GASB) requirement that Title IV funds be reported as non-operating revenue.

	2012	2011	2010	Change	
				2011 to 2012	2010 to 2011
Operating Revenues	\$ 112,435,472	\$ 106,884,254	\$ 99,231,149	\$ 5,551,218	\$ 7,653,105
Operating Expenses	342,878,460	357,021,152	342,882,674	(14,142,692)	14,138,478
Operating Loss	(230,442,988)	(250,136,898)	(243,651,525)	19,693,910	(6,485,373)
Nonoperating Revenue, Net	279,945,122	265,016,893	250,763,006	14,928,229	14,253,887
Increase in Net Assets	\$ 49,502,134	\$ 14,879,995	\$ 7,111,481	\$ 34,622,139	\$ 7,768,514

Revenues

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.

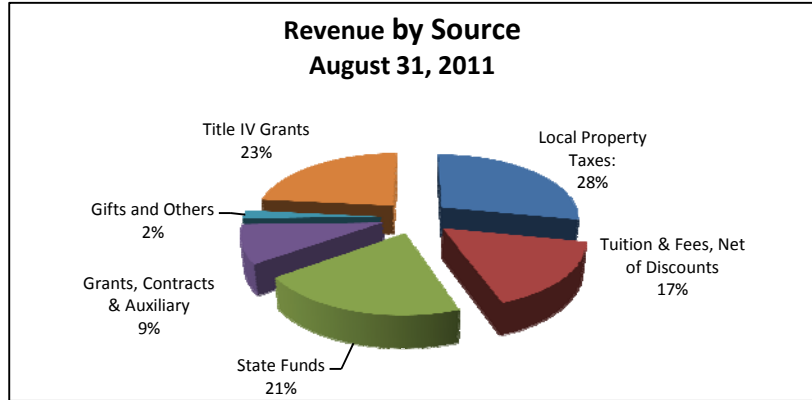
Operating revenues increased 7.7% in fiscal year 2011 as compared to fiscal year 2010 namely due to 1) an increase in student enrollment, 2) increases in tuition installment fees, and 3) an increase in out-of-district and out-of-state tuition and general fees. Non-operating revenues increased by 6.3% in fiscal year 2011 compared with fiscal year 2010 due to increases in Title IV grants which is offset by a decrease in Ad Valorem tax revenue due to the reduction in property valuations. Also, there was a \$0.3 million decrease in investment income in fiscal 2011 related to a .17% decline in interest rates



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

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

Revenues - Continued



Revenue by Source

	2012	2011	2010	Change	
				2011 to 2012	2010 to 2011
OPERATING REVENUES:					
Tuition & Fees, Net of Discounts	\$ 70,263,778	\$ 67,907,897	\$ 65,655,752	\$ 2,355,881	\$ 2,252,145
Grants, Contracts & Auxiliary					
Federal	16,848,269	16,064,089	16,243,394	784,180	(179,305)
State	5,152,251	6,448,589	5,157,058	(1,296,338)	1,291,531
Local, Private & Non-Governmental	2,922,500	1,927,765	1,681,712	994,735	246,053
Auxiliary	17,248,673	14,535,914	10,493,233	2,712,759	4,042,681
Total Grants, Contracts & Auxiliary	<u>42,171,693</u>	<u>38,976,357</u>	<u>33,575,397</u>	<u>3,195,336</u>	<u>5,400,960</u>
TOTAL OPERATING REVENUES	112,435,472	106,884,254	99,231,149	5,551,217	7,653,105
NONOPERATING REVENUES:					
State Funds:					
Unrestricted	70,232,038	65,788,668	65,720,688	4,443,370	67,980
Restricted	<u>11,607,788</u>	<u>19,049,647</u>	<u>18,944,721</u>	<u>(7,441,859)</u>	<u>104,926</u>
Total State Funds	<u>81,839,826</u>	<u>84,838,315</u>	<u>84,665,409</u>	<u>(2,998,489)</u>	<u>172,906</u>
Local Property Taxes:					
Maintenance and Operations	105,943,722	94,083,625	102,228,627	11,860,097	(8,145,002)
Debt Service	<u>17,694,297</u>	<u>21,736,440</u>	<u>17,045,182</u>	<u>(4,042,143)</u>	<u>4,691,258</u>
Total Local Property Taxes	<u>123,638,019</u>	<u>115,820,065</u>	<u>119,273,809</u>	<u>7,817,954</u>	<u>(3,453,744)</u>
Title IV Grants	102,023,662	96,171,936	75,639,561	5,851,726	20,532,375
Gifts and Others:					
Gifts	2,053,638	1,573,601	1,555,967	480,037	17,634
Other	<u>10,145,084</u>	<u>6,588,259</u>	<u>5,844,732</u>	<u>3,556,825</u>	<u>743,527</u>
Total Gifts and Other	<u>12,198,722</u>	<u>8,161,860</u>	<u>7,400,699</u>	<u>4,036,862</u>	<u>761,161</u>
TOTAL NONOPERATING REVENUES	<u>319,700,228</u>	<u>304,992,176</u>	<u>286,979,478</u>	<u>14,708,052</u>	<u>18,012,698</u>
	<u>\$ 432,135,700</u>	<u>\$ 411,876,430</u>	<u>\$ 386,210,627</u>	<u>\$ 20,259,270</u>	<u>\$ 25,665,803</u>

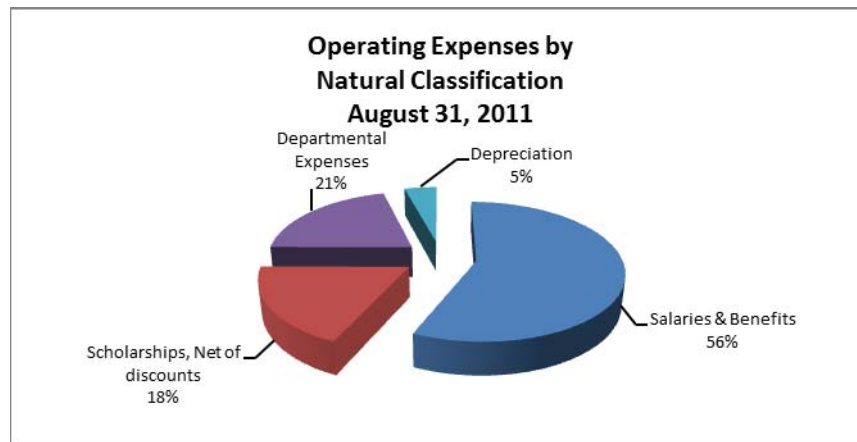
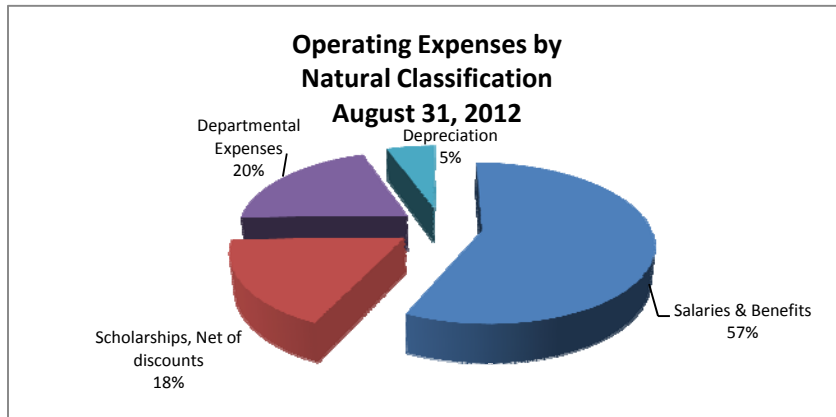
HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(Unaudited)

Statement of Revenues, Expenses and Changes in Net Assets –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	
	2012	% of Total	2011	% of Total	2010	% of Total	2011 to 2012	2010 to 2011
Salaries & Benefits	\$ 193,822,146	56.5%	\$ 201,275,614	56.4%	\$ 193,207,274	56.3%	\$ (7,453,468)	\$ 8,068,340
Scholarships, Net of Discounts	61,504,372	17.9%	65,346,087	18.3%	49,920,320	14.6%	(3,841,715)	15,425,767
Departmental Expenses	68,703,141	20.0%	73,331,985	20.5%	84,922,333	24.8%	(4,628,844)	(11,590,348)
Depreciation	18,848,801	5.5%	17,067,466	4.8%	14,832,747	4.3%	1,781,335	2,234,719
	<u>\$ 342,878,460</u>	100%	<u>\$ 357,021,152</u>	100%	<u>\$ 342,882,674</u>	100%	<u>\$ (14,142,692)</u>	<u>\$ 14,138,478</u>



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

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

	Operating Expenses by Functional Classification						Change	
	2012		2011		2010		2011 to 2012	2010 to 2011
		% of Total		% of Total		% of Total		
Instructional	\$ 105,922,654	30.9%	\$ 112,617,878	31.5%	\$ 113,319,505	33.0%	\$ (6,695,224)	\$ (701,627)
Public Service	11,893,218	3.5%	11,766,675	3.3%	11,477,787	3.3%	126,543	288,888
Academic Support	19,766,340	5.8%	19,616,391	5.5%	23,449,473	6.8%	149,949	(3,833,082)
Student Services	30,377,150	8.9%	31,901,438	8.9%	30,902,922	9.0%	(1,524,288)	998,516
Institutional Support	50,823,418	14.8%	55,747,070	15.6%	53,302,151	15.5%	(4,923,652)	2,444,919
Operation Management	28,005,711	8.2%	28,350,817	7.9%	35,937,690	10.5%	(345,106)	(7,586,873)
Scholarship/Fellowship	61,504,372	17.9%	65,346,087	18.3%	49,920,320	14.6%	(3,841,715)	15,425,767
Depreciation	18,848,802	5.5%	17,067,466	4.8%	14,832,748	4.3%	1,781,336	2,234,718
Auxiliary Enterprises	15,736,795	4.6%	14,607,330	4.1%	9,740,078	2.8%	1,129,465	4,867,252
Total Expense	\$ 342,878,460	100%	\$ 357,021,152	100%	\$ 342,882,674	100%	\$ (14,142,692)	\$ 14,138,478

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.

Operating expenses increased in fiscal year 2011 by \$14.1million or 4.12% compared to fiscal year 2010 namely due to the following:

- Increase in benefits costs related to the combination of Employee Retirement System premium increases and increased hires. Also, employees were allowed to carry over 80 hours of vacation time, twice the 40 hours allowed in fiscal year 2010.
- Increased use of the Auxiliary funds is reflected in their expenditures.
- Continuing increase in Scholarships of \$15.4 million is due to increases in Title IV Pell.

Capital Assets and Debt Administration

Fiscal Year 2012:

There was a significant increase in net capital assets of approximately \$31.7 million from fiscal year 2011 to fiscal year 2012. This increase was due primarily to a \$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.

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

Capital Assets and Debt Administration – Continued

Fiscal Year 2011:

There was a significant increase in net capital assets of approximately \$30.8 million from fiscal year 2010 to fiscal year 2011. This increase was due primarily to a \$40.1 million net decrease in construction in progress, an increase in land of \$5 million, and increases in buildings, real estate improvements and equipment of \$65.9 million (net of accumulated depreciation) which were funded from various bond proceeds. See Footnote 6 of the financial statements.

Capital Assets, Net

	2012	2011	2010	Change	
				2011 to 2012	2010 to 2011
Capital Assets:					
Land	\$ 110,100,164	\$ 99,081,861	\$ 94,088,238	\$ 11,018,303	\$ 4,993,623
Construction in Progress	71,553,414	59,856,934	99,957,882	11,696,480	(40,100,948)
Buildings	452,033,580	449,363,929	400,394,179	2,669,651	48,969,750
Other Real Estate Improvements	55,615,624	47,797,506	41,790,892	7,818,118	6,006,614
Library Books	3,689,900	3,882,640	3,982,726	(192,740)	(100,086)
Furniture, Machinery, Vehicles and Other Equipment	22,096,419	29,366,402	20,374,590	(7,269,983)	8,991,812
Telecommunications and Peripheral Equipment	13,123,301	7,170,727	5,080,636	5,952,574	2,090,091
Total Capital Assets	\$ 728,212,404	\$ 696,519,999	\$ 665,669,143	\$ 31,692,403	\$ 30,850,856

Debt

	2012	2011	2010	Change	
				2011 to 2012	2010 to 2011
Outstanding debt:					
Leases	\$ -	\$ 1,304,824	\$ 3,914,472	\$ (1,304,824)	\$ (2,609,648)
Notes Payable	184,702,037	170,296,243	131,354,161	14,405,794	38,942,082
Revenue Bonds	228,901,011	225,485,223	236,855,293	3,415,788	(11,370,070)
PFC Lease Revenue Bonds	111,744,549	115,601,108	119,307,667	(3,856,560)	(3,706,559)
General Obligation Bonds	118,545,846	122,965,814	128,335,994	(4,419,968)	(5,370,180)
Total Outstanding Debt	\$ 643,893,443	\$ 635,653,212	\$ 619,767,587	\$ 8,240,231	\$ 15,885,625

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.

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

Capital Assets and Debt Administration – Continued

Fiscal Year 2011:

Leases decreased by \$2,609,647 from fiscal year 2010 to fiscal year 2011 due to principal payments. Bonds and notes payable increased as follows:

- Increase of \$43,315,430 due to the issuance of Maintenance Tax Notes.
- Decrease of \$4,213,348 for principal payments on Maintenance Tax Notes.
- Increase of \$36,314,850 due to the issuance of Junior Lien Revenue Refunding Bonds.
- Decrease of \$38,614,918 due to retirement of Junior Lien Revenue Bonds, Series 2001A.
- Decrease of \$9,070,000 due to principal payments on Revenue Bonds.
- PFC Lease Revenue Bonds decreased by \$3,706,560 due to principal payments.
- General Obligation Bonds decreased by \$5,370,181 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.

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 new 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.

Listed below are several innovative partnerships that will enable HCC to provide students with opportunities to go further than many would have ever dreamed.

University of Texas at Tyler – This new creative pathway enables engineering students to complete their ABET accredited Associate degree at HCC and then transition to UT Tyler to complete their Bachelor's degree while still at the HCC Alief campus. They will take classes at the Alief campus to give them even more opportunities for careers in the engineering field in the Houston region. Interning will provide them on-the-job experiences; give them access to potential employers, and the ability to earn stipends.

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

Future Outlook - Continued

Goldman Sachs 10,000 Small Business Initiative – This is a three-way partnership that is having a noticeable impact on small businesses in our area. Hundreds of Houston area business owners have completed the accelerated 80 hour Executive MBA program that offers an enriched upper division curriculum from Babson College while in residence at HCC's Northwest College campus. Retention and persistence data are close to 100%. We are partnering also with the City of Houston, and Houston Hispanic Chamber of Commerce. Funding to help existing businesses move up to the next level is the desired outcome.

International Partnerships – Our international partnerships are providing so many opportunities for our students as we prepare them to thrive in a global environment.

Houston Texans – This year we launched an historic, innovative program called the HCC Field of Opportunity to provide students with scholarships to HCC. The program builds on HCC's Opportunity 14 scholarships administered by the Houston Community College Foundation. Each time the Texans score 14 points, a scholarship is awarded. In addition, when the Texans hold an opponent below 14 points, another scholarship is also awarded. The scholarships will be presented in both wins and losses; recognizing that with education there is always a winner.

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.

Revenues

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. In light of the fact that State leaders will enter the next legislative session still facing a State structural deficit, HCC will continue its cost savings and revenue enhancement efforts. The adopted strategies for linking planning and budgeting will ensure that resources are allocated towards strategic initiatives.

Appropriations:

HCC faces the following challenges:

- State funding has decreased over the last biennium and further decreases are expected.
- The current formula appropriations will be reduced by 10% in order to meet the State's mandate to allocate funding based on success points (completion).
- During the 82nd Legislative Session, group health insurance for community colleges was decreased 39.6%; from \$323.2 million in the prior biennium to \$195.3 million. Although recommendations will be made during the next legislative session to restore employee health insurance funding to 60% of costs and return to 84% of costs in the 84th legislative session, the results are uncertain.
- There was no funding for enrollment growth over the past two years, sharply reducing the level of funding per student contact hour.

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

Future Outlook - Continued

Tuition and Fees:

No tuition and fee increases are anticipated for the coming year. With modest increases in fiscal years 2010 and 2011, HCC remains competitive in its affordability by educating more students at a reduced average cost per student with far greater outcomes.

Taxation:

In September 2012, the Board of Trustees approved a reduction in property tax rate for fiscal year 2013. The rate for fiscal year 2013 was reduced to the effective tax rate, \$0.097173. The rate for fiscal year 2012 was \$0.097222.

Expenses

HCC anticipated the state budget shortfall and began conserving its resources through the Cost Savings program in place for the last four years. The Budget Task Force worked for the last year 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, actions to increase tuition and fees, and efforts to reorganize the institution. These focused efforts 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 while holding some funded vacancies unfilled.

Phase I of the newly re-engineered integrated strategic planning and budgeting process was implemented in fiscal year 2011. This phase included the development and implementation of the Unit Strategic Review. Phase II was implemented in fiscal year 2012. It entails development and implementation of the Annual Unit Plans.

The Unit Strategic Review provides the input into the Unit Annual Plan by conducting a full analysis of operations every four years, pulling together all the information regarding the unit's mission, funding levels, external threats and opportunities, internal strengths and weaknesses and focusing it on what is needed to help the unit move forward.

Based upon collaborative dialogue and discussion, the primary function of the Unit Annual Plan is to link the strategic thinking associated with the four-year Unit Strategic Review with the annual goal-setting and budget development process, enabling HCC's administrative and educational support services units to prioritize unit requests and allocate resources in such a way as to advance the mission and achieve the vision of the institution.

Budget Task Force

The Budget Task Force was created in the fall of 2010 as a response to the impending budget cuts expected from the State. The task force—a representative group of faculty, staff, administrators and students—met monthly to develop and champion “transformative ideas” to both increase operational efficiencies as well as identify new sources of revenues. The Budget Task Force's recommendations have made it possible for HCC to withstand the impact of the funding cuts and stave off furloughs and layoffs.

With the focused tasks addressed the BTF will now expand and evolve into a broader group to function in an on-going manner. Under its new name, College Transformation Advisory Council (CTAC), the Budget Task Force will continue its efforts to monitor achieved savings and discuss efficiencies being considered in an open and transparent environment.

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

Future Outlook - Continued

Office of International Student Services

The Office of International Student Services (OISS) offers a wide variety of services to international students at HCC. The System's staff provides information and programs to international students about the campus and community and provides support and assistance concerning their SEVIS I-20 Form and maintaining their student visa (F-1) while attending HCC.

HCC has expanded its global reach. The System is not only educating more international students than any other community college in the U. S., but is now an educational partner in Qatar. Subsequently, this does not take away from its mission locally. Rather, it supports the System's commitment to provide opportunity to and prepare its students to live and work in a global environment. HCC's international partnerships illustrate the recognition of community colleges and their critical role in connecting both local and global communities.

Greener Learning & Working Environment

Through the environmental energy performance project with Chevron Energy Solutions, HCC will continue implementing audit recommendations and transforming HCC into a greener learning and working environment.

HCC has instituted a recycling program to upgrade, retrofit and replace damaged, old or low efficiency equipment and processes for buildings throughout the district.

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 ASSETS
AUGUST 31, 2012 AND 2011

ASSETS	2012	2011
CURRENT ASSETS:		
Cash and Cash Equivalents (Note 4)	\$ 83,019,127	\$ 79,507,127
Accounts Receivable and Other Receivable, Net (Note 5)	42,835,262	48,793,628
Deferred Charges	3,857,966	3,091,674
Prepaid Expenses	9,686,846	8,301,905
Total Current Assets	139,399,201	139,694,334
NONCURRENT ASSETS:		
Restricted Cash and Cash Equivalents (Note 4)	15,476,875	9,800,249
Deferred Charges, Net	8,196,514	8,732,936
Other Long-Term Investments (Note 4)	14,987,276	-
Restricted Long Term Investment (Note 4)	151,875,707	154,935,349
Capital Assets Net (Note 6)	728,212,404	696,519,999
Total Noncurrent Assets	918,748,774	869,988,533
TOTAL ASSETS	1,058,147,976	1,009,682,867
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable (Note 5)	10,174,643	15,769,249
Accrued Liabilities	12,261,271	12,974,733
Compensated Absences (Note 17)	2,351,464	2,013,653
Funds Held for Others	791,454	878,873
Unearned Revenues	56,588,875	59,808,017
Notes Payable - Current Portion (Note 7 and 12)	7,250,000	7,066,584
Bonds Payable - Current Portion (Note 7 and 8)	18,055,000	24,180,000
Capital Lease Obligations - Current Portion (Note 7 and 11)	-	1,304,824
Total Current Liabilities	107,472,707	123,995,933
NONCURRENT LIABILITIES:		
Deposits	-	440
Notes Payable (Note 7 and 12)	177,612,037	163,389,659
Bonds Payable (Note 7 and 8)	441,136,408	439,872,145
Total Noncurrent Liabilities	618,748,445	603,262,244
TOTAL LIABILITIES	726,221,152	727,258,177
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	244,434,618	207,976,763
Restricted - Expendable	488,477	488,477
Unrestricted	87,003,729	73,959,450
TOTAL NET ASSETS	\$ 331,926,824	\$ 282,424,690

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

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

	2012	2011
OPERATING REVENUES:		
Tuition and Fees, Net of Discounts	\$ 70,263,778	\$ 67,907,897
Federal Grants and Contracts	16,848,269	16,064,089
State Grants and Contracts	5,152,251	6,448,589
Local Grants and Contracts	95,226	275,085
Non-Governmental Grants and Contracts	2,497,892	1,283,150
Sales and Services of Educational Activities	329,383	369,530
Auxiliary Enterprises	17,248,673	14,535,914
Total Operating Revenues (Schedule A)	112,435,472	106,884,254
OPERATING EXPENSES:		
Instruction	105,922,654	112,617,878
Public Service	11,893,218	11,766,675
Academic Support	19,766,340	19,616,391
Student Services	30,377,150	31,901,438
Institutional Support	50,823,418	55,747,070
Operations and Maintenance	28,005,711	28,350,817
Scholarships and Fellowships	61,504,372	65,346,087
Auxiliary Enterprises	15,736,795	14,607,330
Depreciation	18,848,802	17,067,466
Total Operating Expenses (Schedule B)	342,878,460	357,021,152
OPERATING LOSS	(230,442,988)	(250,136,898)
NONOPERATING REVENUES (EXPENSES):		
State Appropriations	81,839,826	84,838,315
Maintenance Ad Valorem Taxes	105,943,722	94,083,625
Debt Service Ad Valorem Taxes	17,694,297	21,736,440
Gifts	2,053,638	1,573,601
Investment Income, Net	789,917	566,945
Interest on Capital Related Debt	(28,498,392)	(29,424,886)
Title IV Grants	102,023,662	96,171,936
Nursing Shortage Reduction	14,038	151,786
Hurricane Ike Expenses (Net of Recoveries)	11,635	(284,103)
Other Nonoperating Revenues	9,329,493	6,153,631
Other Nonoperating Expenses	(11,256,714)	(10,550,397)
Net Nonoperating Revenues (Schedule C)	279,945,122	265,016,893
INCREASE IN NET ASSETS	49,502,134	14,879,995
NET ASSETS, BEGINNING OF YEAR	282,424,690	267,544,695
NET ASSETS, END OF YEAR	\$ 331,926,824	\$ 282,424,690

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

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Students and Other Customers	\$ 100,424,139	\$ 90,759,903
Receipts from Grants and Contracts	25,393,351	35,823,240
Payments to Suppliers for Goods and Services	(73,631,760)	(69,452,921)
Payments to or on Behalf of Employees	(196,791,005)	(201,098,510)
Payments for Scholarships and Fellowships	(62,242,741)	(65,905,234)
Other Receipts (Payments)	<u>(460,152)</u>	<u>(226,584)</u>
Net Cash Used by Operating Activities	(207,308,168)	(210,100,106)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Receipts from Ad Valorem Taxes	122,375,914	115,314,115
Receipts from State Appropriations	84,102,978	84,607,584
Receipts from Private Gifts	2,053,638	1,573,601
Received Federal Direct Student Loans	82,489,952	96,002,391
Disbursement of Federal Direct Student Loans	(82,489,952)	(96,002,391)
Other Non-Operating Revenue	1,295,274	1,513,434
Receipts from Title IV Grants	102,023,662	87,216,720
Receipts from Nursing	14,038	176,223
Receipts from IKE Relief	<u>11,635</u>	<u>-</u>
Net Cash Provided by Noncapital Financing Activities	311,877,139	290,401,677
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Receipts from the Issuance of Capital Debt	164,314,822	79,272,235
Bond Issue Cost Paid on New Capital Debt Issue	(1,317,537)	(944,115)
Purchases of Capital Assets	(39,942,481)	(48,363,484)
Payments of Expenses Relating to Capital Assets in Plant Funds	(7,483,194)	(10,190,179)
Payments on Capital Debt and Leases - Principal	(141,976,408)	(60,281,231)
Payments on Capital Debt and Leases - Interest and Fees	<u>(28,496,958)</u>	<u>(29,134,653)</u>
Net Cash Used by Financing Activities	(54,901,756)	(69,641,427)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales and Maturities of Investments	48,149,267	84,080,077
Interest on Investments	807,947	570,699
Purchase of Investments	<u>(89,435,804)</u>	<u>(88,209,718)</u>
Net Cash Used in Investing Activities	<u>(40,478,590)</u>	<u>(3,558,942)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	9,188,625	7,101,202
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>89,307,376</u>	<u>82,206,174</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 98,496,001</u>	<u>\$ 89,307,376</u>

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

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

	2012	2011
RECONCILIATION OF NET OPERATING LOSS TO NET		
CASH USED IN OPERATING ACTIVITIES:		
Operating Loss	\$ (230,442,988)	\$ (250,136,898)
Adjustments to Reconcile Operating Loss to Net		
Cash Used in Operating Activities:		
Depreciation	18,848,802	17,067,466
Allowance for Doubtful Accounts	1,072,013	1,896,576
Changes in Assets and Liabilities		
Accounts and Other Receivables, Net	(6,452,755)	(1,964,679)
Prepaid Expenses	(1,384,941)	(873,435)
Deferred Charges	1,302,715	204,273
Accounts Payables and Accruals	6,465,086	13,801,851
Unearned Revenues	3,219,142	9,939,049
Deposits Held for Others	64,758	(34,309)
Total Adjustments	23,134,820	40,036,792
Net Cash Used in Operating Activities	\$ (207,308,168)	\$ (210,100,106)

The accompanying notes are an integral part of these 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, 2012 and 2011 and the cost of services provided by the System to the Foundation during the years then ended are not significant to the System. The Foundation has therefore not been included as a component unit in the financial statements of the System. 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*.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reporting Guidelines - Continued

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

Basis of Accounting

The financial statements of the System have been prepared 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 Assets. 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 Assets. 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

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, 2012 and 2011.

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.

Reclassifications

Certain 2012 amounts have been reclassified to conform with fiscal year 2011 presentation.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Pronouncements

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which amends the reporting standards for reporting component units in a government's financial statements. This Statement modifies the existing guidance including changes to criteria for including potential component units in the reporting entity; criteria for reporting component units as blended or discretely presented; and determination of major component units. The provisions of this standard are effective for financial statements for periods beginning after June 15, 2012.

In June 2011, GASB issued 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 will become the Statement of Net Position. Along with the name change, the Statement of Net Position will include two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are required to be reported in a Statement of Net Position in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are required to be reported in a Statement of Net Position in a separate section following liabilities. In addition, the totals of these two new classifications should be added to the total for assets and liabilities, respectively. The provisions of this standard are effective for financial statements for periods beginning after December 15, 2011.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, goes along with GASB Statement No. 63. 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. Additionally, certain items that were previously reported as assets and liabilities will be reclassified as outflows of resources and inflows of resources. The provisions of this standard are effective for financial statements for periods beginning after December 15, 2012.

In addition to the need for establishing a framework detailing how these new elements should be reported, GASB continues to review the presentation of deferred balances and their effect on a government's net position. GASB recently issued Statement No. 66, - *Technical Correction* to resolve some of these issues. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012.

Subsequent Events

The System has evaluated events through the date the financial statements were available for issuance on November 8, 2012. 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.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS

The carrying amount (book balance) of the System's demand deposits with financial institutions as of August 31, 2012 and 2011 was \$21,087,536 and \$25,745,095 and total bank balances equaled \$31,585,506 and \$37,749,455 respectively. Of the bank balances for fiscal year 2012, \$250,000 is covered by FDIC, \$12,264,065 is covered by Dodd Frank Act (Act came in to effect from 12/31/2010) and \$19,071,441 is collateralized. For fiscal year 2011, \$37,499,455 was covered by collateral pledged in the System's name. Restricted long-term investments include collateralized investments of \$68,572,779 and \$83,356,781 as high yield savings, \$31,629,272 and \$1,566 as money market and \$3,945,150 and \$6,815,050 as certificate of deposits, with a bank as of August 31, 2012 and 2011 respectively. The collateral was held in an account of an independent third party agent.

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

	<u>2012</u>	<u>2011</u>
Bank Deposits:		
Demand Deposits	\$ 21,087,536	\$ 25,745,095
Cash and Cash Equivalents:		
Petty Cash on Hand	51,114	55,916
Money Market Funds	7,164,359	36,883
High Yield Savings	33,164,042	53,191,094
Certificates of Deposit	26,304,850	8,434,950
TexPool	9,132,448	255,485
Lonestar	<u>1,591,653</u>	<u>1,587,953</u>
	<u>77,408,466</u>	<u>63,562,281</u>
Total Cash and Deposits	98,496,002	89,307,376
Restricted Cash and Cash Equivalents	<u>(15,476,875)</u>	<u>(9,800,249)</u>
Cash and Cash Equivalents (Exhibit 1)	<u>\$ 83,019,127</u>	<u>\$ 79,507,127</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 Assets, continue as shown below:

<u>Type of Security</u>	<u>Fair Value at August 31,</u>	
	<u>2012</u>	<u>2011</u>
U.S. Government Securities	\$ -	\$ 5,118
U.S. Agency Securities	14,987,276	425,426
Texpool, Money Market Funds, Certificates of Deposit, High Yield Savings, and Other Securities	<u>151,875,708</u>	<u>154,504,805</u>
Total Investments	166,862,984	154,935,349
Total Cash and Deposits	<u>98,496,001</u>	<u>89,307,376</u>
Total Deposits and Investments	<u>\$ 265,358,985</u>	<u>\$ 244,242,725</u>
Cash and Cash Equivalents (Exhibit 1)	83,019,127	79,507,127
Restricted Cash and Cash Equivalents (Exhibit 1)	15,476,875	9,800,249
Restricted Long-Term Investments (Exhibit 1)	151,875,707	154,935,349
Other Long-Term Investments (Exhibit 1)	<u>14,987,276</u>	<u>-</u>
Total Deposits and Investments	<u>\$ 265,358,985</u>	<u>\$ 244,242,725</u>

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Agency Securities	\$ 20,681,861	7.51
Investment Pools	47,569,965	0.00
Certificates of Deposit	30,250,000	0.01
Cash and Money Market Funds (excluding \$11,123,235 of operating cash)	<u>155,733,920</u>	0.00
Total Fair Value	<u>\$ 254,235,746</u>	
Portfolio Weighted Average Maturity		0.75

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, 2012 is as follows:

	Credit Rating	Credit Exposure
Fannie Mae (Federal National Mortgage Association)	AAA	1%
Freddie Mac (Federal Home Loan Mortgage Corporation)	AAA	0%
FHLB (Federal Home Bank)	AAA	3%
FFCB (Federal Farm Credit Bank)	AAA	3%

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, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Accounts Receivable (net of allowance for doubtful accounts of \$287,236 for 2012 and 2011)	\$ 4,845,390	\$ 4,871,652
Student Receivables (net of allowance for doubtful accounts of \$7,268,864 for 2012 and \$6,196,850 for 2011)	32,017,851	35,976,131
Taxes Receivable (net of allowance for doubtful accounts of \$5,542,091 for 2012 and 2011)	2,956,266	3,097,795
Federal Receivables	2,278,712	3,822,885
Other Receivables	<u>737,043</u>	<u>1,025,165</u>
Total Receivables	<u>\$ 42,835,262</u>	<u>\$ 48,793,628</u>

Taxes receivable at August 31, 2012 and 2011 includes an accrual of \$400,896 and \$564,628 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, 2012 and 2011, were as follows:

	<u>2012</u>	<u>2011</u>
Vendors Payable	\$ 5,935,858	\$ 11,194,461
Salaries and Benefits Payable	13,311	1,512,729
Student Payables	1,912,618	1,705,019
Other Payables	<u>2,312,856</u>	<u>1,357,040</u>
Total Payables	<u>\$ 10,174,643</u>	<u>\$ 15,769,249</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS

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

	Balance August 31, 2011	Increases	Decreases	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	<u>54,738,950</u>	<u>10,470,195</u>	<u>-</u>	<u>65,209,145</u>
Total Building and Other Real Estate Improvements	562,166,849	21,957,324	-	584,124,173
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>38,276,484</u>	<u>322,840</u>	<u>-</u>	<u>38,599,324</u>
Subtotal	<u>682,231,644</u>	<u>27,827,376</u>	<u>2,517,717</u>	<u>707,541,303</u>
Accumulated Depreciation:				
Buildings	58,182,600	8,752,748	53,901	66,881,447
Other Real Estate Improvements	<u>6,944,149</u>	<u>2,651,245</u>	<u>1,874</u>	<u>9,593,520</u>
Total Building and Other Real Estate Improvements	65,126,749	11,403,993	55,775	76,474,967
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>537,581,204</u>	<u>8,978,574</u>	<u>952</u>	<u>546,558,826</u>
Net Capital Assets	<u>\$ 696,519,999</u>	<u>\$ 31,693,357</u>	<u>\$ 952</u>	<u>\$ 728,212,404</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS - CONTINUED

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

	Balance August 31, 2010	Increases	Decreases	Balance August 31, 2011
Not Depreciated:				
Land	\$ 94,088,238	\$ 4,993,623	\$ -	\$ 99,081,861
Construction in Process	99,508,263	1,495,921	41,147,250	59,856,934
Total Not Depreciated	<u>193,596,501</u>	<u>6,489,544</u>	<u>41,147,250</u>	<u>158,938,795</u>
Capital Assets Subject to Depreciation:				
Buildings	450,552,330	56,878,413	2,844	507,427,899
Other Real Estate Improvements	46,602,739	8,136,211	-	54,738,950
Total Building and Other Real Estate Improvements	497,155,069	65,014,624	2,844	562,166,849
Library Books	16,125,933	434,709	40,833	16,519,809
Furniture, Machinery, Vehicles and Other Equipment	61,778,709	6,068,076	2,578,283	65,268,502
Telecommunications and Perpheral Equipment	27,793,244	11,149,956	666,716	38,276,484
Subtotal	<u>602,852,955</u>	<u>82,667,365</u>	<u>3,288,676</u>	<u>682,231,644</u>
Accumulated Depreciation:				
Buildings	50,158,151	8,763,917	739,468	58,182,600
Other Real Estate Improvements	4,811,847	2,132,407	105	6,944,149
Total Building and Other Real Estate Improvements	54,969,998	10,896,324	739,573	65,126,749
Library Books	12,143,207	534,795	40,833	12,637,169
Furniture, Machinery, Vehicles and Other Equipment	40,954,499	4,379,498	1,746,869	43,587,128
Telecommunications and Perpheral Equipment	22,712,609	1,256,849	670,064	23,299,394
Subtotal	<u>130,780,313</u>	<u>17,067,466</u>	<u>3,197,339</u>	<u>144,650,440</u>
Net Other Capital Assets	<u>472,072,642</u>	<u>65,599,899</u>	<u>91,337</u>	<u>537,581,204</u>
Net Capital Assets	<u>\$ 665,669,143</u>	<u>\$ 72,089,443</u>	<u>\$ 41,238,587</u>	<u>\$ 696,519,999</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liability activity for the years ended August 31, 2012 and 2011 was as follows:

	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	170,296,243	22,057,247	(7,651,453)	184,702,037	7,250,000	177,452,037
Bonds:						
Revenue Bonds	225,485,223	16,000,000	(12,584,212)	228,901,011	13,435,000	215,466,011
PFC Lease Revenues	115,601,108	-	(3,856,559)	111,744,549	3,880,000	107,864,549
General Obligation Bonds	122,965,814	126,257,575	(130,677,543)	118,545,846	740,000	117,805,846
Total Bonds	464,052,145	142,257,575	(147,118,314)	459,191,406	18,055,000	441,136,406
Compensated Absences (Note 17)	2,013,653	2,351,464	(2,013,653)	2,351,464	2,351,464	-
Total Noncurrent Liabilities	<u>\$ 635,653,212</u>	<u>\$ 164,314,822</u>	<u>\$ (156,074,591)</u>	<u>\$ 643,893,443</u>	<u>\$ 25,305,000</u>	<u>\$ 618,588,443</u>
	Balance as of September 1, 2010	Additions	Reductions	Balance as of August 31, 2011	Current Portion	Noncurrent Portion
Leases	\$ 3,914,472	\$ -	\$ (2,609,648)	\$ 1,304,824	\$ 1,304,824	\$ -
Long-Term Notes Payable	131,354,161	43,155,430	(4,213,348)	170,296,243	7,066,584	163,229,659
Bonds:						
Revenue Bonds	236,855,291	36,314,850	(47,684,918)	225,485,223	12,715,000	212,770,223
PFC Lease Revenues	119,307,667	-	(3,706,559)	115,601,108	3,740,000	111,861,108
General Obligation Bonds	128,335,995	-	(5,370,181)	122,965,814	7,725,000	115,240,814
Total Bonds	484,498,953	36,314,850	(56,761,658)	464,052,145	24,180,000	439,872,145
Compensated Absences (Note 17)	1,360,458	2,013,653	(1,360,458)	2,013,653	2,013,653	-
Total Noncurrent Liabilities	<u>\$ 621,128,044</u>	<u>\$ 81,483,933</u>	<u>\$ (64,945,112)</u>	<u>\$ 637,666,865</u>	<u>\$ 34,565,061</u>	<u>\$ 603,101,804</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 01, 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 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. The majority of the Series 2003 and all of the Series 2005 bonds were defeased in 2012. See Note 9.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

Bonds payable at August 31, 2012 and 2011 were as follows:

Date Series				Outstanding Balances at August 31, 2012	Outstanding Balances at August 31, 2011
Issued	Par Value	Maturity Date	Interest Rate		
Student Fee Revenue Bonds					
2005	\$ 51,285,000	04/15/2009 - 2020	3.250% - 5.250%	\$ 37,745,000	\$ 42,205,000
2006	72,815,000	04/15/2007 - 2030	4.000% - 5.000%	57,455,000	60,860,000
2008	54,540,000	04/15/2009 - 2030	4.000% - 5.250%	48,425,000	50,050,000
2010	27,250,000	04/15/2012 - 2031	3.000% - 5.250%	26,375,000	27,250,000
2011	31,590,000	04/15/2012 - 2025	4.000% - 5.250%	31,590,000	33,940,000
2011T	16,000,000	04/15/2015 - 2021	2.430% - 4.270%	16,000,000	-
PFC Lease Revenue Bonds (Blended Component Unit):					
2005A	\$ 11,605,000	04/15/2006 - 2028	3.500% - 5.000%	9,120,000	9,505,000
2005C	19,155,000	04/15/2007 - 2030	4.000% - 5.000%	16,000,000	16,580,000
2006	36,950,000	04/15/2008 - 2031	4.000% - 5.000%	31,815,000	32,925,000
2007	58,885,000	04/15/2009 - 2031	4.000% - 5.625%	52,600,000	54,265,000
Limited Tax Bonds:					
2003	\$ 144,155,000	02/15/06 - 2028	2.000% - 5.000%	1,195,000	113,390,000
2005	8,924,992	02/15/06 - 2014	.205% - 5.000%	-	4,955,000
2011	109,490,000	02/15/14 - 2028	4.000% - 5.000%	109,490,000	-
Total Principal Payable				437,810,000	445,925,000
Unamortized Premium and Discount, Net				30,770,800	21,000,490
Advance Funding Valuation				(9,389,394)	(2,873,345)
Total Bonds Payable				\$ <u>459,191,406</u>	\$ <u>464,052,145</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

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	\$ 8,957,391	\$ 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>

Debt service requirements to maturities as of August 31, 2011 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
2012	\$ 12,715,000	\$ 10,579,416	\$ 23,294,416	\$ 3,740,000	\$ 5,226,029	\$ 8,966,029	\$ 7,725,000	\$ 5,741,969	\$ 13,466,969	\$ 24,180,000	\$ 21,547,414	\$ 45,727,414
2013	13,435,000	9,865,399	23,300,399	3,880,000	5,077,391	8,957,391	4,840,000	5,416,050	10,256,050	22,155,000	20,358,840	42,513,840
2014	11,320,000	9,269,249	20,589,249	4,035,000	4,923,179	8,958,179	6,920,000	5,116,000	12,036,000	22,275,000	19,308,428	41,583,428
2015	11,260,000	8,745,049	20,005,049	4,240,000	4,726,279	8,966,279	5,360,000	4,809,000	10,169,000	20,860,000	18,280,328	39,140,328
2016	12,005,000	8,200,824	20,205,824	4,445,000	4,519,204	8,964,204	5,635,000	4,534,125	10,169,125	22,085,000	17,254,153	39,339,153
2017 - 2021	70,045,000	31,298,317	101,343,317	25,540,000	19,277,573	44,817,573	32,805,000	18,029,875	50,834,875	128,390,000	68,605,765	196,995,765
2022 - 2026	47,520,000	15,224,706	62,744,706	31,960,000	12,846,378	44,806,378	42,130,000	8,709,250	50,839,250	121,610,000	36,780,334	158,390,334
2027 - 2031	36,005,000	4,623,360	40,628,360	35,435,000	5,048,975	40,483,975	12,930,000	481,500	13,411,500	84,370,000	10,153,835	94,523,835
	<u>\$ 214,305,000</u>	<u>\$ 97,806,320</u>	<u>\$ 312,111,320</u>	<u>\$ 113,275,000</u>	<u>\$ 61,645,008</u>	<u>\$ 174,920,008</u>	<u>\$ 118,345,000</u>	<u>\$ 52,837,769</u>	<u>\$ 171,182,769</u>	<u>\$ 445,925,000</u>	<u>\$ 212,289,097</u>	<u>\$ 658,214,097</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) \$125,222,430 for the purchase of U.S. government securities; and 2) \$389,917 to pay insurance and other issuance costs.

Proceeds of \$125,222,430 of the Series 2011 Bonds were placed in an irrevocable trust with an escrow agent and will be 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 Assets.

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 \$8,072,430 was created, which is the difference between the reacquisition price of \$125,222,430 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.

The System issued \$33,940,000 in Junior Lien Student Fee Revenue Refunding Bonds, Series 2011 (“Series 2011 Bonds”) on March 10, 2011 with interest rates ranging from 4.00% to 5.25%. The Series 2011 Bonds were used to partially current-refund \$36,090,000 of outstanding Series 2001A Junior Lien Student Fee Revenue and Refunding Bonds (“Series 2001A Bonds”) with interest rates ranging from 5.00% to 5.375%. The optional redemption date of the Series 2001A Bonds was April 15, 2011.

Net proceeds of \$37,298,493, after payment of \$209,214 in underwriting fees were used as follows: 1) \$37,023,263 for the purchase of U.S. government securities; and 2) \$275,230 to pay insurance and other issuance costs. HCC also contributed \$1,600,000 from an existing debt reserve fund to the escrow account.

Proceeds of \$37,023,263 of the Series 2001A Bonds were placed in an irrevocable trust with an escrow agent and were used to redeem the 2001A Bonds on the call date of April 15, 2011.

The current refunding had the following results:

- \$3,179,048 in future cash flow savings resulting from a decrease in the aggregate debt service payments over the next fourteen years.
- Economic gain of \$1,575,968, which is the difference between the present values of the old and new debt service payments.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – DEFEASED BONDS OUTSTANDING

The defeased bonds outstanding at August 31, 2012 and 2011 were as follows:

Bond Issue	Year Refunded	Par Value Outstanding	
		August 31, 2012	August 31, 2011
Series 2003 Limited Tax Bonds	2006/2012	\$ 119,295,000	\$ 7,100,000
Series 2005 Limited Tax Bonds	2012	4,955,000	-
Total		<u>\$ 124,250,000</u>	<u>\$ 7,100,000</u>

NOTE 11 – CAPITAL LEASE OBLIGATIONS

In 2009, the System entered into a three-year lease agreement to finance the acquisition of a telecommunications system. The capital lease was paid-off in 2012. The equipment is capitalized at the net present value of future minimum lease payments. The lease is non-interest bearing. Amortization of the asset under the capital lease is included in depreciation expense.

	2012	2011
Telecommunications Equipment	\$ 7,828,943	\$ 7,828,943
Less Accumulated Depreciation	(1,304,824)	(521,930)
	<u>\$ 6,524,119</u>	<u>\$ 7,307,013</u>

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.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – NOTES PAYABLE – CONTINUED

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.

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, 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>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – NOTES PAYABLE – CONTINUED

Maturities of notes payable at August 31, 2011 were as follows:

<u>Year ending August 31,</u>	<u>Central Utility Plant</u>	<u>Capital Improvements</u>	<u>Software Licenses</u>	<u>Total</u>
2012	\$ 889,744	\$ 12,707,714	\$ 691,584	\$ 14,289,042
2013	890,550	12,706,170	-	13,596,720
2014	889,950	12,694,295	-	13,584,245
2015	888,550	12,685,858	-	13,574,408
2016	891,250	12,682,958	-	13,574,208
2017 - 2021	4,440,778	63,367,323	-	67,808,101
2022 - 2026	4,444,697	62,029,744	-	66,474,441
2027 - 2031	-	36,594,500	-	36,594,500
Total Payments	13,335,519	225,468,562	691,584	239,495,665
Less Amounts Representing Interest	(3,575,237)	(65,464,185)	-	(69,039,422)
Total Principal Payable	\$ 9,760,282	\$ 160,004,377	\$ 691,584	\$ 170,456,243

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, 2012 for each of the next five years and thereafter, and in the aggregate are as follows:

<u>Year ending August 31,</u>	
2013	\$ 1,489,710
2014	252,383
2015	257,564
2016	262,937
2017	268,430
Thereafter	<u>551,578</u>
Total	<u>\$ 3,082,602</u>

Rent expense totaled approximately \$1.9 million and \$2.0 million for the years ended August 31, 2012 and 2011 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, 2012 are as follows:

<u>Year Ending August 31,</u>	
2013	\$ 4,576,515
2014	4,523,320
2015	4,447,061
2016	2,425,814
2017	30,000
Thereafter	<u>30,000</u>
Total	<u>\$ 16,032,710</u>

The System received approximately \$5.0 million in rental income for the years ended August 31, 2012 and 2011, 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 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 contribution rate of 6.4% for fiscal years 2010 through 2012 and a state contribution rate of 6.0%, 6.664% and 6.664% for fiscal years 2012, 2011 and 2010, 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 \$3,956,728, \$8,423,783, and \$8,272,513 for the fiscal years ended August 31, 2012, 2011 and 2010, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the System. The 2012 retirement expense to the State on behalf of the System does not reflect the shortfall of \$3,785,627 for Teacher Retirement System of Texas (See Note 20).

The total payroll for all System employees was \$169,182,563 and \$170,788,199 for fiscal years 2012 and 2011, respectively. The total payroll of employees covered by the Teacher Retirement System was \$96,247,711 and \$96,609,306 and the total payroll of employees covered by the Optional Retirement Program was \$42,254,561 and \$44,406,309 for fiscal years 2012 and 2011, 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, 2012 and 2011 were 659 and 679, respectively.

During fiscal years ended August 31, 2012 and August 31, 2011, employee contributions amounting to \$4,127,303 and \$4,113,420 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 \$2,351,464 and \$2,013,653 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, 2012 and 2011, respectively.

NOTE 18 – 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, 2012 and 2011, 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 \$3,113,910 and \$4,957,011 at August 31, 2012 and August 31, 2011, respectively.

NOTE 19 – 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 \$21,653,489 at August 31, 2012. The System has also entered into contracts for technology capital projects, with commitments of \$7,038,158 remaining at August 31, 2012. 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 \$1,554,483 at August 31, 2012. 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, 2012 and 2011, amounts due under this agreement totaled \$1,999,842 and \$1,995,793, respectively, and are included in other receivables in the accompanying Statements of Net Assets.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 – 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.

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.

Teacher Retirement System of Texas

The State of Texas 82nd Legislative session restricted the State's contribution to TRS/ORP on behalf of the community colleges to six percent of each college's unrestricted general revenue appropriation for each year of the biennium state budget. This action resulted in a shortfall of approximately \$3.8 million of employer contributions to the State's Teacher Retirement System (TRS) for the year ended August 31, 2012 for the System's employees. TRS requires that the shortfalls for all community college be made up.

The Texas Association of Community College (TACC) has been advised by counsel that "Texas Constitution Article 16, Section 67(b)(3) provides that the State of Texas must contribute "not less than six percent nor more than ten percent of *the aggregate compensation paid* to individuals participating in the system," referring to the State's Teacher Retirement System (TRS) including the related faculty Optional Retirement Program (ORP).

As the State Constitution Article 16 provides that the State of Texas "must" make a contribution for individuals participating in the Texas Retirement System or Optional Retirement Program and no action has been taken by the State to enforce their position, the System believes this should be a State liability.

The resolution and possible payment by the state of the \$3.8 shortfall, caused by the difference between 6% of revenue vs 6% of aggregate compensation paid, is contingent upon corrective action in the upcoming legislative session.

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 \$438.30 and \$856.94 per month for the year ended August 31, 2012 (\$413.36 and \$807.86 per month for the year ended August 31, 2011) and totaled \$16,791,073 for the year ended August 31, 2012 (\$10,226,697 for the year ended August 31, 2011). The cost of premiums for 509 retirees in the year ended August 31, 2012 was \$2,691,906 (retiree benefits for 440 retirees cost \$2,216,307 in the year ended August 31, 2011). For 2,193 active employees, the cost of premiums was \$14,099,169 for the year ended August 31, 2012 (active employee benefits for 2,269 employees cost \$8,013,030 for the year ended August 31, 2011). On-behalf payments of these benefits were recognized as restricted revenues and restricted expenses during the year.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 – 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 2012 and 2011 for which monies have not been received nor funds expended totaled \$13,410,654 and \$18,385,088 respectively. Of these amounts, \$10,169,394 and \$11,997,183 were from Federal Contract and Grant Awards; \$786,138 and \$2,242,365 were from State Contract and Grant Awards; \$78,785 and \$153,241 from Local Contract and Grant Awards; and \$2,394,337 and \$3,992,299 were from Non-Governmental Contract and Grant Awards for the fiscal years ended August 31, 2012 and 2011, respectively.

NOTE 23 – 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 college's contributions to SRHP for the years ended August 31, 2012 and 2011 were \$2,683,786 and \$2,216,307 respectively, which equaled the required contributions each year.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 – 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:		<u>2012</u>		<u>2011</u>
Assessed Valuation of the System	\$	159,141,889,758	\$	157,165,651,239
Less: Exemptions		<u>(31,729,564,366)</u>		<u>(31,190,173,147)</u>
Net Assessed Valuation of the System	\$	<u><u>127,412,325,392</u></u>	\$	<u><u>125,975,478,092</u></u>

Harris County's reporting methodology is that totally exempted properties are included at their fully appraised value in the current year.

Taxes levied for the years ended August 31, 2012 and 2011, based on the certified rolls, as reported by the taxing authorities amounted to \$123,873,185 and \$116,179,580, 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 rates for the System were as follows:

	<u>August 31, 2012</u>			<u>August 31, 2011</u>		
	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Current Operations</u>	<u>Debt Service</u>	<u>Total</u>
Authorized Rate per \$100 valuation	\$ 0.50	\$ 0.50	\$ 1.00	\$ 0.50	\$ 0.50	\$ 1.00
Assessed Rate per \$100 Valuation	\$ 0.083399	\$ 0.013823	\$ 0.097222	\$ 0.074901	\$ 0.017319	\$ 0.092220

Tax collections for the year ended August 31, 2012 and 2011 were as follows:

		<u>2012</u>		<u>2011</u>
Current Taxes Collected	\$	121,247,023	\$	113,187,929
Delinquent Taxes Collected		2,645,821		2,512,676
Penalties and Interest Collected		<u>1,371,984</u>		<u>1,482,203</u>
Total	\$	<u><u>125,264,828</u></u>	\$	<u><u>117,182,808</u></u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 – PROPERTY TAX – CONTINUED

For the years ended August 31, 2012 and 2011 tax collections represent 98% and 97% 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.

NOTE 25 – 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 \$688,226 and \$753,917 to the System for scholarship awards during the years ended August 31, 2012 and 2011, respectively. The Foundation remitted \$2,380,823 and \$659,550 to the System to fund grant programs during the years ended August 31, 2012 and 2011, respectively.

During the years ended August 31, 2012 and 2011, 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 2012 and 2011 to be approximately \$1,128,938 and \$1,076,732, respectively. As of August 31, 2012 and 2011, 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 and \$9,600 in rent during the years ended August 31, 2012 and 2011, respectively.

NOTE 26 – SUBSEQUENT EVENTS

On November 6, 2012 a general election was held in which the public approved the issuance of \$425,000,000 in general obligation bonds. The bonds will be used to fund the acquisition of land, construction and equipment of new facilities, and the renovation of existing facilities throughout the System.

SUPPLEMENTAL SCHEDULES

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED AUGUST 31, 2012
(With Memorandum Totals for the Year Ended August 31, 2011)

Schedule A

			Total		August 31, 2012	August 31, 2011
			Educational	Auxiliary		
	Unrestricted	Restricted	Activities	Enterprises	Total	Total
Tuition:						
State Funded Courses:						
In-District Resident Tuition	\$ 23,087,311	\$ -	\$ 23,087,311	\$ -	\$ 23,087,311	\$ 19,101,642
Out-of-District Resident Tuition	8,383,137	-	8,383,137	-	8,383,137	7,238,155
State Funded Continuing Education:	7,518,363	-	7,518,363	-	7,518,363	6,830,370
TPEG (Credit)	1,851,224	-	1,851,224	-	1,851,224	1,542,609
TPEG (Non-Credit)	401,130	-	401,130	-	401,130	363,297
Non-Resident Tuition	15,508,306	-	15,508,306	-	15,508,306	14,318,787
Non-State Funded Continuing Education	917,193	-	917,193	-	917,193	887,143
Total Tuition	57,666,664	-	57,666,664	-	57,666,664	50,282,003
Fees:						
Installment Plan Fees	1,270,570	-	1,270,570	-	1,270,570	1,264,142
Non-Instructional Contract Training Fees	11,124	-	11,124	-	11,124	37,620
General Fees	36,609,903	-	36,609,903	-	36,609,903	33,059,580
Laboratory Fees	4,585,556	-	4,585,556	-	4,585,556	4,278,939
Other Fees	11,626,671	-	11,626,671	-	11,626,671	10,478,150
Out-of-District Fees	16,673,190	-	16,673,190	-	16,673,190	15,296,842
Student Service Fees	1,736,964	33,625	1,770,589	958,155	2,728,744	2,682,678
Total Fees	72,513,978	33,625	72,547,603	958,155	73,505,758	67,097,951
Scholarship Allowances and Discounts:						
Remissions and Exemptions-State	(7,892,947)	-	(7,892,947)	(5,127)	(7,898,074)	(7,181,432)
Remissions and Exemptions-Local	(1,582,717)	-	(1,582,717)	-	(1,582,717)	(1,220,841)
Title IV Federal Grants	(44,061,830)	-	(44,061,830)	-	(44,061,830)	(35,746,915)
Other Federal Grants	(2,744,115)	-	(2,744,115)	-	(2,744,115)	(517,307)
TPEG Awards	(1,607,786)	-	(1,607,786)	-	(1,607,786)	(1,520,541)
Other State Grants	(1,813,665)	-	(1,813,665)	-	(1,813,665)	(1,970,236)
Other Local Grants	(1,200,457)	-	(1,200,457)	-	(1,200,457)	(1,314,785)
Total Scholarship Allowances	(60,903,517)	-	(60,903,517)	(5,127)	(60,908,644)	(49,472,057)
Total Net Tuition and Fees	69,277,125	33,625	69,310,750	953,028	70,263,778	67,907,897
Other Operating Revenues:						
Federal Grants and Contracts	-	16,848,269	16,848,269	-	16,848,269	16,064,089
State Grants and Contracts	-	5,152,251	5,152,251	-	5,152,251	6,448,589
Local Grants And Contracts	-	95,226	95,226	-	95,226	275,085
Non-Governmental Grants And Contracts	-	2,497,892	2,497,892	-	2,497,892	1,283,150
Sales And Services	328,176	-	328,176	1,207	329,383	369,530
Total Other Operating Revenues	328,176	24,593,638	24,921,814	1,207	24,923,021	24,440,443
Auxiliary Enterprises:						
Bookstore	-	-	-	2,864,738	2,864,738	2,693,341
Long-Term Parking	-	-	-	530,948	530,948	416,853
Qatar	-	-	-	6,682,193	6,682,193	4,539,566
Rental Of Facilities	-	-	-	6,518,061	6,518,061	6,151,316
Restaurant	-	-	-	510,315	510,315	514,816
Vending And Other Commissions	-	-	-	142,418	142,418	220,022
Total Auxiliary Enterprises	-	-	-	17,248,673	17,248,673	14,535,914
Total Operating Revenues	\$ 69,605,301	\$ 24,627,263	\$ 94,232,564	\$ 18,202,908	\$ 112,435,472	\$ 106,884,254

*In accordance with Education Code 50,033 \$2,252,354 and \$1,905,906 of tuition for fiscal years ended August 31, 2012 and 2011, 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, 2012
(With Memorandum Totals for the Year Ended August 31, 2011)

	Operating Expenses					2012 Total	2011 Total
	Salaries and Wages	Benefits		Other Expenses			
		State	Local				
Unrestricted Educational Activities							
Instruction	\$ 88,316,260	\$ -	\$ 6,265,883	\$ 2,870,444	\$ 97,452,587	\$ 99,710,430	
Public Service	680,896	-	48,316	460,342	1,189,554	1,176,045	
Academic Support	13,095,629	-	929,244	2,589,726	16,614,599	16,314,005	
Student Services	20,757,138	-	1,472,892	4,229,864	26,459,894	27,134,205	
Institutional Support	29,859,164	-	2,118,756	16,565,477	48,543,397	52,137,619	
Operation and Maintenance of Plant	2,075,228	-	147,255	25,783,228	28,005,711	28,350,817	
Total Unrestricted Educational Activities	154,784,315		10,982,346	52,499,081	218,265,742	224,823,121	
Restricted Educational Activities							
Instruction	898,043	6,742,797	137,584	691,643	8,470,067	12,907,448	
Public Service	4,398,268	-	510,929	5,794,467	10,703,664	10,590,630	
Academic Support	737,528	999,971	144,433	1,269,809	3,151,741	3,302,386	
Student Services	1,830,903	1,584,997	32,925	468,431	3,917,256	4,767,233	
Institutional Support	-	2,280,021	-	-	2,280,021	3,609,451	
Scholarship and Fellowship	-	-	-	61,504,372	61,504,372	65,346,087	
Total Restricted Educational Activities	7,864,742	11,607,786	825,871	69,728,722	90,027,121	100,523,235	
Total Educational Activities	162,649,057	11,607,786	11,808,217	122,227,803	308,292,863	325,346,356	
Auxiliary Enterprises	1,634,695	-	340,742	7,632,782	9,608,219	10,196,294	
Auxiliary Enterprises - Qatar Expenses	4,898,811	-	882,836	346,929	6,128,576	4,411,036	
Depreciation - Buildings	-	-	-	11,403,994	11,403,994	10,055,109	
Depreciation - Equipment	-	-	-	6,906,714	6,906,714	6,477,562	
Depreciation - Library Books	-	-	-	538,094	538,094	534,795	
Total Operating Expenses	<u>\$ 169,182,563</u>	<u>\$ 11,607,786</u>	<u>\$ 13,031,795</u>	<u>\$ 149,056,316</u>	<u>\$ 342,878,460</u> (Exhibit 2)	<u>\$ 357,021,152</u> (Exhibit 2)	

See Independent Auditor's Report

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

	Unrestricted	Restricted	Auxiliary Enterprises	Total 2012	Total 2011
NONOPERATING REVENUES:					
State Appropriations:					
Educational and General State Support	\$ 70,232,038	\$ -	\$ -	\$ 70,232,038	\$ 65,788,668
State Group Insurance	-	7,651,060	-	7,651,060	10,226,697
State Retirement Matching	-	3,956,728	-	3,956,728	8,654,514
Other State Appropriations	-	-	-	-	168,436
Total State Appropriations	70,232,038	11,607,788	-	81,839,826	84,838,315
Maintenance Ad-Valorem Taxes	105,943,722	-	-	105,943,722	94,083,625
Debt Service Ad-Valorem Taxes	17,694,297	-	-	17,694,297	21,736,440
Gifts	-	2,053,638	-	2,053,638	1,573,601
Investment Income, Net	789,917	-	-	789,917	566,945
Title IV Grants	-	102,023,662	-	102,023,662	96,171,936
Nursing Shortage Reduction	-	14,038	-	14,038	151,786
Hurricane Ike	11,635	-	-	11,635	-
Other Nonoperating Revenue	9,316,028	-	13,465	9,329,493	6,153,631
Total Nonoperating Revenues	203,987,637	115,699,126	13,465	319,700,228	305,276,279
NONOPERATING EXPENSES:					
Interest on Capital-Related Debt	(28,498,392)	-	-	(28,498,392)	(29,424,886)
Hurricane Ike Expenses	(626,194)	-	-	(626,194)	(284,103)
Other Nonoperating Expenses	(10,630,520)	-	-	(10,630,520)	(10,550,397)
Total Nonoperating Expenses	(39,755,106)	-	-	(39,755,106)	(40,259,386)
NET NONOPERATING REVENUES	\$ 164,232,531	\$ 115,699,126	\$ 13,465	\$ 279,945,122	\$ 265,016,893
				(Exhibit 2)	(Exhibit 2)

See Independent Auditor's Report.

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE NET ASSETS BY SOURCE AND AVAILABILITY
 FOR THE YEAR ENDED AUGUST 31, 2012
 (With Memorandum Totals for the Year Ended August 31, 2011)

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 75,256,434	\$ -	\$ -	\$ -	\$ 75,256,434	\$ 75,256,434	\$ -
Auxiliary enterprises	11,747,296	-	-	-	11,747,296	11,747,296	-
Loan	-	488,477	-	-	488,477	-	488,477
Plant:							
Unexpended	3,738,683	-	-	-	3,738,683	-	3,738,683
Investment in Plant	-	-	-	240,695,934	240,695,934	-	240,695,934
Total Net Assets, August 31, 2012	90,742,413	488,477	-	240,695,934	331,926,824	87,003,730	244,923,094
					(Exhibit 1)		
Total Net Assets, August 31, 2011	73,959,450	488,477	-	207,976,763	282,424,690	68,781,490	213,643,200
					(Exhibit 1)		
Net Increase in Net Assets	\$ 16,782,963	\$ -	\$ -	\$ 32,719,171	\$ 49,502,134	\$ 18,222,240	\$ 31,279,894
					(Exhibit 2)		

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 College's overall financial health.

Financial Trends

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

Revenue Capacity

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

Debt Capacity

This segment presents information to help the reader assess the affordability of the College's current levels of outstanding debt and the College'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 College'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 College's financial report relates to the services the College provides and the activities it performs.

Sources: Unless otherwise stated, the information in this section is derived from the comprehensive annual financial reports for the relevant year. The College implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, in FY 2000-01; schedules presenting government-wide activities include information beginning from that year.

Table 1

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

	For the Year Ended August 31,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Invested in Capital Assets, Net of Related Debt	\$ 244,435	\$ 207,977	\$ 197,013	\$ 197,253	\$ 190,084	\$ 173,412	\$ 146,493	\$ 148,651	\$ 130,356	\$ 132,961
Restricted - Expendable	488	488	449	449	449	449	582	450	449	470
Restricted - Nonexpendable	-	-	-	-	-	-	-	-	-	-
Unrestricted	<u>87,004</u>	<u>73,959</u>	<u>70,083</u>	<u>62,731</u>	<u>62,334</u>	<u>55,872</u>	<u>60,092</u>	<u>42,439</u>	<u>47,880</u>	<u>41,266</u>
Total Primary Government, Net of Assets	<u>\$ 331,927</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>	<u>\$ 174,697</u>
Net Increase in Assets	<u>\$ 49,503</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>	<u>\$ 3,988</u>	

See Independent Auditor's Report.

Table 2

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

	For the Year Ended August 31,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
OPERATING REVENUES:										
Tuition and Fees, Net of Discounts	\$ 70,263,778	\$ 67,907,897	\$ 65,655,752	\$ 64,689,510	\$ 58,939,437	\$ 54,389,997	\$ 50,027,656	\$ 50,300,876	\$ 50,673,972	\$ 46,940,539
Federal Grants and Contracts*	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	14,563,532
State Grants and Contracts*	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	3,685,358
Local Grants and Contracts	95,226	275,085	79,055	77,955	81,761	77,116	90,392	84,962	85,978	127,606
Non-Governmental Grants and Contracts	2,497,892	1,283,150	1,286,822	854,759	467,151	605,832	705,186	305,459	625,785	452,353
Sales and Services of Educational Activities	329,382	369,530	315,835	261,861	203,207	208,228	470,021	161,349	162,254	185,812
Other Operating Revenues	-	-	-	-	-	527,125	589,409	717,187	664,457	4,263,733
Auxiliary Enterprises	17,248,673	14,535,914	10,493,233	8,709,724	7,937,176	7,351,627	5,294,890	5,519,502	4,671,611	1,508,412
Total Operating Revenues	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	71,727,345
NONOPERATING REVENUES:										
State Appropriations	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	75,104,056
Ad Valorem Taxes	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	62,554,644
Gifts	2,053,638	1,573,601	1,555,967	1,115,895	964,033	491,270	578,333	424,138	368,401	329,848
Investment Income	789,917	566,945	900,323	4,213,587	11,160,656	17,507,157	11,102,588	5,058,363	4,146,332	1,193,664
Disaster Relief Grants	-	-	1,415,592	1,525,611	-	-	-	-	-	-
Title IV (Pell)*	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	25,155,197
Nursing Shortage Reduction*	14,038	151,786	73,453	19,969	33,974	66,969	16,091	-	-	-
Other Nonoperating Revenues	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	968,148
Total Nonoperating Revenues	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	165,305,557
TOTAL REVENUES	\$ 432,135,700	\$ 412,160,533	\$ 386,210,626	\$ 330,549,766	\$ 313,215,659	\$ 297,323,711	\$ 272,752,189	\$ 256,162,418	\$ 251,530,193	\$ 237,032,902

* Reclassified

See Independent Auditor's Report.

Table 2

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

	For the Year Ended August 31,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
	(percentage of total)									
OPERATING REVENUES:										
Tuition and Fees, Net of Discounts	16.26%	16.48%	17.00%	19.57%	18.82%	18.29%	18.34%	19.64%	20.15%	19.80%
Federal Grants and Contracts	3.90%	3.90%	4.21%	* 3.78%	4.15%	4.35%	4.98%	5.34%	5.27%	6.14%
State Grants and Contracts	1.19%	1.56%	1.34%	1.12%	0.95%	0.94%	0.86%	0.91%	1.16%	1.55%
Local Grants and Contracts	0.02%	0.07%	0.02%	0.02%	0.03%	0.03%	0.03%	0.03%	0.03%	0.05%
Non-Governmental Grants and Contracts	0.58%	0.31%	0.33%	0.26%	0.15%	0.20%	0.26%	0.12%	0.25%	0.19%
Sales and Services of Educational Activities	0.08%	0.09%	0.08%	0.08%	0.06%	0.07%	0.17%	0.06%	0.06%	0.08%
Other Operating Revenues	0.00%	0.00%	0.00%	0.00%	0.00%	0.18%	0.22%	0.28%	0.26%	1.80%
Auxiliary Enterprises	3.99%	3.53%	2.72%	2.63%	2.53%	2.47%	1.94%	2.15%	1.86%	0.64%
Total Operating Revenues	26.02%	25.93%	25.69%	27.46%	26.70%	26.53%	26.80%	28.53%	29.05%	30.26%
NONOPERATING REVENUES:										
State Appropriations	18.94%	20.58%	21.92%	24.71%	25.82%	26.00%	28.10%	29.88%	29.33%	31.69%
Ad Valorem Taxes	28.61%	28.10%	30.88%	32.60%	31.04%	29.89%	30.28%	28.45%	28.12%	26.39%
Gifts	0.48%	0.38%	0.40%	0.34%	0.31%	0.17%	0.21%	0.17%	0.15%	0.14%
Investment Income	0.18%	0.14%	0.23%	1.27%	3.56%	5.89%	4.07%	1.97%	1.65%	0.50%
Disaster Relief Grants	0.00%	0.00%	0.37%	0.46%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Title IV (Pell)*	23.61%	23.33%	19.59%	12.48%	10.09%	10.20%	9.64%	10.32%	10.68%	10.61%
Nursing Shortage Reduction*	0.00%	0.04%	0.02%	0.01%	0.01%	0.02%	0.01%	0.00%	0.00%	0.00%
Other Nonoperating Revenues	2.16%	1.49%	0.89%	0.68%	2.48%	1.30%	0.89%	0.67%	1.02%	0.41%
Total Nonoperating Revenues	73.98%	74.07%	74.31%	72.54%	73.30%	73.47%	73.20%	71.47%	70.95%	69.74%
TOTAL REVENUES	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

See Independent Auditor's Report.

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

	For the Year Ended August 31,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
OPERATING EXPENSES:										
Instruction	\$ 105,922,654	\$ 112,617,877	\$ 113,319,505	\$ 105,158,760	\$ 96,006,367	\$ 92,249,139	\$ 88,156,430	\$ 86,655,657	\$ 86,189,526	\$ 86,245,997
Public Service	11,893,218	11,766,675	11,477,787	9,988,399	9,868,651	11,362,415	11,435,129	11,199,015	11,464,838	12,352,201
Academic Support	19,766,340	19,616,391	23,449,473	20,632,551	19,645,603	17,972,637	16,355,817	15,315,072	13,627,831	10,929,500
Student Services	30,377,150	31,901,438	30,902,922	27,473,142	25,822,223	24,659,370	24,919,075	24,754,156	22,014,138	21,729,688
Institutional Support	50,823,418	55,747,071	53,302,151	47,880,656	44,359,869	43,163,084	40,884,807	36,375,786	36,569,971	38,261,309
Operation and Maintenance of Plant	28,005,711	28,350,817	35,937,690	32,628,588	26,917,292	26,782,535	23,055,592	20,213,768	20,686,221	19,895,661
Scholarships and Fellowships	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	16,337,329
Auxiliary Enterprises	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	1,211,168
Depreciation	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	5,912,008
Total Operating Expenses	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	212,874,861
NON-OPERATING EXPENSES:										
Interest on Capital Related Debt	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	9,920,272
Hurricane Ike Expense, Net	-	284,103	561,861	297,616	-	-	-	-	-	-
Other Non-Operating Expenses	11,256,714	10,550,397	10,274,777	8,934,397	7,768,434	3,682,262	5,597,748	4,290,908	4,018,983	4,305,513
Total Non-Operating Expenses	39,755,106	40,259,386	36,216,472	34,607,876	28,409,322	24,870,030	22,799,279	21,459,361	19,162,327	14,225,785
Total Expenses	\$ 382,633,566	\$ 397,280,538	\$ 379,099,145	\$ 322,983,477	\$ 286,026,436	\$ 274,784,665	\$ 257,125,699	\$ 243,602,219	\$ 236,887,320	\$ 227,100,646

See Independent Auditor's Report.

Table 3

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

	2012	2011	2010	2009	For the Year Ended August 31, 2008 2007		2006	2005	2004	2003
	(percentage of total)									
OPERATING EXPENSES:										
Instruction	27.68%	28.35%	29.89%	32.56%	33.57%	33.57%	34.29%	35.57%	36.38%	37.98%
Public Service	3.11%	2.96%	3.03%	3.09%	3.45%	4.14%	4.45%	4.60%	4.84%	5.44%
Academic Support	5.17%	4.94%	6.19%	6.39%	6.87%	6.54%	6.36%	6.29%	5.75%	4.81%
Student Services	7.94%	8.03%	8.15%	8.51%	9.03%	8.97%	9.69%	10.16%	9.29%	9.57%
Institutional Support	13.28%	14.03%	14.06%	14.82%	15.51%	15.71%	15.90%	14.93%	15.44%	16.85%
Operation and Maintenance of Plant	7.32%	7.14%	9.48%	10.10%	9.41%	9.75%	8.97%	8.30%	8.73%	8.76%
Scholarships and Fellowships	16.07%	16.45%	13.17%	7.68%	6.36%	6.00%	6.08%	6.33%	6.89%	7.19%
Auxiliary Enterprises	4.11%	3.68%	2.57%	2.70%	2.34%	2.45%	1.52%	1.01%	0.74%	0.53%
Depreciation	4.93%	4.30%	3.91%	3.44%	3.53%	3.83%	3.88%	4.00%	3.84%	2.60%
Total Operating Expenses	89.61%	89.87%	90.45%	89.28%	90.07%	90.95%	91.13%	91.19%	91.91%	93.74%
NON-OPERATING EXPENSES:										
Interest on Capital Related Debt	7.45%	7.41%	6.69%	7.86%	7.22%	7.71%	6.69%	7.05%	6.39%	4.37%
Loss on Disposal of Fixed Assets	0.00%	0.07%	0.15%	-	-	-	-	-	-	-
Other Non-Operating Expenses	2.94%	2.66%	2.71%	2.77%	2.72%	1.34%	2.18%	1.76%	1.70%	1.90%
Total Non-Operating Expenses	10.39%	10.13%	9.55%	10.72%	9.93%	9.05%	8.87%	8.81%	8.09%	6.26%
Total Expenses	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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
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%
2000-2001*	Spring	228	---	216	24.00	---	---	468.00	n/a

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
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%
2000-2001*	Spring	228	348	216	24.00	---	---	816.00	n/a

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
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	
2011-2012	Fall	\$ 1,140	\$ 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%	
2000-2001*	Spring	840	492	24.00	---	---	1,356.00	n/a	
2000-2001	Fall	804	480	24.00	---	---	1,308.00	4.81%	

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)
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
2003	76,806,418,188	6,031,707,710	70,774,710,478	92.15%	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	\$ 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
2002-2003	61,017,666	37,656	1,620

Fiscal Year	State Appropriation (Unrestricted)	Academic Contract Hours	Voc/Tech Contract Hours	CEU Contact Hours	Total Funded Contact Hours (1)	State Appropriation per Contact Hour
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
2002-2003	61,017,666	11,027,648	4,980,274	2,066,887	18,074,809	3.38

Note: The methodology used to calculate FTSE (Full-time Student Equivalent) has been revised for fiscal year 2012 and the total FTSE has been restated for all years shown.

* Revised based on fiscal year 2011 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 FTSE 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									
		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Centerpoint Energy Inc	Utility	\$ 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	\$ 897,298,890
Crescent Real Estate	Real Estate	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	669,982,850
Cullen Allen Holdings Lp	Real Estate	-	-	632,088,821	679,738,613	740,183,451	597,559,584	-	-	-	-
Hines Interests Ltd Ptnrsp	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	726,771,540
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	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	484,522,290
Houston Refining	Oil & Gas	-	-	-	407,442,917	-	-	-	-	-	-
Valero Energy Corp	Oil & Gas	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	578,867,530
HG Galleria I II III LP	Real Estate	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	458,739,180
Lyondell Chemical Co	Oil & Gas	-	-	-	-	-	-	295,571,464	-	-	-
HG Shopping Centers LP	Real Estate	-	-	-	-	-	-	292,756,445	266,442,640	243,350,670	227,341,810
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	317,717,860
Continental Airlines	Airline	-	-	-	-	-	-	-	-	236,174,370	326,389,070
Pacifico Antonio & Trustees		-	-	-	-	-	-	-	-	-	301,983,230
Totals		\$ 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	\$ 4,989,614,250
Total Taxable Assessed Value		\$ 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	\$ 70,774,710,478

Source: Local County Appraisal District

See Independent Auditor's Report.

Table 7

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

Taxpayer	Industry	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
		% of Taxable Assessed Value (TAV) by Tax Year									
Centerpoint Energy Inc	Utility	0.91%	0.89%	0.86%	0.99%	0.99%	1.11%	1.22%	1.15%	1.25%	1.27%
Crescent Real Estate	Real Estate	0.56%	0.90%	0.79%	0.97%	1.32%	1.32%	1.04%	0.79%	1.16%	0.95%
Cullen Allen Holdings Lp	Real Estate	0.00%	0.00%	0.48%	0.58%	0.71%	0.65%	0.00%	0.00%	0.00%	0.00%
Hines Interests Ltd Ptrsp	Real Estate	0.91%	0.77%	0.66%	0.56%	0.92%	1.07%	0.68%	0.79%	0.83%	1.03%
AT&T Mobility Llc	Utility	0.25%	0.35%	0.38%	0.49%	0.56%	0.00%	0.00%	0.00%	0.00%	0.00%
Tpg 2101 Citywest 1 & 2 Lp	Real Estate	0.00%	0.39%	0.36%	0.45%	0.55%	0.00%	0.00%	0.00%	0.00%	0.00%
Chevron Chemical Co	Oil & Gas	0.57%	0.50%	0.36%	0.39%	0.46%	0.44%	0.40%	0.31%	0.28%	0.00%
Anheuser Busch Inc	Brewery	0.28%	0.29%	0.31%	0.36%	0.43%	0.50%	0.55%	0.59%	0.60%	0.68%
Houston Refining	Oil & Gas	0.00%	0.00%	0.00%	0.35%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Valero Energy Corp	Oil & Gas	0.29%	0.00%	0.00%	0.32%	0.37%	0.34%	0.00%	0.00%	0.00%	0.00%
Teachers Insurance	Insurance	0.00%	0.00%	0.00%	0.00%	0.55%	0.56%	0.35%	0.00%	0.00%	0.00%
Shell Oil Co	Oil & Gas	0.26%	0.26%	0.00%	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%	0.58%	0.65%	0.75%	0.69%	0.82%
HG Galleria I II III LP	Real Estate	0.29%	0.25%	0.24%	0.00%	0.00%	0.35%	0.00%	0.00%	0.00%	0.00%
Triachahn Allen Ctr LP	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.58%	0.52%	0.53%	0.65%
Lyondell Chemical Co	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.35%	0.00%	0.00%	0.00%
HG Shopping Centers LP	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.35%	0.33%	0.30%	0.32%
Block 98 Partners Lt D	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.42%	0.00%	0.00%
Exxon Mobil Corp	Oil & Gas	0.25%	0.24%	0.23%	0.00%	0.00%	0.00%	0.00%	0.38%	0.24%	0.45%
Continental Airlines	Airline	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.29%	0.46%
Pacifico Antonio & Trustees		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.43%
Totals		4.56%	4.85%	4.68%	5.45%	6.85%	6.92%	6.18%	6.03%	6.16%	7.05%

Source: Local County Appraisal District

See Independent Auditor's Report.

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
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%
2002-2003	0.081333	70,774,710,478	57,563,195	59,807,257	103.90%	2,659,220	62,466,477	108.52%

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

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

See Independent Auditor's Report.

Table 9

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

	For the Year Ended August 31									
	2012	2011	2010	2009*	2008*	2007*	2006*	2005*	2004*	2003
General Obligation Bonds	\$ 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	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	<u>303,407,883</u>	<u>292,730,472</u>	<u>258,306,987</u>	<u>198,675,610</u>	<u>205,951,253</u>	<u>154,350,540</u>	<u>159,393,756</u>	<u>150,308,930</u>	<u>150,572,670</u>	<u>-</u>
Per Capita	\$ 136.12	\$ 134.63	\$ 118.77	\$ 92.82	\$ 95.80	\$ 72.86	\$ 76.23	\$ 72.84	\$ 73.37	\$ -
Per Student	\$ 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	0.24%	0.23%	0.20%	0.17%	0.20%	0.17%	0.19%	0.19%	0.19%	0.00%
Revenue Bonds	\$ 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	\$ 147,990,380
Notes	-	691,584	1,383,167	2,074,750	-	631,285	29,912,400	5,882,947	2,548,128	3,023,510
Capital Lease Obligations	-	1,304,824	3,914,472	6,524,120	-	34,395,970	35,436,616	37,523,860	39,895,534	42,100,491
Total Outstanding Debt	<u>\$ 644,053,443</u>	<u>\$ 635,813,210</u>	<u>\$ 619,767,584</u>	<u>\$ 545,742,481</u>	<u>\$ 558,559,201</u>	<u>\$ 493,895,533</u>	<u>\$ 388,585,930</u>	<u>\$ 344,837,778</u>	<u>\$ 336,756,959</u>	<u>\$ 193,114,381</u>
Per Capita	\$ 289	\$ 292	\$ 285	\$ 255	\$ 260	\$ 233	\$ 186	\$ 167	\$ 164	\$ 95
Per Student	\$ 11,401	\$ 11,086	\$ 11,332	\$ 11,408	\$ 12,779	\$ 11,499	\$ 9,520	\$ 8,212	\$ 7,950	\$ 4,214
As a Percentage of Taxable Assessed Value	0.51%	0.50%	0.48%	0.47%	0.53%	0.54%	0.46%	0.43%	0.42%	0.27%

* The methodology used to calculate FTSE (Full-time Student Equivalent) has been revised for fiscal year 2012 and the "Per FTSE" calculations have been rested for all years shown. (FTSE includes both fundable and non-fundable students)

See Independent Auditor's Report.

Table 10

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

	For the Year Ended August 31				
	2012	2011	2010	2009	2008
TAXABLE ASSESSED VALUE	\$ 127,412,325,392	\$ 125,975,478,092	\$ 130,429,808,430	\$ 117,021,714,313	\$ 104,790,367,164
GENERAL OBLIGATION BONDS:					
Statutory Tax Levy Limit for Debt Service	637,061,627	629,877,207	652,149,042	585,108,572	523,951,836
Less: Funds Restricted for Repayment of General Obligation Bonds	-	-	-	-	-
Total Net General Obligation Debt	637,061,627	629,877,207	652,149,042	585,108,572	523,951,836
Current Year Debt Service Requirements	18,904,514	20,616,717	16,768,273	11,034,759	11,059,125
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 618,157,113	\$ 609,260,490	\$ 635,380,769	\$ 574,073,813	\$ 512,892,711
Net Current Requirements as a % of Statutory Limit	2.97%	3.27%	2.57%	1.89%	2.11%
	For the Year Ended August 31				
	2007	2006	2005	2004	2003
TAXABLE ASSESSED VALUE	\$ 91,844,567,892	\$ 84,801,822,246	\$ 80,374,399,473	\$ 80,259,613,280	\$ 76,806,418,188
GENERAL OBLIGATION BONDS:					
Statutory Tax Levy Limit for Debt Service	459,222,839	424,009,111	401,871,997	401,871,997	401,298,066
Less: Funds Restricted for Repayment of General Obligation Bonds	-	-	-	-	-
Total Net General Obligation Debt	459,222,839	424,009,111	401,871,997	401,871,997	401,298,066
Current Year Debt Service Requirements	11,069,990	10,258,879	11,704,474	11,816,469	-
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 448,152,849	\$ 413,750,232	\$ 390,167,523	\$ 390,055,528	\$ 401,298,066
Net Current Requirements as a % of Statutory Limit	2.41%	2.42%	2.91%	2.94%	0.00%

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.

Net assessed valuation has been restated for prior years to conform to property tax footnote in AFR.

See Independent Auditor's Report.

Table 11

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
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
2003	48,903,564	1,326,547	3,175,018	30,681,596	2,981,078	4,468,159	1,869,211	540,602	147,106	1,309,968	2,404,279

Fiscal Year Ended August 31	Debt Service Requirements			
	Principal	Interest	Total	Coverage Ratio
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
2003	4,115,000	7,708,100	11,823,100	4.14

*Coverage Ratio for FY2010 & FY2011 have been restated.

See Independent Auditor's Report.

Table 12

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

Calendar Year	Service Area Population	Service Area Personal Income	Service Area Personal Income Per Capita	Service Area Unemployment Rate
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	-
2002	1,948,932	40,974,346,368	21,024	-

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. 2010.

See Independent Auditor's Report.

Table 13

HOUSTON COMMUNITY COLLEGE SYSTEM
PRINCIPAL EMPLOYERS
Fiscal Years 2009-2011
(Unaudited)

Houston-Sugar Land-Baytown MSA (Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty Montgomery, San Jacinto, Waller)	June 2012 (p)	June 2011*	June 2010	June 2009
	Number of Employees			
Total Nonagricultural				
Trade, Transportation, & Utilities	545,800	527,800	515,800	517,000
Professional, & Business Services	389,400	383,900	363,600	359,000
Government	361,800	372,400	381,800	364,000
Education & Health Services	335,300	314,700	308,900	296,200
Mining/Logging & Construction	269,200	261,000	252,800	270,400
Manufacturing	237,200	228,200	217,500	225,000
Leisure & Hospitality	268,600	250,400	241,100	243,800
Financial Activities	140,000	137,100	136,200	140,000
Other Services	100,000	93,600	92,700	93,700
Information	31,200	31,900	32,500	34,900
Total	<u>2,678,500</u>	<u>2,601,000</u>	<u>2,542,900</u>	<u>2,544,000</u>
	Percent of Employees			
Total Nonagricultural				
Trade, Transportation, & Utilities	20.38%	20.29%	20.28%	20.32%
Professional, & Business Services	14.54%	14.76%	14.30%	14.11%
Government	13.51%	14.32%	15.01%	14.31%
Education & Health Services	12.52%	12.10%	12.15%	11.64%
Natural Resources, Mining & Construction	10.05%	10.03%	9.94%	10.63%
Manufacturing	8.86%	8.77%	8.55%	8.84%
Leisure & Hospitality	10.03%	9.63%	9.48%	9.58%
Financial Activities	5.23%	5.27%	5.36%	5.50%
Other Services	3.73%	3.60%	3.65%	3.68%
Information	<u>1.16%</u>	<u>1.23%</u>	<u>1.28%</u>	<u>1.37%</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

See Independent Auditor's Report.

Table 14

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Faculty										
Full-Time	809	910	848	829	821	810	814	799	743	755
Part-Time	2,781	2,921	2,345	2,049	2,499	2,513	2,391	2,329	2,023	2,278
Total	<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>	<u>3,033</u>
Percent										
Full-Time	22.5%	23.8%	26.6%	28.8%	24.7%	24.4%	25.4%	25.5%	26.9%	24.9%
Part-Time	77.5%	76.2%	73.4%	71.2%	75.3%	75.6%	74.6%	74.5%	73.1%	75.1%
Staff and Administrators										
Full-Time	1,327	1,272	1,185	1,102	1,079	1,080	1,053	1,049	1,067	1,043
Part-Time	1,088	1,169	1,323	1,259	1,504	1,408	1,226	1,288	1,301	1,657
Total	<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>	<u>2,700</u>
Percent										
Full-Time	54.9%	52.1%	47.2%	46.7%	41.8%	43.4%	46.2%	44.9%	45.1%	38.6%
Part-Time	45.1%	47.9%	52.8%	53.3%	58.2%	56.6%	53.8%	55.1%	54.9%	61.4%
Students per Full-time										
Faculty	71.2	62.2	57.1	53.6	53.0	55.3	51.6	55.1	55.6	57.1
Staff Member	43.4	44.5	40.9	40.3	40.3	41.5	39.9	42.0	38.7	41.3
Average Annual 9/12 Month										
Faculty Salary*	\$ 63,473	\$ 62,533	\$ 62,833	\$ 60,378	\$ 56,047	\$ 54,766	\$ 55,228	\$ 54,264	\$ 51,928	\$ 49,570

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

See Independent Auditor's Report.

Table 15

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

Student Classification*	Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Freshman	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%	24,644	57.13%
Sophomore	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%	8,917	19.79%
Unclassified	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%	1,777	3.58%
Assoc. Degree	64	0.11%	120	0.21%	165	0.40%	177	0.39%	168	0.37%	164	0.45%	187	0.43%	189	0.33%
BS & Above	279	0.48%	361	0.64%	514	1.45%	644	1.38%	601	1.40%	627	1.63%	684	1.82%	800	1.38%
Continuing Ed. Only	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%	7,686	17.79%
Total	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%	44,013	100.00%
Semester Hour Load**	Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than 3	835	1.45%	748	1.32%	624	1.38%	613	0.71%	310	1.51%	677	0.64%	270	0.65%	285	0.60%
3-5 semester hrs	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%	9,547	20.99%
6-8 Semester hrs	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%	9,628	21.92%
9-11 semester hrs	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%	6,892	15.40%
12-14 semester hrs	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%	8,425	19.55%
15-17 semester hrs	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%	1,328	3.23%
18 & over	138	0.24%	173	0.31%	154	0.39%	172	0.31%	136	0.35%	156	0.41%	173	0.50%	222	0.52%
Continuing Ed. Only	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%	7,686	17.79%
Total	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%	44,013	100.00%
Average course load	7.8 SCH		7.8 SCH		7.9 SCH		7.8 SCH		7.7 SCH		7.7 SCH		7.8 SCH		7.9 SCH	
Tuition Status***	Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Texas Resident (in-District)	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%	21,067	45.98%
Texas Resident (out-of-District)	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%	11,699	27.83%
Non-Resident Tuition	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%	3,342	7.60%
Tuition Waiver	329	0.57%	243	0.43%	172	0.35%	155	0.33%	144	0.39%	174	0.45%	189	0.50%	219	0.52%
Other	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	-	0.00%	-	0.28%
Not Applicable (Cont. Ed.)	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%	7,686	17.79%
Total	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%	44,013	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 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Female	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%	22,926	52.09%
Male	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%	21,087	47.91%
Total	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%	44,013	100.00%
Ethnic Origin	Fall 2011*		Fall 2010*		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	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%	12,204	29.47%
African American	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%	10,042	22.23%
Hispanic	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%	12,339	27.22%
Asian	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%	4,635	10.63%
Native American	131	0.23%	138	0.24%	121	0.23%	101	0.21%	91	0.24%	108	0.24%	101	0.30%	132	0.30%
Foreign	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%	3,711	7.93%
Unknown	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%	950	2.21%
Total	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%	44,013	100.00%
Age	Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006		Fall 2005		Fall 2004	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 18	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%	1,768	3.06%
18 -21	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%	11,968	26.86%
22 - 24	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%	7,674	17.75%
25 - 35	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%	13,171	30.06%
36 - 50	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%	7,395	17.44%
51 & over	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%	1,930	4.47%
Unknown	12	0.02%	19	0.03%	39	0.15%	67	0.28%	121	0.33%	150	0.34%	142	0.24%	107	0.36%
Total	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%	44,013	100.00%
Average Age	27.5 **		27.4		27.3		27.2		27.2		28.4		27.6		28.0	

*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.

Table 17

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

Contact Hours				
Fiscal Year	Academic*	Voc Tech*	Total	CEU **
2011-2012	17,354,256	5,822,072	23,176,328	1,798,940
2010-2011	17,802,080	5,924,078	23,726,054	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	19,229,938	1,810,761
2007-2008	12,739,232	4,422,288	17,161,440	1,847,195
2006-2007	14,077,904	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
2002-2003	11,027,648	4,980,274	16,007,922	2,066,887

Note: In fiscal year 2012, the data in the table has been revised to reflect all fundable contact hours. The contact hours have been restated to reflect the change for all years shown.

Source: CBM 001 & 00A

* Include only state funded contact hours.

** Include both state funded and non-funded contact hours.

See Independent Auditor's Report.

Table 18

HOUSTON COMMUNITY COLLEGE SYSTEM
TRANSFERS TO SENIOR INSTITUTIONS
2010-2011 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	12			12	0.10%
2 Baylor College of Medicine	6			6	0.05%
3 Lamar University	165	13	1	179	1.47%
4 Midwestern State University	26	4		30	0.25%
5 Prairie View A&M University	302	15	2	319	2.62%
6 Sam Houston State University	318	12		330	2.71%
7 Stephen F. Austin State University	243	6	2	251	2.06%
8 Sul Ross State University	2			2	0.02%
9 Tarleton State University	14	1		15	0.12%
10 Texas A&M International University	1	2		3	0.02%
11 Texas A&M University	1,009	19	5	1,033	8.50%
12 Texas A&M University - Central Texas	1			1	0.01%
13 Texas A&M University - Commerce	9	1		10	0.08%
14 Texas A&M University - Corpus Christi	46			46	0.38%
15 Texas A&M University - Kingsville	25			25	0.21%
16 Texas A&M University - San Antonio	3			3	0.02%
17 Texas A&M University at Galveston	53	1	1	55	0.45%
18 Texas A&M University System Health Science Center	10		1	11	0.09%
19 Texas Southern University	655	54	7	716	5.89%
20 Texas State University - San Marcos	352	7	1	360	2.96%
21 Texas Tech University	301	4	3	308	2.53%
22 Texas Tech University Health Sciences Center	52	1		53	0.44%
23 Texas Woman's University	164	4	4	172	1.42%
24 The University of Texas - Pan American	11	1		12	0.10%
25 The University of Texas at Arlington	129	3		132	1.09%
26 The University of Texas at Austin	1,108	21	3	1,132	9.31%
27 The University of Texas at Brownsville	3			3	0.02%
28 The University of Texas at Dallas	47	4	1	52	0.43%
29 The University of Texas at El Paso	13			13	0.11%
30 The University of Texas at San Antonio	340	4		344	2.83%
31 The University of Texas at Tyler	16	1		17	0.14%
32 The University of Texas Health Science Center at	137	6		143	1.18%
33 The University of Texas Health Science Center at San	8	1		9	0.07%
34 The University of Texas M.D. Anderson Cancer Center	69	12		81	0.67%
35 The University of Texas Medical Branch at Galveston	102	6	1	109	0.90%
36 The University of Texas of the Permian Basin	1			1	0.01%
37 University of Houston	3,798	178	34	4,010	32.99%
38 University of Houston - Clear Lake	183	14	2	199	1.64%
39 University of Houston - Downtown	1,345	115	19	1,479	12.17%
40 University of Houston - Victoria	316	31	5	352	2.90%
41 University of North Texas	107	5	1	113	0.93%
42 University of North Texas Health Science Center	6			6	
43 West Texas A&M University	8			8	0.07%
	<u>11,516</u>	<u>546</u>	<u>93</u>	<u>12,155</u>	<u>100.00%</u>

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

*Latest information available.

See Independent Auditor's Report.

Table 19

HOUSTON COMMUNITY COLLEGE SYSTEM
CAPITAL ASSET INFORMATION
FISCAL YEARS 2009 - 2012
(Unaudited)

	<u>Fiscal Year</u> 2012	<u>Fiscal Year</u> 2011	<u>Fiscal Year</u> 2010	<u>Fiscal Year</u> 2009
<u>Academic buildings *</u>				
Number of Academic Buildings	56	63	72	71
Square footage	3,117,169	3,164,033	3,122,289	3,637,525
<u>Libraries</u>				
Number of Libraries	15	15	14	14
Square footage	148,020	148,020	147,058	121,595
Number of Volumes				
Circulating books	231,099	206,784	193,635	186,610
Reference books	24,190	24,553	24,674	24,641
Media items	21,886	27,471	27,068	22,699
Magazines, Journals, Newspapers	210	276	274	307
Electronic books (Digital video)	46,195	60,897	37,407	36,873
Electronic Journals	19,136	21,935	35,848	15,357
Total	<u>342,716</u>	<u>341,916</u>	<u>318,906</u>	<u>286,487</u>
<u>Administrative and support buildings</u>				
Number of Administrative and support buildings	4	3	3	4
Square footage	656,124	628,674	601,000	601,000
<u>Transportation</u>				
Bus	2	2	2	1
Cars	31	31	28	28
Golf Cart	29	19	19	15
Motorcycle/Segway	4	5		
Motor Home/Mobile Unit	3	2	2	1
SUV	2	4	2	1
Tank	2	2	2	2
Tractors	29	35	36	33
Trailers	49	45	46	40
Truck	13	11	14	13
Truck, Heavy (Fire Truck)	4	6	0	0
Vans	20	23	21	19
Utility Vehicles	1	6	4	4
Total	<u>189</u>	<u>191</u>	<u>176</u>	<u>157</u>

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

See Independent Auditor's Report.

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 the financial statements of Houston Community College System (the "System") as of and for the year ended August 31, 2012, and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Gamer Donnelly & Desroches LLP

November 8, 2012

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

Board of Trustees
Houston Community College System
Houston, Texas

Compliance

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

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

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal and State of Texas programs for the year ended August 31, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2.

Internal Control over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a Federal 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2012-1 and 2012-2. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Gamer Donnelly & Desroches LLP

November 8, 2012

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2012

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U. S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 913,761
Federal Work-Study Program	84.033		872,865
Federal Pell Grant Program	84.063		101,108,027
Direct Loans	84.268		82,489,952
Academic Competitiveness Grants	84.375		1,875
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		79,500
Total Student Financial Aid Cluster			<u>185,465,980</u>
TRIO Cluster			
TRIO - Student Support Services	84.042		401,619
TRIO - Upward Bound	84.047		819,476
Total TRIO Cluster			<u>1,221,095</u>
Higher Education - Institutional Aid	84.031A		318,973
Minority Science and Engineering Improvement	84.120A		760
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407		470,539
Pass-Through From:			
Texas Educational Agency			
Adult Education - Basic Grants to States	84.002	124100017110415	5,728,410
Adult Education - Basic Grants to States	84.002	134100017110481	457,815
Adult Education - Basic Grants to States	84.002	124100087110433	120,515
Adult Education - Basic Grants to States	84.002	134100087110487	5,026
Total Adult Education - Basic Grants to States			<u>6,311,766</u>
University of St. Thomas			
Higher Education - Institutional Aid	84.031C	UST CCRAA 001-HCCS	409,751
Houston Independent School District			
Career and Technical Education - Basic Grants to States	84.048		983
Texas Higher Education Coordinating Board			
Career and Technical Education - Basic Grants to States	84.048	114221	7,178
Career and Technical Education - Basic Grants to States	84.048	124246	1,046,676
Total Career and Technical Education - Basic Grants to States			<u>1,053,854</u>
Tech-Prep Education	84.243	124246	27,490
College Access Challenge Grant Program	84.378	06020	179,741
College Access Challenge Grant Program	84.378	09220	1,995
Total College Access Challenge Grant Program			<u>\$ 181,736</u>

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
FOR THE YEAR ENDED AUGUST 31, 2012

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U.S. Department of Education - Continued			
Pass-Through From:			
Del Mar College			
Career and Technical Education - Basic Grants to States	84.048		\$ 6,000
Houston ISD			
Magnet Schools Assistance	84.165		57,165
Spring Branch ISD			
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	84.334		<u>1,725</u>
Total U.S. Department of Education			195,527,817
U.S. Department of Agriculture			
Direct Programs:			
Hispanic Serving Institutions Education Grants	10.223		349,805
Pass-Through From:			
Texas A&M University - Corpus Christi			
Hispanic Serving Institutions Education Grants	10.223	10-035	<u>12,435</u>
Total Hispanic Serving Institutions Education Grants			<u>362,240</u>
Total U.S. Department of Agriculture			362,240
U.S. Department of Housing and Urban Development			
Pass-Through From:			
Community Development Block Grant Program for Entitlement Communities	14.218		<u>28,024</u>
Total U.S. Department of Housing And Urban Development			28,024
U.S. Department of Justice			
Direct Programs:			
Bulletproof Vest Partnership Program	16.607		<u>5,345</u>
Total U.S. Department of Justice			5,345
U.S. Department of Labor			
Pass-Through From:			
WIA Cluster			
North Central Texas Council of Government and Workforce Solutions for North Central Texas			
Community Based Job Training Grants	17.269	FY10-DOLCBJT-04	168,307
Texas Workforce Commission			
WIA Dislocated Worker Formula Grants	17.278	2911WSW005	<u>181,359</u>
Total U.S. Department of Labor			349,666

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
FOR THE YEAR ENDED AUGUST 31, 2012

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
<hr/>			
U.S. Department of State			
Pass-Through From:			
The Community College Initiative Program CCIP	19.009		\$ <u>36,292</u>
Total U.S. Department of State			36,292
National Science Foundation			
Direct Programs:			
Education and Human Resources	47.076		176,614
Pass-Through From:			
University of Houston System			
Education and Human Resources	47.076	R-09-0170	<u>17,556</u>
Total National Science Foundation			194,170
U.S. Department of Veteran Affairs			
Direct Programs:			
Post 9/11 Veterans Educational Assistance	64.028		<u>2,429,211</u>
Total U.S. Department of Veterans Affairs			2,429,211
U.S. Department of Energy			
Direct Programs:			
ARRA - Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training & Technical Analysis/Assistance	81.087		183,122
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training & Technical Analysis/Assistance	81.087		<u>158,932</u>
Total Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training & Technical Analysis/Assistance			342,054
Pass-Through From:			
State Energy Conservation Office (SECO)			
State Energy Program (SEP)	81.041		<u>396,644</u>
Total U.S. Department of Energy			738,698
U. S. Department of Health and Human Services			
Direct Programs:			
Specially Selected Health Projects	93.888		114,415
Head Start Cluster			
Head Start	93.600		189,777
Student Financial Assistance Cluster			
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925		191,272

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
FOR THE YEAR ENDED AUGUST 31, 2012

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U.S Department of Health and Human Services - Continued:			
Pass-Through From:			
University of Texas at Austin			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	UTA02-155	\$ 14,295
Texas Education Agency			
TANF Cluster			
Temporary Assistance for Needy Families	93.558	123625017110390	198,414
Temporary Assistance for Needy Families	93.558	113625017110351	<u>1,391</u>
Total Temporary Assistance for Needy Families			199,805
YMCA of Greater Houston			
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	29-08-0181-00010C	31,155
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	29-08-0181-00010D	<u>292,361</u>
Total Refugee and Entrant Assistance - Targeted Assistance Grants			323,516
Pitt Community College			
ARRA - Health Information Technology Professionals in Health	93.721	N/A	<u>404,453</u>
Total U.S. Department of Health and Human Services			1,437,534
Corporation for National and Community Service			
Direct Programs:			
AmeriCorps	94.006		<u>116,043</u>
Total Corporation for National and Community Service			116,043
Department of Homeland Security			
Direct Programs:			
Scientific Leadership Awards	97.062		<u>136,844</u>
Total Department of Homeland Security			<u>136,844</u>
TOTAL FEDERAL OF EXPENDITURES OF FEDERAL AWARDS			<u>\$ 201,361,883</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 System for the year ended August 31, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations, and includes awards received directly from federal agencies as well as federal awards passed through other government agencies.

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 amounts expended in excess of revenues received.

NOTE 2 – FEDERAL ASSISTANCE RECONCILIATION

Federal Grants and Contracts Revenue – per Schedule A	\$ 16,848,269
Reconciling items:	
Schedule C – Title IV Grants	102,023,662
Federal Direct Student Loans	<u>82,489,952</u>
Total Federal Assistance per Schedule of Expenditures of Federal Awards	\$ <u>201,361,883</u>

NOTE 3 – SUBRECIPIENTS

The following were subrecipients of the Adult Education State Grant Program (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	\$ 233,875
Association for the Advancement of Mexican Americans	1,065,127
AVANCE	177,147
Chinese Community Center	221,727
Community Family Center	1,181,128
Gulf Coast Community Services	51,442
Harris County Community Supervision and Correction	75,226
Houston Center for Literacy	125,213
Houston International University	116,358
Houston Read Commission	698,593
Neighborhood Centers, Inc.	226,998
Research and Development Institute	54,228
SEARCH	<u>60,694</u>
Total Passed-through to Subrecipients	\$ <u>4,287,786</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	\$	20,397
El Centro College		7,096
St. Edward’s University		39,218
Texas A&M University		<u>19,235</u>
 Total Passed-through to subrecipients	 \$	 <u>85,946</u>

The following were subrecipient of Community Based Job Training Program, CFDA 17.269. This amount is included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

Manufacturing Skills Standards Council	\$	<u>86,069</u>
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The following were subrecipients of the Energy Efficiency and Renewable Energy Information, Dissemination, Outreach, Training and Technical Analysis/Assistance, CFDA 81.087. These amounts are included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

Alamo College	\$	595
Dallas County Community College District		1,585
Lamar Institute of Technology		2,206
Ontility		172,756
St. Phillip’s College		1,549
Women’s Intercultural Center		<u>1,553</u>
 Total Passed-through to subrecipients	 \$	 180,244 <u>180,244</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2012

State Grantor Program Title	Grantor's Number	Pass-Through Disbursements and Expenditures
Texas Education Agency		
ABE - GED	120100017110415	\$ 1,271,388
ABE - GED	110100017110374	90,568
Dropout Recovery Pilot Program Cycle - Base Grant Award	101045477110008	(20,698)
Dropout Recovery Pilot Program Cycle - Performance Pay	101045587110008	86,966
Temporary Assistance for Needy Families	1123625017110390	94,576
Temporary Assistance for Needy Families	113625017110351	3,974
 Total ABE - GED		<u>1,526,774</u>
 Total Texas Education Agency		<u>1,526,774</u>
Texas Higher Education Coordinating Board		
Adult Basic Education Innovation Grant	03472	116,915
Adult Basic Education Innovation Grant	06591	341,686
Collegiate G-Force Work-Study Mentorship Program	N/A	22,853
First Year Experience	06838	41,291
Nursing Shortage Reduction Program	N/A	14,037
Rider 58 Funds	N/A	12,200
Starr Study Program	N/A	8,100
Texas College Work Study Program	N/A	161,644
Texas Educational Opportunity Grant	N/A	862,962
Texas Grant Program	N/A	1,698,920
 Pass-Through From:		
University of Texas Health Science Center	0007828A	78,229
 Total Texas Higher Education Coordinating Board		<u>3,358,837</u>
Texas Workforce Commission		
Skills for Small Business Initiative	2810SSD000	983
Skills for Small Business Program	2812SSD001	1,209
 Pass-Through From:		
Lamar Institute of Technology	N/A	<u>234,540</u>
 Total Texas Workforce Commission		236,732
Comptroller of Public Accounts		
Jobs and Education for Texans	3572-21	<u>30,665</u>
 Total Comptroller of Public Accounts		30,665
 Texas State Board of Public Accountancy	N/A	13,281
 TOTAL EXPENDITURES OF STATE OF TEXAS AWARDS		<u>\$ 5,166,289</u>

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

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2012

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, 2012. 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	\$ 5,152,251
Reconciling Item:	
Schedule C – Other Non-Operating Revenue	14,038
Total State revenues per Schedule of Expenditures of State Awards	\$ 5,166,289

NOTE 4 – SUBRECIPIENTS

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	\$ 10,000
Chinese Community Center	38,663
Literacy Advance of Houston	1,000
Total Passed-through to Subrecipients	\$ 49,663

The following was the subrecipient of the Skills Development program. This amount is included as expenditures in the accompanying Schedule of Expenditures of State of Texas Awards.

Global Knowledge Network LLC	\$ <u>135,800</u>
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HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2012

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal and State of Texas Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

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

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 no

Identification of major programs:

Federal - CFDA Number

Name of Federal Programs

Cluster of Programs – Student Financial Aid:

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

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
 FOR THE YEAR ENDED AUGUST 31, 2012

SECTION I – SUMMARY OF AUDITOR’S RESULTS – CONTINUED

Identification of major programs – Continued:

<u>Federal - CFDA Number</u>	<u>Name of Federal Programs</u>
84.002	Adult Education – Basic Grants to States
84.048	Career and Technical Education – Basic Grants to States
81.041	ARRA – State Energy Program
81.087	ARRA – Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance
93.721	ARRA – Health Information Technology Professionals in Healthcare
<u>State - Contract Number</u>	<u>Program Title</u>
2121/2129	Adult Basic Education
2141/2142	Adult Basic Education Innovation Grant

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

Federal	\$476,877
State of Texas	\$300,000

Auditee qualified as low-risk auditee?

Federal	_____ X _____	yes	_____	no
State of Texas	_____ X _____	yes	_____	no

SECTION II – FINANCIAL STATEMENT FINDINGS

None

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2012

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

Finding 2012-1

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

CFDA: 84.007, 84.063, 84.268, 84.375

Federal Award Year: 2011-2012

Federal Agency: U.S. Department of Education

Pass-through Entity: N/A

Type of Finding: Return of Unearned Funds to Title IV

Criteria: In accordance with federal regulations, when a federal financial aid recipient withdraws from all classes during a term, it is Houston Community College System's (HCCS) responsibility to determine the withdrawal date and amount of grant and/or loan assistance that the student earned. If a student received less assistance than what was earned, he/she may be able to receive those funds. However, if the student received more assistance than earned, the unearned funds must be returned by HCCS and/or the financial aid recipient to the appropriate financial aid agency.

Condition and Context: During our testing of Title IV refunds and procedures, we noted a calculation error in the return of unearned funds to Title IV. This error has resulted in an amount of \$494,389 that HCCS is obligated to return to the U.S. Department of Education. The unearned fund calculation is a system automated process performed by the PeopleSoft Campus Solutions Financial Aid system ("PS Student System"), which is dependent on data maintained in the Financial Aid data setup (e.g. item type groups, tree structures, nodes, item types, and ranges) that is managed by the Financial Aid ("FA") Department.

In 2011, HCCS modified the 'Return of Title IV' setup page for the 2012 financial aid year. In implementing the change, the general use, technology, and student activity fees were erroneously omitted from the setup, which resulted in the calculation error of unearned funds. Documentation was not available to support that this change was properly initiated, approved, tested and tracked.

Cause: HCCS has not implemented change management procedures and controls over the PS Student System to ensure that changes to the application are authorized and appropriately tested before being moved into production. As a result, HCCS is unable to monitor changes to the PS Student System to verify that application changes are properly initiated, approved, tested, and tracked.

Effect: HCCS is required to return Title IV refunds to the U.S. Department of Education ("DOE") regardless if HCCS collects the unearned assistance from the financial aid recipient who received more assistance than earned.

Questioned Costs:

\$494,389 due to the Department of Education

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2012

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

Finding 2012-1 – Continued

Recommendation:

HCCS develop and implement formalized change management processes and controls over the PS Student System to ensure that changes to the application are appropriate, authorized, tested, tracked, documented, and monitored.

Views of Responsible Officials and Planned Corrective Actions:

Management has reviewed the findings and is in agreement. The following measures will be taken to ensure compliance:

The FA department will implement the following change management and control processes:

1. FA staff will enter FA setups for the coming year into the PS Campus Solutions FA production system before the ensuing aid year rollover begins.
2. FA setup data will be copied to the test environment to perform multiple testing iterations (unit/system and life cycle testing).
3. FA staff will load student FA data into the test environment and thoroughly test the FA setup (item type groups, tree structures, nodes, item types, ranges) using that student data.
4. Modifications to the future FA setup will be manually input into the production PS Campus Solutions FA environment.
5. FA Executive Director will document each setup change and log:
 - Name and date logged
 - Modification date
 - Reason for modification
 - Nature of the modification
 - Dependencies on any other modifications
 - Risks of performing modification
 - Risks of not performing modification
 - Personnel required to implement the modification
 - Date and Time window for implementation
 - Length of outage, if applicable
 - Indication of success or failure of testing modification
6. FA Executive Director and FA Managers will use the Return of Title IV calculation sheet and compare it to results of the calculations performed in PS Return of Title IV functionality annually (prior to the return of Title IV refunds to the DOE) to ensure that the total calculated fund amount that is being returned to DOE is correct.
7. A Compliance Officer for the FA department will be hired in the coming months to assist in monitoring FA compliance and mitigate such issues.

The Information Technology department will implement the following controls:

1. Access to FA setup screens will continue to be limited to the FA Executive Director and FA Managers.
2. Audit logging on Item Group Types, Item Types and Return of Title IV setup records will be turned on. Audit logs will store both the past and new values of the records being audited.
3. A nightly batch process will be executed to produce a report of any setup changes. A report will be emailed to the Vice Chancellor of Student Services, the Controller/CFO, and the Director of Internal Audit daily.
4. IT will monitor the reporting and email process daily for successful completion.

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT – CONTINUED

Finding 2012-2

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

CFDA: 84.063 and 84.268

Federal Award Year: 2011-2012

Federal Agency: U.S. Department of Education

Pass-through Entity: N/A

Type of Finding: The College applied financial aid awards to ineligible students

Criteria:

- Before authorizing federal financial aid funds (grants or loans) for disbursement, the College must determine and document that a student remains eligible to receive financial aid.
- A student may not receive federal financial aid funds (grants or loans) for concurrent enrollment at more than one institution.

Condition and Context: During the prior year we reported a finding whereby award adjustments, which included both Pell adjustments and Loan adjustments, were applied to the student's accounts after tuition and fees were assessed and credit balances were disbursed to the students. HCCS's process during that time period was to apply the financial aid to the student's account based on anticipated award, which is prior to requesting funds from the Department of Education. Due to the continued increase in the number of students applying and receiving financial aid awards, HCCS experienced delays in performing timely reconciliations to ensure student's eligibility was verified prior to disbursement to student's account. In addition, components of the financial aid process were not fully automated which would enable HCCS to identify students who have been reported as Pell Grant recipients by multiple institutions.

Although one of the corrective actions noted in the prior year finding was not implemented during fiscal year 2012, HCCS has started to implement the following corrective actions beginning in the Fall 2012 semester:

- Automating the Pell Grant awarding and disbursement process to ensure that funds are not refunded until a review and recalculation is performed to ensure continued eligibility.

Cause: The Financial Aid office did not adequately monitor compliance before disbursing federal student aid to students.

Effect: Disbursements of financial aid were funded by the College in anticipation of receipt of financial aid. As a result of the findings noted, students may owe the College amounts which cannot be requested from the Department of Education or other financial aid or grant resources.

Questioned Costs: No amounts are due to the Department of Education

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT – CONTINUED

Finding 2012-2

Recommendations: We recommend the Financial Aid office continue to develop automated processes.

Views of Responsible Officials and Planned Corrective Actions:

Since the 2011-2012 aid year was already in progress, it was not possible to make the necessary changes to automate the PELL Grant disbursement process without incurring risk that would negatively impact student awards. Therefore it was implemented in aid year 2012 – 2013. Currently, PELL is being repackaged on a daily basis. The process looks for enrollment changes and DOE changes and will adjust the student's award based on those modifications.

In addition, the financial aid office has taken further measures to automate the student awarding process and the student communications process.

- Repackaging of awards
- PeopleSoft 3C's (comments, communications, checklists)
- Loan holds

We have engaged consulting services to further improve user and student experiences with the financial aid application.

SCHEDULE OF PRIOR YEAR FINDINGS

Finding 2011-1

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

CFDA: 84.063 and 84.268

Federal Award Year: 2010-2011

Federal Agency: U.S. Department of Education

Pass-through Entity: N/A

Type of Finding: The College applied financial aid awards to ineligible students

Criteria:

- Before authorizing federal financial aid funds (grants or loans) for disbursement, the College must determine and document that a student remains eligible to receive financial aid.
- A student may not receive federal financial aid funds (grants or loans) for concurrent enrollment at more than one institution.

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2012

SCHEDULE OF PRIOR YEAR FINDINGS – CONTINUED

Condition and Context: A population of 1,439 students had financial aid award adjustments posted to their accounts due to incorrect financial aid processing. The award adjustments, which included both Pell adjustments and Loan adjustments, were applied to the student's accounts after tuition and fees were assessed and credit balances were disbursed to the students. The College's Internal Audit department selected a sample of 40 students from this identified population of which 39 of 40 noted an incorrect application of financial aid as the reason for the award adjustment.

The College's process during this time period was to apply the financial aid to the student's account based on anticipated award, which is prior to requesting funds from the Department of Education. The continued increase in number of students applying and receiving financial aid awards resulted in delays in reconciliations to ensure student's eligibility was verified prior to disbursement to student's account.

Components of the financial aid process were not fully automated which would identify students who have been reported as Pell Grant recipients by multiple institutions.

Cause: The Financial Aid office did not adequately monitor compliance before disbursing federal student aid to students.

Effect: Disbursements of financial aid were funded by the College in anticipation of receipt of financial aid. As a result of the findings noted, students may owe the College amounts which cannot be requested from the Department of Education or other financial aid or grant resources.

Questioned Costs: No amounts are due to the Department of Education

Recommendations: We recommend the Financial Aid office revise its policy of disbursing financial aid to students account until after enrollment is verified and financial aid eligibility is confirmed. The College's systems should be reviewed to determine additional areas that can be automated to minimize the need for manual reconciliations.

Current Status: During fiscal year 2012, HCCS has taken the following corrective to ensure compliance with applying financial aid awards to eligible students:

- The financial aid office has automated NSLDS Transfer Monitoring and is now fully functional. Students who are enrolled at two institutions will have a hold placed on their accounts and no disbursements will be made.
- The financial aid office has automated the monitoring of Loan Aggregates to ensure that students do not over-borrow. Students in danger of over-borrowing with ISIR messages receive a hold that will prevent disbursement until manually reviewed with NSLDS.
- Delayed Pell Grant disbursement process to ensure that funds are not disbursed until a review and recalculation is performed to ensure continue eligibility.
- Financial aid will conduct periodic reviews with student financials and review outstanding accounts receivables.