



Houston Community College

Financial Statements and Single Audit Reports

August 31, 2011 and 2010



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, 2011

BOARD OF TRUSTEES

OFFICERS OF THE BOARD OF TRUSTEES

| | |
|----------------------|-----------------|
| Richard M. Schechter | Chairman |
| Mary Ann Perez | Vice Chairwoman |
| Eva L. Loredó | Secretary |

MEMBERS OF THE BOARD OF TRUSTEES

**Term Expires
December 31,**

| | | |
|-------------------------|----------------|------|
| Christopher W. Oliver | Houston, Texas | 2011 |
| Richard M. Schechter | Houston, Texas | 2011 |
| Michael P. Williams | Houston, Texas | 2011 |
| Bruce A. Austin | Houston, Texas | 2013 |
| Yolanda Navarro Flores | Houston, Texas | 2013 |
| Neeta Sane | Houston, Texas | 2013 |
| Eva L. Loredó | Houston, Texas | 2015 |
| Sandra "Sandie" Mullins | Houston, Texas | 2015 |
| Mary Ann Perez | Houston, Texas | 2015 |

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 |
| Mr. Willie Williams, Jr. | Chief Human Resources Officer |
| Irene Porcarello, Ed.D. | President, Southeast College |
| William Harmon, Ph.D. | President, Central College |
| Betty Young, Ed.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, Southeast College |
| Winston Dahse, MBA | Chief Administration Officer |
| Daniel Seymour, Ph.D. | Vice Chancellor, Planning and Institutional Effectiveness |
| Diana Pino, Ph.D. | Vice Chancellor, Student Services |
| 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, 2011 and 2010, 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, 2011 and 2010, 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 10, 2011 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 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 52 to 55 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.

Gainer Donnelly & Desroches LLP

November 10, 2011

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, 2011 and 2010. 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 2011, the System continued its efforts toward stabilization of financial resources and growth in enrollment. 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 three-year strategic plan that enumerated the series of six broad goals listed below. These goals have been approved by the Board of Trustees for 2008-2011 and implemented as part of the System's strategy and focus on student success.

Goal 1: Effective Leadership

Effective leadership is foundational to enacting the System's institutional values, fulfilling their mission, and realizing their vision. The System's intention is to ensure that HCC's practices are executed in a way that is consistent with the values and increasing diversity of the institution. The System will empower diverse teams and individuals to achieve effective leadership by nurturing healthy behaviors that promote sustainable value to the community at large.

Goal 2: Student Success

Helping students achieve their fullest potential requires an institution's commitment to support them in reaching their educational and career goals. HCC, an *Achieving the Dream* college, will continue to invest significant time and resources toward improving student learning. Students will progress through their education, career and personal goals as the System provides the support leading to student success.

Goal 3: Resource Development and Enhancement

Resources are basic to the effective functioning of the institution's operation. The System must confront challenges created where resources shrink yet expectations increase. Thus, developing existing resources requires good judgment. Enhancing resources by securing new revenue streams is essential to support the System's mission, vision and goals. State and Federal grants, corporate giving, and philanthropic support will increase the ability to provide high-quality, affordable education. Through deliberate, disciplined and transparent means, resources will be allocated strategically, prudently and equitably.

Goal 4: Global Perspective

Having a global perspective involves considering and supporting a broad range of ideas and best practices when making decisions. This commitment to a broader context is demonstrated when many points-of-view from diverse communities are welcomed and honored inside and outside of the System. Building and leveraging diverse networks and partnerships advances the institution's global perspective as it anticipates its future.

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

Financial Highlights – Continued

Goal 5: Effective Communication

Open and transparent communication across physical and virtual boundaries ensures that all members of the System's family can be well-informed and current on key challenges and opportunities facing the institution. The volume, quality and delivery mechanisms for communication will provide employees the information they need to confidently and effectively fulfill their responsibilities.

Goal 6: Accountability and Strategic Decision-making

Clear definitions of responsibilities and expectations for all employees support the importance of accountability throughout the institution. Along with these is the recognition that obvious and consistent consequences and acknowledgment of achievements improve performance. Through timely, logical, deliberate and transparent processes, the System establishes and honors honest evaluation and both internal and external accountability. The degree to which decision-making is strategic derives from the degree to which accountability is manifest, responsibilities are aligned, and evidence-based choices are linked to the System's mission, vision and goals.

Over the last few years, HCC has been proactive in implementing significant cost containment and saving efforts in anticipation of the State budget cuts, and is one of the most efficient producers of learning in higher education. The institution has been extremely entrepreneurial in identifying ways to generate new revenue streams.

The institution has transformed many of the systems and processes throughout the System. A few examples include:

- HCC passed two annexation elections, which now enable the System to bring high quality, innovative education to two more communities, while bringing \$12 million in new resources to the college each year.
- For the first time in the institution's 40 year history, HCC has completed a Master Plan, including a Facilities Master Plan, and itemized all deferred maintenance.
- Private fundraising has increased to \$5.8 million in 2011.
- New grant awards increased to \$23.3 million in fiscal year 2010. HCC's total grant portfolio for fiscal year 2011 currently stands at \$51 million, an indication of the continuing rise in value of its efforts and ability to be creative and competitive. These are where resources will enable the college to operate at the margins of innovation and collaboration.
- For the third year, the Chancellor's Innovation Fund Awards have sought out new ideas within the college to invest in new ways to teach and learn as HCC advances in effectiveness as an institution that leads rather than follows. Two key themes emerged among the four funded projects: (1) How to make health care more accessible and (2) How to address the shortage of students engaged in STEM (Science, Technology, Engineering and Mathematics) related majors. These are crucial issues that must be resolved in order to maintain and increase the country's standard of living for future generations.
- This year, HCC partnered with the Goldman Sachs 10,000 Small Businesses initiative, along with the City of Houston, which includes a \$25 million commitment to provide loans to help local small businesses.

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

Financial Highlights - Continued

- The System expanded international initiatives to Qatar, Saudi Arabia and Brazil, which have provided the opportunity to generate more resources to underwrite study abroad programs, faculty abroad program, as well as the ability to help reduce the bottom line by generating resources.
- The System's fund balance, as well as its cash position have never been healthier, and have been affirmed by the System's strong AA+ Bond Rating. This rating was earned last year and reaffirmed this year. This accomplishment is the result of smart decisions and strong leadership that continue to be acknowledged by external agencies.
- The Board of Trustees recently raised the System's fund balance limit, demonstrating their trust in the System's financial stability. In August 2010, the System's cash balance was \$74.4 million, and in August 2011, the cash balance had increased to \$76 million.
- State funding cuts, in fiscal year 2011 have required significant changes to the System's overall operations and budget:
 - The State funding cuts amounted to a \$30 million shortfall to HCC, and in order to close this gap, the entire college made adjustments, sharing the pain while continuing to provide services to students without reducing classes or furloughing staff or eliminating positions.
 - A Budget Task Force was formed, a representative group of college stakeholders who recommended a series of ideas to do more with less. A combination of cost cutting and revenue generating efforts was essential to the effort. However, the Board of Trustee's courageous leadership in raising tuition and fees was also a critical piece of the solution. The third component was a very modest increase in the property tax rate, having the effect of increasing for the entire year in a home valued at \$100,000, an increase of \$5.00.
- Through institutional reorganizations, HCC has transformed to become more effective and efficient than the System has ever been. Some of these cost measures included:
 - Reorganizing the department chair structure,
 - Revitalizing program committees,
 - Moving faculty to 10.5 month contracts,
 - Chilling unfilled, funded vacancies for at least six months,
 - Centralizing library services,
 - "Saving it forward" by deferring purchases voluntarily,
 - And discontinuing certain employee benefits.

All of these action steps are designed to aid the System in realizing a bold new 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.

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 will therefore build on the work done previously, by linking goals and objectives directly to budgets.

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

Financial Highlights - Continued

Fiscal Planning and Budget - Continued

As part of the process, college/unit 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.

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
(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 2011, 2010 and 2009.

| | 2011 | 2010 | 2009 | Change | |
|--------------------------|-------------------------|-----------------------|-----------------------|----------------------|----------------------|
| | | | | 2010 to 2011 | 2009 to 2010 |
| ASSETS: | | | | | |
| Other Assets | \$ 313,162,868 | \$ 316,985,213 | \$ 268,684,993 | \$ (3,822,345) | \$ 48,300,220 |
| Capital Assets | 696,519,999 | 665,669,143 | 617,394,388 | 30,850,856 | 48,274,755 |
| TOTAL ASSETS | \$ 1,009,682,867 | \$ 982,654,356 | \$ 886,079,381 | \$ 27,028,511 | \$ 96,574,975 |
| LIABILITIES: | | | | | |
| Current Liabilities | \$ 123,995,933 | \$ 121,797,866 | \$ 104,669,477 | \$ 2,198,067 | \$ 17,128,389 |
| Noncurrent Liabilities | 603,262,244 | 593,311,795 | 520,976,690 | 9,950,449 | 72,335,105 |
| TOTAL LIABILITIES | \$ 727,258,177 | \$ 715,109,661 | \$ 625,646,167 | \$ 12,148,516 | \$ 89,463,494 |
| NET ASSETS: | | | | | |
| Investment in Plant, Net | 207,976,763 | 197,012,726 | 197,253,199 | 10,964,037 | (240,473) |
| Restricted-Expendable | 488,477 | 449,237 | 449,237 | 39,240 | - |
| Unrestricted | 73,959,450 | 70,082,732 | 62,730,778 | 3,876,718 | 7,351,954 |
| TOTAL NET ASSETS | \$ 282,424,690 | \$ 267,544,695 | \$ 260,433,214 | \$ 14,879,995 | \$ 7,111,481 |

Assets

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 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.

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

Statement of Net Assets - Continued

Assets - Continued

Fiscal Year 2010:

In comparing fiscal year 2010 to fiscal year 2009, there was an increase of \$50.7 million in cash and cash equivalents, short-term investments, and long-term investments. This increase is due mainly due to investments resulting from the issuance of the Maintenance Tax Notes, Series 2010 of \$52.5 million, the issuance of Maintenance Tax Notes, Series 2009 of \$14.3 million, and the issuance of Senior Lien Revenue Bonds, Series 2010 of \$28.9 million, net of \$41.5 million spent on capital assets.

Overall, returns on investments decreased by 1.08% in fiscal year 2010 due to adverse market conditions and the economy. The investment portfolio is highly liquid with 98% of the assets invested in United States treasuries, 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 2011:

Overall liabilities increased by approximately \$12.1 million from fiscal 2010 to fiscal 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 were made 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.

Fiscal Year 2010:

Overall liabilities increased, exceeding premiums by approximately \$86.1 million from fiscal year 2009 to fiscal year 2010. Notes payable increased by \$63.7 million due to the issuance of the Maintenance Tax Notes, Series 2010 of \$47.645 million issued on July 29, 2010 and the issuance of Maintenance Tax Notes, Series 2009 of \$13.8 million on September 1, 2009. Revenue bonds increased by approximately \$14.7 million due to the issuance of Senior Lien Revenue Bonds, Series 2010 on July 29, 2010 of \$27.2 million, net of principal payments of \$14.2 million. General obligation bond payments of \$4.9 million were made during fiscal 2010. Capital lease obligations decreased by \$2.6 million due to principal payments. There was an increase in accounts payable of \$5 million and an increase in accrued liabilities of \$3.2 million, of which \$.6 million was attributable to additional interest on new bonds and maintenance tax notes. Unearned revenues increased by \$6.8 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

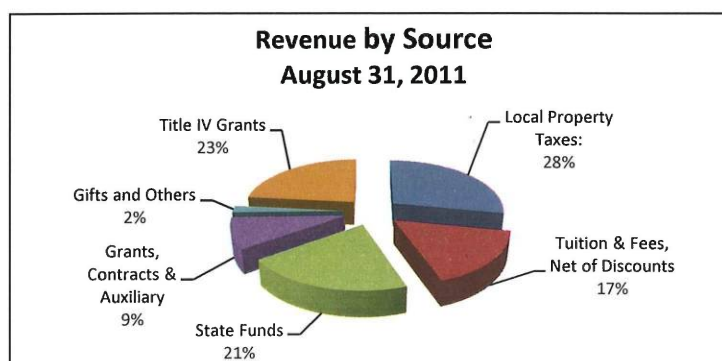
The Statement of Revenues, Expenses and Changes in Net Assets depicts the operating results of the System, as well as the non-operating revenues and expenses. Ad valorem taxes and State of Texas appropriations, while budgeted for operations, are classified as non-operating revenues according to accounting 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.

| | 2011 | 2010 | 2009 | Change | |
|---------------------------|----------------|---------------|---------------|--------------|--------------|
| | | | | 2010 to 2011 | 2009 to 2010 |
| Operating Revenues | \$ 106,884,254 | \$ 99,231,149 | \$ 90,770,009 | \$ 7,653,105 | \$ 8,461,140 |
| Operating Expenses | 357,021,152 | 342,882,674 | 288,375,601 | 14,138,478 | 54,507,073 |
| Operating Loss | (250,136,898) | (243,651,525) | (197,605,592) | (6,485,373) | (46,045,933) |
| Nonoperating Revenue, Net | 265,016,893 | 250,763,006 | 205,171,881 | 14,253,887 | 45,591,125 |
| Increase in Net Assets | \$ 14,879,995 | \$ 7,111,481 | \$ 7,566,289 | \$ 7,768,514 | \$ (454,808) |

Revenues

Operating revenues increased 7.7% in fiscal year 2011 as compared to fiscal year 2010 namely due to 1) an increase in students enrollment, 2) increases in tuition installment fees, and 3) an increase in out-of-district and out-of-state tuition and general fees. Nonoperating 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.

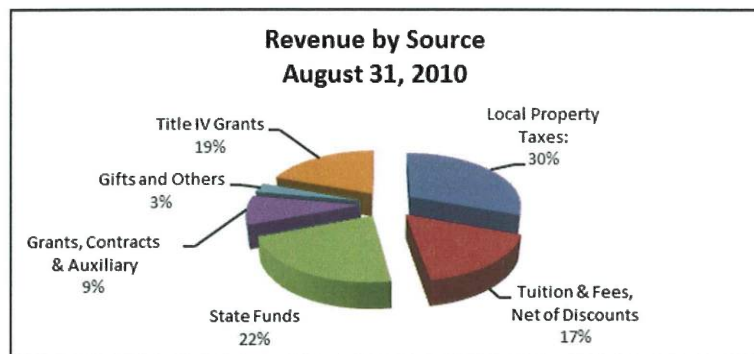
Operating revenues increased 9.6% in 2010 as compared to 2009 namely due to increases in tuition and fees as a result of increases in enrollment. Nonoperating revenues increased by 23.7% over the previous year due to increases in Pell grants. There was a \$3.6 million decrease in investment income in fiscal 2010 related to a 1.08% decline in interest rates. Also, there was a \$6.9 million decrease in investment income in fiscal 2009 related to a \$75.9 million decrease in investments and a 1.8% 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

| | 2011 | 2010 | 2009 | Change 2010 to 2011 | 2009 to 2010 |
|-------------------------------------|-----------------------|-----------------------|-----------------------|------------------------|----------------------|
| OPERATING REVENUES: | | | | | |
| Tuition & Fees, Net of Discounts | \$ 67,907,897 | \$ 65,655,752 | \$ 64,689,510 | \$ 2,252,145 | \$ 966,242 |
| Grants, Contracts & Auxiliary | | | | | |
| Federal | 16,064,089 | 16,243,394 | 12,480,512 | (179,305) | 3,762,882 |
| State | 6,448,589 | 5,157,058 | 3,695,688 | 1,291,531 | 1,461,370 |
| Local, Private & Non-Governmental | 1,927,765 | 1,681,712 | 1,194,575 | 246,053 | 487,137 |
| Auxiliary | 14,535,914 | 10,493,233 | 8,709,724 | 4,042,681 | 1,783,509 |
| Total Grants, Contracts & Auxiliary | 38,976,357 | 33,575,397 | 26,080,499 | 5,400,960 | 7,494,898 |
| TOTAL OPERATING REVENUES | 106,884,254 | 99,231,149 | 90,770,009 | 7,653,105 | 8,461,140 |
| NONOPERATING REVENUES: | | | | | |
| State Funds: | | | | | |
| General Support | 65,788,668 | 65,720,688 | 63,627,432 | 67,980 | 2,093,256 |
| Staff Benefits and Other | 19,049,647 | 18,944,721 | 18,050,404 | 104,926 | 894,317 |
| Total State Funds | 84,838,315 | 84,665,409 | 81,677,836 | 172,906 | 2,987,573 |
| Local Property Taxes: | | | | | |
| Maintenance and Operations | 94,083,625 | 102,228,627 | 90,149,194 | (8,145,002) | 12,079,433 |
| Debt Service | 21,736,440 | 17,045,182 | 17,597,293 | 4,691,258 | (552,111) |
| Total Local Property Taxes | 115,820,065 | 119,273,809 | 107,746,487 | (3,453,744) | 11,527,322 |
| Title IV Grants | 96,171,936 | 75,639,561 | 41,239,311 | 20,532,375 | 34,400,250 |
| Gifts and Others: | | | | | |
| Gifts | 1,573,601 | 1,555,967 | 1,115,895 | 17,634 | 440,072 |
| Other | 6,872,362 | 5,844,732 | 8,000,228 | 1,027,630 | (2,155,496) |
| Total Gifts and Other | 8,445,963 | 7,400,699 | 9,116,123 | 1,045,264 | (1,715,424) |
| TOTAL NONOPERATING REVENUES | 305,276,279 | 286,979,478 | 239,779,757 | 18,296,801 | 47,199,721 |
| TOTAL REVENUES | \$ 412,160,533 | \$ 386,210,627 | \$ 330,549,766 | \$ 25,949,906 | \$ 55,660,861 |

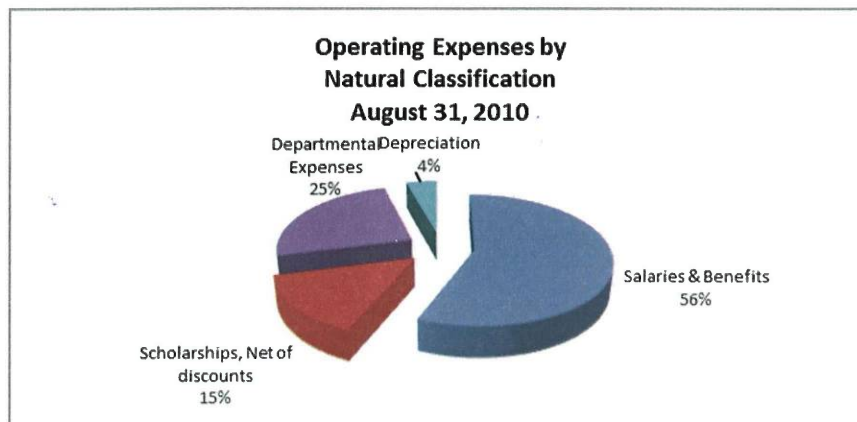
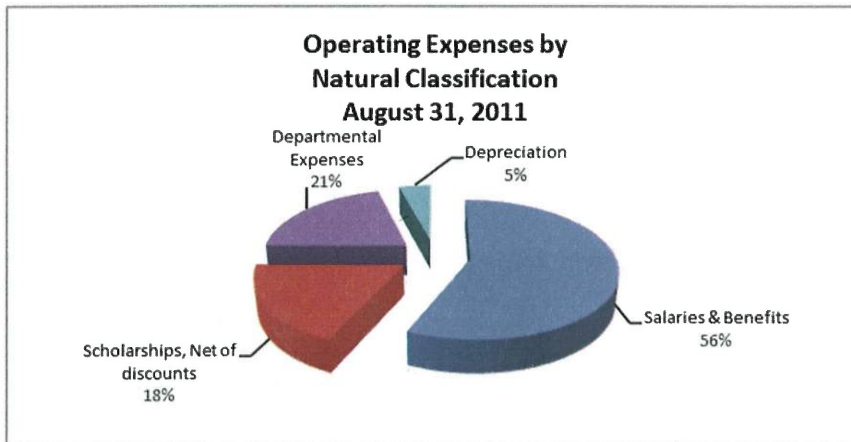
HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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 | |
|--------------------------------|--|------------|-----------------------|------------|-----------------------|------------|----------------------|----------------------|
| | 2011 | % of Total | 2010 | % of Total | 2009 | % of Total | 2010 to 2011 | 2009 to 2010 |
| Salaries and Benefits | \$ 201,216,899 | 56.4% | \$ 193,207,277 | 56.3% | \$ 175,359,186 | 60.8% | \$ 8,009,622 | \$ 17,848,091 |
| Scholarships, Net of Discounts | 65,346,087 | 18.2% | 49,920,320 | 14.6% | 24,796,647 | 8.6% | 15,425,767 | 25,123,673 |
| Departmental Expenses | 73,390,700 | 20.6% | 84,922,330 | 24.8% | 77,121,682 | 26.7% | (11,531,630) | 7,800,648 |
| Depreciation | 17,067,466 | 4.8% | 14,832,747 | 4.3% | 11,098,086 | 3.9% | 2,234,719 | 3,734,661 |
| | <u>\$ 357,021,152</u> | 100% | <u>\$ 342,882,674</u> | 100% | <u>\$ 288,375,601</u> | 100% | <u>\$ 14,138,478</u> | <u>\$ 54,507,073</u> |



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

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

| | Operating Expenses by Functional Classification | | | | | | Change | |
|------------------------|---|-------------|-----------------------|-------------|-----------------------|-------------|----------------------|----------------------|
| | 2011 | | 2010 | | 2009 | | 2010 to 2011 | 2009 to 2010 |
| | | % of Total | | % of Total | | % of Total | | |
| Instructional | \$ 112,617,878 | 31.6% | \$ 113,319,505 | 33.1% | \$ 105,158,760 | 36.4% | \$ (701,627) | \$ 8,160,745 |
| Public Service | 11,766,675 | 3.3% | 11,477,787 | 3.3% | 9,988,399 | 3.5% | 288,888 | 1,489,388 |
| Academic Support | 19,616,391 | 5.5% | 23,449,474 | 6.8% | 20,632,551 | 7.2% | (3,833,083) | 2,816,923 |
| Student Services | 31,901,438 | 8.9% | 30,902,922 | 9.0% | 27,473,142 | 9.5% | 998,516 | 3,429,780 |
| Institutional Support | 55,747,070 | 15.6% | 53,302,151 | 15.0% | 47,880,656 | 16.6% | 2,444,919 | 5,421,495 |
| Operation Management | 28,350,817 | 7.9% | 35,937,690 | 10.5% | 32,628,588 | 11.3% | (7,586,873) | 3,309,102 |
| Scholarship/Fellowship | 65,346,087 | 18.3% | 49,920,320 | 14.6% | 24,796,647 | 8.6% | 15,425,767 | 25,123,673 |
| Depreciation | 17,067,466 | 4.8% | 14,832,747 | 4.3% | 11,098,086 | 3.9% | 2,234,719 | 3,734,661 |
| Auxiliary Enterprises | 14,607,330 | 4.1% | 9,740,078 | 2.8% | 8,718,772 | 3.0% | 4,867,252 | 1,021,306 |
| Total Expenses | \$ 357,021,152 | 100% | \$ 342,882,674 | 100% | \$ 288,375,601 | 100% | \$ 14,138,478 | \$ 54,507,073 |

Operating expenses increased in fiscal year 2011 by \$14.1 million 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.

Operating expenses increased in fiscal year 2010 by \$54.5 million or 18.4% compared to fiscal year 2009, namely due to the following:

- Increase in faculty and staff salaries expense due to across the board salary increases of 4.2% and HCC's on-going review of salaries.
- Increased use of the Auxiliary funds is reflected in their expenditures..
- Continuing increase in Scholarships of \$25.1 million is due to increases in Title IV Pell.

Capital Assets and Debt Administration

Fiscal Year 2011:

There was a significant increase in net capital assets of approximately \$30.8 million from fiscal 2010 to fiscal 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.

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

Capital Assets and Debt Administration – Continued

Fiscal Year 2010:

There was a significant increase in net capital assets of approximately \$48.3 million from fiscal 2009 to fiscal 2010. This increase was due primarily to a \$32.3 million net decrease in construction in progress, an increase in land of \$1 million, and increases in buildings, real estate improvements and equipment of \$79.6 million (net of accumulated depreciation) which were funded from various bond proceeds. See Footnote 6 of the financial statements.

| | 2011 | 2010 | 2009 | Change | |
|---|-----------------------|-----------------------|-----------------------|----------------------|----------------------|
| | | | | 2010 to 2011 | 2009 to 2010 |
| CAPITAL ASSETS, NET | | | | | |
| Land | \$ 99,081,861 | \$ 94,088,238 | \$ 93,047,380 | \$ 4,993,623 | \$ 1,040,858 |
| Construction in Progress | 59,856,934 | 99,508,263 | 132,308,069 | (39,651,329) | (32,799,806) |
| Buildings | 449,245,299 | 400,394,179 | 347,274,399 | 48,851,120 | 53,119,780 |
| Other Real Estate Improvements | 47,794,801 | 41,790,892 | 18,183,587 | 6,003,909 | 23,607,305 |
| Library Books | 3,882,640 | 3,982,726 | 4,034,591 | (100,086) | (51,865) |
| Furniture, Machinery, Vehicles and Other Equipment | 21,681,374 | 20,824,210 | 18,700,762 | 857,164 | 2,123,448 |
| Telecommunications and Peripheral Equipment | 14,977,090 | 5,080,635 | 3,845,600 | 9,896,455 | 1,235,035 |
| TOTAL CAPITAL ASSETS, NET | \$ 696,519,999 | \$ 665,669,143 | \$ 617,394,388 | \$ 30,850,856 | \$ 48,274,755 |
| OUTSTANDING DEBT: | | | | | |
| Leases | \$ 1,304,824 | \$ 3,914,472 | \$ 6,524,120 | \$ (2,609,648) | \$ (2,609,648) |
| Notes Payable | 170,456,243 | 131,354,161 | 67,671,249 | 39,102,082 | 63,682,912 |
| Revenue Bonds | 225,485,223 | 236,855,293 | 215,588,775 | (11,370,070) | 21,266,518 |
| PFC Lease Revenue Bonds | 115,601,108 | 119,307,667 | 122,879,227 | (3,706,559) | (3,571,560) |
| General Obligation Bonds | 122,965,814 | 128,335,993 | 133,079,110 | (5,370,179) | (4,743,117) |
| TOTAL OUTSTANDING DEBT | \$ 635,813,212 | \$ 619,767,586 | \$ 545,742,481 | \$ 16,045,626 | \$ 74,025,105 |

Fiscal Year 2011:

Leases decreased by \$2,609,647 from fiscal year 2010 to fiscal 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.

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

Capital Assets and Debt Administration – Continued

Fiscal Year 2010:

Leases decreased by \$2,609,647 from fiscal year 2009 to fiscal year 2010 due to principal payments.

Bonds and notes payable increased as follows:

- Increase of \$66,821,923 due to the issuance of Maintenance Tax Notes.
- Decrease of \$3,139,011 for principal payments on Maintenance Tax Notes.
- Increase of \$29,303,536 due to the issuance of Senior Lien Revenue Bonds.
- Decrease of \$11,413,938 due to principal payments on Revenue Bonds.
- PFC Lease Revenue Bonds decreased by \$3,571,560 due to principal payments.
- General Obligation Bonds decreased by \$5,188,667 due to principal payments.

Future Outlook

From modest beginnings in 1971 as one college holding classes in Houston Independent School District's San Jacinto High School building, HCC has grown to a System that includes one district, 6 colleges, 22 locations, 54 facilities and almost 80,000 students. HCC is proud of where it sits from a financial perspective – and that is an accomplishment, especially in these times.

As an educational institution, HCC has been fortunate to have escaped the most severe impacts of the economic crisis compared with other community colleges across the country. For four years the college has initiated efforts to manage and use its resources more efficiently in anticipation of the fiscal challenges now faced. The System's resources are healthy, but not unlimited. An issue that must continue to be addressed is—how much money will the college have to operate and how will it be earned and expended. In preparing for the fiscal challenges, HCC's strategy includes being more intentional, inclusive, and proactive in its actions to addressing the future.

Through a combination of strategies, collegial efforts, and actions by the Board of Trustees, the System has worked smartly to reduce expenditures or find new revenue to close the HCC budget shortfall without reducing classes, reducing services to students, or downsizing staff.

The new long-range strategic plan for the college is currently being developed and will speak to a level of transformation and engagement few Associate degree colleges envision. But, if the recent past is any indication, there is no goal too bold for HCC's Board of Trustees or this institution. A new strategic plan will be introduced in the New Year. To be a 21st Century College, HCC must be innovative, enterprising, and collaborative to maintain its reputation as one of the Nation's and the world's leading postsecondary institutions.

The future outlook for HCC entails doing more than just delivering on the promise of open access. HCC must devote its resources to the expectation of student success and also inspire its students.

Revenues

As of the close of the 82nd Legislature, after a special session, HCC sustained budget cuts that amounted to an estimated \$30 million shortfall. In order to close the funding gap, the entire college made adjustments, sharing the pain while continuing to provide services to students without reducing classes or furloughing staff or eliminating positions. A budget task force was formed which included a representative group of college stakeholders who recommended a series of ideas to do more with less. A combination of cost cutting and revenue generating efforts was essential.

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

Future Outlook – Continued

Appropriations:

HCC faced the following challenges:

- Base formula funding for the 2012-2013 biennium decreased 2% from the previous biennium.
- Group health insurance for community colleges decreased 39.6% from \$323.2 million in the prior biennium to \$195.3 million.
- There was no funding for enrollment growth over the past two years, sharply reducing the level of funding per student contact hour.

Tuition and Fees:

In fiscal year 2010, the Board of Trustees approved to increase out-of-district tuition and fees, and out-of-state tuition. The Board of Trustees had not increased tuition or fees for out-of district or out-of-state students in the past five years. In fiscal year 2011, the Board of Trustees approved modest increases to in-district, out-of-district, and out-of-state tuition, in-district and out-of-district fees. Although tuition and fees have increased, HCC remains competitive in its affordability by educating more students at a reduced average cost per student with far greater outcomes.

Taxation:

The Board of Trustees approved a very modest increase in the property tax rate for fiscal year 2012. The rate for 2012 was increased 5% to \$0.097222 compared with the 2011 rate of \$0.092220, having the effect of increasing for the entire year in a home valued at \$100,000, an increase of \$5.00. Also, approved was the restructuring of debt service. This will allow the System to reduce debt service expense for fiscal years 2012 and 2013; increasing revenues to operations, thereby reducing the budget deficit.

The System was able to maintain positive results in fiscal year 2011 despite decreasing funding levels and increases in operating costs. A number of significant reorganizations and transformations at the institutional level were approved in fiscal year 2011 with implementation to begin in fiscal year 2012. These have been balanced and thoughtful, driven by efforts to use resources more efficiently while maintaining or improving services to students—HCC's primary focus.

Expenses

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 will be implemented in fiscal year 2012. It entails development and implementation of the Unit Annual 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. Together, then, these two processes enable HCC's administrative and educational support services to allocate resources in such a way as to advance the mission and achieve the vision of the institution.

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

Future Outlook – Continued

Budget Task Force

HCC has been fortunate as an educational institution to have escaped the most severe impacts of the economic crisis. In an effort to be proactive, at the end of fiscal year 2010 the Chancellor created the Budget Task Force (BTF). The BTF is charged with forestalling all of the most severe impacts at HCC as it shapes a future where its students can flourish. HCC cannot continue to conduct business as usual because of the fiscal challenges facing the System due in part to reductions in State appropriations.

HCC's ultimate intention is to be flexible, nimble, and adaptive so that the System can prosper in spite of changes imposed by forces outside the System's control. HCC has continued to evolve, to be inventive, and to demonstrate the capacity for innovation and entrepreneurialism in teaching and leading. Through planning, the System can take the challenges and use them as opportunities to move to the next level.

HCC intends to reinvent itself by creating new opportunities for institutional innovation rather than just react to the challenges at hand. The BTF will continue through its efforts to evaluate major options for reducing expenditures throughout the college to improve efficiency and effectiveness.

Workforce Development

HCC is impacting the region's jobs by working with businesses to create partnerships and solutions. One of the great recent accomplishments was the initiative, *HCC Partner for Jobs*; HCC brought businesses and community organizations together to help people identify skills, training, and new jobs to reach into its communities during this difficult economic downturn. In addition, throughout its six colleges, it seeks input from community and business partners to better align educational offerings with regional need for workforce development and economic growth. 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.

Student Services

HCC serves more than 70,000 students each semester, offering associate degrees, certificates, academic preparation, workforce training, and lifelong learning opportunities that prepare people in a diverse community to compete in an increasingly technological and international society.

- As the largest community college in the state, HCC is projecting 5% increases in enrollment for the next five years.
- HCC's dual enrollment/high school students now top 7,500 (6.7%) and on-line students exceed 14,000 (22%).
- Financial Aid has helped ease the cost of attendance by increasing dramatically from \$119 million in fiscal year 2010 to \$201 million in fiscal year 2011.
- The Foundation is engaged in a \$30 million endowment campaign to fund the Opportunity 14 Scholarship in perpetuity for future generations of Houstonians; providing financial assistance for tuition, fees and books for every student who qualifies.
- The Minority Male Initiative is working to increase the graduation rates of minority males by providing a sound educational foundation supported by life skills training and development.
- In the classrooms, HCC is testing iPad technology and using e-readers instead of traditional textbooks to enhance the way students learn and change the way faculty teach.

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, which is estimated to save the System \$600,000 per year.

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, 2011 AND 2010

| ASSETS | 2011 | 2010 |
|---|-----------------------|-----------------------|
| CURRENT ASSETS: | | |
| Cash and Cash Equivalents (Note 4) | \$ 79,507,127 | \$ 73,434,508 |
| Accounts Receivable and Other Receivable, Net (Note 5) | 48,793,628 | 46,828,949 |
| Deferred Charges | 3,091,674 | 3,295,947 |
| Prepaid Expenses | <u>8,301,905</u> | <u>7,428,470</u> |
| Total Current Assets | 139,694,334 | 130,987,874 |
| NONCURRENT ASSETS: | | |
| Restricted Cash and Cash Equivalents (Note 4) | 9,800,249 | 8,771,666 |
| Deferred Charges, Net | 8,732,936 | 9,009,048 |
| Other Long-Term Investments (Note 4) | - | 3,005,963 |
| Restricted Long Term Investment (Note 4) | 154,935,349 | 165,210,662 |
| Capital Assets Net (Note 6) | <u>696,519,999</u> | <u>665,669,143</u> |
| Total Noncurrent Assets | <u>869,988,533</u> | <u>851,666,482</u> |
| TOTAL ASSETS | <u>1,009,682,867</u> | <u>982,654,356</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Accounts Payable (Note 5) | 15,769,249 | 25,335,325 |
| Accrued Liabilities | 12,974,733 | 17,863,703 |
| Compensated Absences (Note 17) | 2,013,653 | 1,360,458 |
| Funds Held for Others | 878,873 | 913,181 |
| Unearned Revenues | 59,808,017 | 49,868,968 |
| Notes Payable - Current Portion (Note 7 and 12) | 7,066,584 | 3,831,583 |
| Bonds Payable - Current Portion (Note 7 and 8) | 24,180,000 | 20,015,000 |
| Capital Lease Obligations - Current Portion (Note 7 and 11) | <u>1,304,824</u> | <u>2,609,648</u> |
| Total Current liabilities | 123,995,933 | 121,797,866 |
| NONCURRENT LIABILITIES: | | |
| Deposits | 440 | 440 |
| Notes Payable (Note 7 and 12) | 163,389,659 | 127,522,578 |
| Bonds Payable (Note 7 and 8) | 439,872,145 | 464,483,953 |
| Capital Lease Obligations (Note 7 and 11) | <u>-</u> | <u>1,304,824</u> |
| Total Noncurrent Liabilities | <u>603,262,244</u> | <u>593,311,795</u> |
| TOTAL LIABILITIES | <u>727,258,177</u> | <u>715,109,661</u> |
| COMMITMENTS AND CONTINGENCIES | | |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 207,976,763 | 197,012,726 |
| Restricted - Expendable | 488,477 | 449,237 |
| Unrestricted | <u>73,959,450</u> | <u>70,082,732</u> |
| TOTAL NET ASSETS | <u>\$ 282,424,690</u> | <u>\$ 267,544,695</u> |

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, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--|---------------------------|---------------------------|
| OPERATING REVENUES: | | |
| Tuition and Fees, Net of Discounts | \$ 67,907,897 | \$ 65,655,752 |
| Federal grants and Contracts | 16,064,089 | 16,243,394 |
| State grants and Contracts | 6,448,589 | 5,157,058 |
| Local grants and Contracts | 275,085 | 79,055 |
| Non-Governmental Grants and Contracts | 1,283,150 | 1,286,822 |
| Sales and Services of Educational Activities | 369,530 | 315,835 |
| Auxiliary Enterprises | <u>14,535,914</u> | <u>10,493,233</u> |
| Total Operating Revenues (Schedule A) | <u>106,884,254</u> | <u>99,231,149</u> |
| OPERATING EXPENSES: | | |
| Instruction | 112,617,878 | 113,319,505 |
| Public Service | 11,766,675 | 11,477,787 |
| Academic Support | 19,616,391 | 23,449,474 |
| Student Services | 31,901,438 | 30,902,922 |
| Institutional Support | 55,747,070 | 53,302,151 |
| Operations and Maintenance | 28,350,817 | 35,937,690 |
| Scholarships and Fellowships | 65,346,087 | 49,920,320 |
| Auxiliary Enterprises | 14,607,330 | 9,740,078 |
| Depreciation | <u>17,067,466</u> | <u>14,832,747</u> |
| Total Operating Expenses (Schedule B) | <u>357,021,152</u> | <u>342,882,674</u> |
| OPERATING LOSS | <u>(250,136,898)</u> | <u>(243,651,525)</u> |
| NONOPERATING REVENUES (EXPENSES): | | |
| State Appropriations | 84,838,315 | 84,665,409 |
| Maintenance Ad Valorem Taxes | 94,083,625 | 102,228,627 |
| Debt Service Ad Valorem Taxes | 21,736,440 | 17,045,182 |
| Gifts | 1,573,601 | 1,555,967 |
| Investment Income, Net | 566,945 | 900,323 |
| Interest on Capital Related Debt | (29,424,886) | (25,379,834) |
| Disaster Relief Grants | - | 1,415,592 |
| Title IV Grants | 96,171,936 | 75,639,561 |
| Nursing Shortage Reduction | 151,786 | 73,453 |
| Hurricane Ike Expenses (Net of Recoveries) | (284,103) | (561,861) |
| Other Nonoperating Revenues | 6,153,631 | 3,455,364 |
| Other Nonoperating Expenses | <u>(10,550,397)</u> | <u>(10,274,777)</u> |
| Net Nonoperating Revenues (Schedule C) | <u>265,016,893</u> | <u>250,763,006</u> |
| INCREASE IN NET ASSETS | 14,879,995 | 7,111,481 |
| NET ASSETS, BEGINNING OF YEAR | <u>267,544,695</u> | <u>260,433,214</u> |
| NET ASSETS, END OF YEAR | \$ <u>282,424,690</u> | \$ <u>267,544,695</u> |

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, 2011, AND 2010

| | 2011 | 2010 |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from Students and Other Customers | \$ 90,759,903 | \$ 76,251,292 |
| Receipts from Grants and Contracts | 35,823,240 | 24,765,375 |
| Payments to Suppliers for Goods and Services | (69,452,921) | (78,909,420) |
| Payments to or on Behalf of Employees | (201,098,510) | (191,000,542) |
| Payments for Scholarships and Fellowships | (65,905,234) | (50,518,560) |
| Other Receipts (Payments) | (226,584) | 144,736 |
| Net Cash Used in Operating Activities | <u>(210,100,106)</u> | <u>(219,267,119)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Receipts from Ad Valorem Taxes | 115,314,115 | 118,464,908 |
| Receipts from State Allocations | 84,607,584 | 84,665,408 |
| Receipts from Private Gifts | 1,573,601 | 1,267,734 |
| Received for Federal Direct Student Loans | 96,002,391 | - |
| Disbursement of Federal Direct Student Loans | (96,002,391) | - |
| Receipts from Student Organizations and Other Agency Transactions | 1,513,434 | 904,180 |
| Receipts from Title IV Grants | 87,216,720 | 78,432,770 |
| Receipts from Nursing | 176,223 | 73,453 |
| Receipts from IKE Relief | - | 1,415,592 |
| Payment Supplies/Employees for IKE Relief | - | (580,962) |
| Net Cash Provided by Noncapital Financing Activities | <u>290,401,677</u> | <u>284,643,083</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Receipts from the Issuance of Capital Debt | 79,272,235 | 96,155,555 |
| Bond Issue Cost Paid on New Capital Debt Issue | (944,115) | (1,105,827) |
| Purchases of Capital Assets | (48,363,484) | (62,984,737) |
| Payments of Expenses Relating to Capital Assets in Plant Funds | (10,190,179) | (6,284,677) |
| Payments on Capital Debt and Leases - Principal | (60,281,231) | (24,074,648) |
| Payments on Capital Debt and Leases - Interest and Fees | (29,134,653) | (25,341,125) |
| Net Cash Used in Capital and Related Financing Activities | <u>(69,641,427)</u> | <u>(23,635,459)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from Sales and Maturities of Investments | 84,080,077 | 114,031,399 |
| Interest on Investments | 570,699 | 1,377,976 |
| Purchase of Investments | (88,209,718) | (154,246,717) |
| Net Cash Used in Investing Activities | <u>(3,558,942)</u> | <u>(38,837,342)</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | 7,101,202 | 2,903,163 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>82,206,174</u> | <u>79,303,011</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 89,307,376</u> | <u>\$ 82,206,174</u> |

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

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENT OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--|-------------------------|-------------------------|
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating Loss | \$ (250,136,898) | \$ (243,651,525) |
| Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities: | | |
| Depreciation | 17,067,466 | 14,832,747 |
| Allowance for Doubtful Accounts | 1,896,576 | 76,784 |
| Changes in Assets and Liabilities | | |
| Accounts and Other Receivables, Net | (1,964,679) | (5,769,268) |
| Prepaid Expenses | (873,435) | (4,249) |
| Deferred Charges | 204,273 | (205,872) |
| Accounts Payables and Accruals | 13,801,851 | 8,573,749 |
| Unearned Revenues | 9,939,049 | 6,820,231 |
| Deposits Held for Others | (34,309) | 60,284 |
| | <u>40,036,792</u> | <u>24,384,406</u> |
| Total Adjustments | | |
| Net Cash Used in Operating Activities | \$ <u>(210,100,106)</u> | \$ <u>(219,267,119)</u> |

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, 2011 and 2010 and the cost of services provided by the System to the Foundation during the years then ended are not significant to the System. The Foundation has therefore not been included as a component unit in the financial statements of the System. 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, 2011 and 2010.

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 2010 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 Events

The System has evaluated events through the date the financial statements were available for issuance on November 10, 2011. No matters were identified affecting the accompanying financial statements and related disclosures that have not been disclosed elsewhere in these financial statements.

NOTE 3 – AUTHORIZED INVESTMENTS

The System is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (PFIA) (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than "A" by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

NOTE 4 – DEPOSITS AND INVESTMENTS

The carrying amount (book balance) of the System's demand deposits with financial institutions as of August 31, 2011 and 2010 was \$25,745,095 and \$29,529,964 and total bank balances equaled \$37,749,455 and \$46,158,149, respectively. Of the bank balances for 2011, \$250,000 is covered by FDIC, \$14,986,903 is covered by Dodd Frank Act (came into effect at December 31, 2010) and \$20,515,552 is collateralized. For 2010 \$45,908,149 were covered by collateral pledge in the System's name. Restricted long-term investments include collateralized investments of \$83,356,781 and \$47,682,555 as high yield savings with a bank as of August 31, 2011 and 2010, respectively. The collateral was held in an account of and independent third party agent.

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

| | <u>2011</u> | <u>2010</u> |
|---------------------------------------|----------------------|----------------------|
| Bank Deposits: | | |
| Demand Deposits | \$ 25,745,095 | \$ 29,529,964 |
| Cash and Cash Equivalents: | | |
| Petty Cash on Hand | 55,916 | 53,964 |
| Money Market Funds | 36,883 | 36,859 |
| High Yield Savings | 53,191,094 | 26,695,107 |
| Certificates of Deposit | 8,434,950 | 250,000 |
| TexPool | 255,485 | 24,055,748 |
| Lone Star | <u>1,587,953</u> | <u>1,584,532</u> |
| | <u>63,562,281</u> | <u>52,676,210</u> |
| Total Cash and Deposits | 89,307,376 | 82,206,174 |
| Restricted Cash and Cash Equivalents | <u>(9,800,249)</u> | <u>(8,771,666)</u> |
| Cash and Cash Equivalents (Exhibit 1) | <u>\$ 79,507,127</u> | <u>\$ 73,434,508</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:

| Type of Security | Fair Value at August 31, | |
|--|--------------------------|----------------|
| | 2011 | 2010 |
| U.S. Government Securities | \$ 5,118 | \$ 1,360,813 |
| U.S. Agency Securities | 425,426 | 3,486,951 |
| Other Restricted Investments | 154,504,805 | 163,368,861 |
| Total Investments | 154,935,349 | 168,216,625 |
| Total Cash and Deposits | 89,307,376 | 82,206,174 |
| Total Deposits and Investments | \$ 244,242,725 | \$ 250,422,799 |
| Cash and Cash Equivalents (Exhibit 1) | \$ 79,507,127 | \$ 73,434,508 |
| Restricted Cash and Cash Equivalents (Exhibit 1) | 9,800,249 | 8,771,666 |
| Restricted Long-Term Investments (Exhibit 1) | 154,935,349 | 165,210,662 |
| Other Long-Term Investments (Exhibit 1) | - | 3,005,963 |
| Total Deposits and Investments | \$ 244,242,725 | \$ 250,422,799 |

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

| Investment Type | Fair Value | Weighted Average Maturity(Years) |
|-------------------------------------|----------------|-------------------------------------|
| U.S. Agency Securities | \$ 425,426 | 0.08 |
| Investment Pools | 52,814,089 | 0.00 |
| Certificates of Deposit | 15,250,000 | 0.01 |
| Cash and Money Market Funds | 160,000,417 | 0.00 |
| Total Fair Value | \$ 228,489,932 | |
| Portfolio Weighted Average Maturity | | 0.00 |

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, 2011 is as follows:

| | Credit Rating | Credit Exposure |
|--|------------------|--------------------|
| Fannie Mae (Federal National Mortgage Association) | AA+ | 0% |
| Freddie Mac (Federal Home Loan Mortgage Corporation) | AA+ | 0% |
| FHLB (Federal Home Loan Bank) | AA+ | 0% |
| FFCB (Federal Farm Credit Bank) | AA+ | 0% |

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. Lone Star Investment Pool is rated AAAM by Standards and Poor’s.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

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

| | <u>2011</u> | <u>2010</u> |
|--|--------------------------|--------------------------|
| Accounts Receivable (Net of Allowance for Doubtful Accounts of \$287,236 for 2011 and \$617,544 for 2010) | \$ 4,871,652 | \$ 5,937,260 |
| Student Receivables (Net of Allowance for Doubtful Accounts of \$6,196,850 for 2011 and \$3,974,096 for 2010) | 35,976,131 | 14,912,314 |
| Taxes Receivable (Net of Allowance for Doubtful Accounts of \$5,542,091 for 2011 and 2010) | 3,097,795 | 3,409,828 |
| Federal Receivables | 3,822,885 | 21,977,188 |
| Other Receivables | <u>1,025,165</u> | <u>592,359</u> |
| Total Receivables | <u>\$ 48,793,628</u> | <u>\$ 46,828,949</u> |

Taxes receivable at August 31, 2011 and 2010 includes an accrual of \$564,628 and \$1,086,009, 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, 2011 and 2010 were as follows:

| | <u>2011</u> | <u>2010</u> |
|-------------------------------|--------------------------|--------------------------|
| Vendors Payable | \$ 11,194,461 | \$ 5,369,625 |
| Salaries and Benefits Payable | 1,512,729 | 1,466,260 |
| Student Payables | 1,705,019 | 17,061,640 |
| Other Payables | <u>1,357,040</u> | <u>1,437,800</u> |
| Total Payables | <u>\$ 15,769,249</u> | <u>\$ 25,335,325</u> |

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS

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 | 193,596,501 | 6,489,544 | 41,147,250 | 158,938,795 |
| 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 Peripheral Equipment | 27,793,244 | 11,149,956 | 666,716 | 38,276,484 |
| Subtotal | 602,852,955 | 82,667,365 | 3,288,676 | 682,231,644 |
| 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 Peripheral Equipment | 22,712,609 | 1,256,849 | 670,064 | 23,299,394 |
| Subtotal | 130,780,313 | 17,067,466 | 3,197,339 | 144,650,440 |
| Net Capital Assets Subject to Depreciation | 472,072,642 | 65,599,899 | 91,337 | 537,581,204 |
| Net Capital Assets | \$ 665,669,143 | \$ 72,089,443 | \$ 41,238,587 | \$ 696,519,999 |

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS – CONTINUED

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

| | Balance August 31, 2009 | Increases | Decreases | Balance August 31, 2010 |
|--|-------------------------------|----------------------|----------------------|-------------------------------|
| Not Depreciated: | | | | |
| Land | \$ 93,047,380 | \$ 1,040,858 | \$ - | \$ 94,088,238 |
| Construction in Process | 132,308,069 | 755,623 | 33,555,429 | 99,508,263 |
| Total Not Depreciated | 225,355,449 | 1,796,481 | 33,555,429 | 193,596,501 |
| Capital Assets Subject to Depreciation: | | | | |
| Buildings | 389,551,048 | 61,001,282 | - | 450,552,330 |
| Other Real Estate Improvements | 21,924,268 | 24,678,471 | - | 46,602,739 |
| Total Building and Other Real Estate Improvements | 411,475,316 | 85,679,753 | - | 497,155,069 |
| Library Books | 15,694,889 | 431,044 | - | 16,125,933 |
| Furniture, Machinery, Vehicles and Other Equipment | 55,009,560 | 7,191,407 | 422,258 | 61,778,709 |
| Telecommunications and Peripheral Equipment | 26,227,093 | 3,640,901 | 2,074,750 | 27,793,244 |
| Subtotal | 508,406,858 | 96,943,105 | 2,497,008 | 602,852,955 |
| Accumulated Depreciation: | | | | |
| Buildings | 42,276,649 | 7,913,234 | 31,732 | 50,158,151 |
| Other Real Estate Improvements | 3,740,681 | 1,071,166 | - | 4,811,847 |
| Total Building and Other Real Estate Improvements | 46,017,330 | 8,984,400 | 31,732 | 54,969,998 |
| Library Books | 11,660,298 | 532,582 | 49,673 | 12,143,207 |
| Furniture, Machinery, Vehicles and Other Equipment | 36,308,798 | 4,884,268 | 238,567 | 40,954,499 |
| Telecommunications and Peripheral Equipment | 22,381,493 | 431,498 | 100,382 | 22,712,609 |
| Subtotal | 116,367,919 | 14,832,748 | 420,354 | 130,780,313 |
| Net Capital Assets Subject to Depreciation | 392,038,939 | 82,110,357 | 2,076,654 | 472,072,642 |
| Net Capital Assets | \$ 617,394,388 | \$ 83,906,838 | \$ 35,632,083 | \$ 665,669,143 |

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liability activity for the years ended August 31, 2011 and 2010 was as follows:

| | 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 | 43,315,430 | (4,213,348) | 170,456,243 | 7,066,584 | 163,389,659 |
| Bonds: | | | | | | |
| Revenue Bonds | 236,855,291 | 36,314,850 | (47,684,918) | 225,485,223 | 12,715,000 | 212,770,223 |
| PFC Lease Revenue | 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) | - | - | - | - | - | - |
| Total Noncurrent Liabilities | \$ 619,767,586 | \$ 79,630,280 | \$ (63,584,654) | \$ 635,813,212 | \$ 32,551,408 | \$ 603,261,804 |

| | Balance as of September 1, 2009 | Additions | Reductions | Balance as of August 31, 2010 | Current Portion | Noncurrent Portion |
|--------------------------------|------------------------------------|---------------|-----------------|----------------------------------|--------------------|-----------------------|
| Leases | \$ 6,524,120 | \$ - | \$ (2,609,648) | \$ 3,914,472 | \$ 2,609,648 | \$ 1,304,824 |
| Long-Term Notes Payable | 67,671,249 | 66,821,923 | (3,139,011) | 131,354,161 | 3,831,583 | 127,522,578 |
| Bonds: | | | | | | |
| Revenue Bonds | 215,588,775 | 29,303,536 | (8,037,020) | 236,855,291 | 11,335,000 | 225,520,291 |
| PFC Lease Revenue | 122,879,227 | - | (3,571,560) | 119,307,667 | 3,590,000 | 115,717,667 |
| General Obligation Bonds | 133,079,110 | - | (4,743,115) | 128,335,995 | 5,090,000 | 123,245,995 |
| Total Bonds | 471,547,112 | 29,303,536 | (16,351,695) | 484,498,953 | 20,015,000 | 464,483,953 |
| Compensated Absences (Note 17) | - | - | - | - | - | - |
| Total Noncurrent Liabilities | \$ 545,742,481 | \$ 96,125,459 | \$ (22,100,354) | \$ 619,767,586 | \$ 26,456,231 | \$ 593,311,355 |

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 5.65% 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 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 Project.

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

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

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

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

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

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

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

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

Limited Tax Bonds:

The System issued \$144,155,000 in Limited Tax Bonds, Series 2003 ("Series 2003") on December 1, 2003 with interest rates ranging from 2.0% to 5.0%. The Bonds were issued at a premium of \$6,593,497. Bond maturities range from February 15, 2006 through February 15, 2028. Bonds maturing on or after February 15, 2014 are subject to redemption prior to their scheduled maturities on February 15, 2013. On September 1, 2005 the System issued \$1,825,000 in bonds as part of the \$8,924,992 in Limited Tax Building and Refunding Bonds, Series 2005. 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.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

Bonds payable at August 31, 2011 and 2010 were as follows:

| Debt Series Issued | Par Value | Maturity Date | Interest Rate | Outstanding Balances at August 31, 2011 | Outstanding Balances at August 31, 2010 |
|--|---------------|-------------------|-----------------|--|---|
| Student Fee Revenue Bonds: | | | | | |
| 2001A | \$ 68,745,000 | 04/15/2002 - 2025 | 3.000% - 5.375% | \$ - | \$ 36,090,000 |
| 2005 | 51,285,000 | 04/15/2009 - 2020 | 3.250% - 5.250% | 42,205,000 | 46,435,000 |
| 2006 | 72,815,000 | 04/15/2007 - 2030 | 4.000% - 5.000% | 60,860,000 | 64,145,000 |
| 2008 | 54,540,000 | 04/15/2009 - 2030 | 4.000% - 5.250% | 50,050,000 | 51,605,000 |
| 2010 | 27,250,000 | 04/15/2012 - 2031 | 3.000% - 5.250% | 27,250,000 | 27,250,000 |
| 2011 | 33,940,000 | 04/15/2012 - 2025 | 4.000% - 5.250% | 33,940,000 | - |
| PFC Lease Revenue Bonds (Blended Component Unit): | | | | | |
| 2005A | \$ 11,605,000 | 04/15/2006 - 2028 | 3.500% - 5.000% | 9,505,000 | 9,875,000 |
| 2005C | 19,155,000 | 04/15/2007 - 2030 | 4.000% - 5.000% | 16,580,000 | 17,135,000 |
| 2006 | 36,950,000 | 04/15/2008 - 2031 | 4.000% - 5.000% | 32,925,000 | 33,990,000 |
| 2007 | 58,885,000 | 04/15/2009 - 2031 | 4.000% - 5.625% | 54,265,000 | 55,865,000 |
| Limited Tax Bonds: | | | | | |
| 2003 | \$144,155,000 | 02/15/06 - 2028 | 2.000% - 5.000% | 113,390,000 | 117,750,000 |
| 2005 | 8,924,992 | 02/15/06 - 2014 | .205% - 5.000% | 4,955,000 | 5,685,000 |
| Total Principal Payable | | | | 445,925,000 | 465,825,000 |
| Unamortized Premium and Discount, Net | | | | 21,000,490 | 22,021,862 |
| Advance Funding Valuation | | | | (2,873,345) | (3,347,909) |
| Total Bonds Payable | | | | \$ 464,052,145 | \$ 484,498,953 |

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

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 | \$ 21,547,413 | \$ 45,727,413 |
| 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 | 8,745,048 | 20,005,048 | 4,240,000 | 4,726,278 | 8,966,278 | 5,360,000 | 4,809,000 | 10,169,000 | 20,860,000 | 18,280,326 | 39,140,326 |
| 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 | 31,298,319 | 101,343,319 | 25,540,000 | 19,277,574 | 44,817,574 | 32,805,000 | 18,029,875 | 50,834,875 | 128,390,000 | 68,605,768 | 196,995,768 |
| 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>\$ 97,806,321</u> | <u>\$ 312,111,321</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> |

Debt service requirements to maturities as of August 31, 2010 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 |
| 2011 | \$ 11,335,000.00 | \$ 10,712,486.00 | \$ 22,047,486.00 | \$ 3,590,000 | \$ 5,368,704 | \$ 8,958,704 | \$ 5,090,000 | \$ 6,073,537 | \$ 11,163,537 | \$ 20,015,000 | \$ 22,154,727 | \$ 42,169,727 |
| 2012 | 12,750,000 | 10,544,824 | 23,294,824 | 3,740,000 | 5,226,029 | 8,966,029 | 7,725,000 | 5,741,969 | 13,466,969 | 24,215,000 | 21,512,821 | 45,727,821 |
| 2013 | 13,345,000 | 9,955,030 | 23,300,030 | 3,880,000 | 5,077,391 | 8,957,391 | 4,840,000 | 5,416,050 | 10,256,050 | 22,065,000 | 20,448,471 | 42,513,471 |
| 2014 | 11,260,000 | 9,327,761 | 20,587,761 | 4,035,000 | 4,923,179 | 8,958,179 | 6,920,000 | 5,116,000 | 12,036,000 | 22,215,000 | 19,366,940 | 41,581,940 |
| 2015 | 11,235,000 | 8,769,248 | 20,004,248 | 4,240,000 | 4,726,278 | 8,966,278 | 5,360,000 | 4,809,000 | 10,169,000 | 20,835,000 | 18,304,528 | 39,139,528 |
| 2016 - 2020 | 66,485,000 | 34,634,838 | 101,119,838 | 24,405,000 | 20,412,456 | 44,817,456 | 31,205,000 | 19,630,125 | 50,835,125 | 122,095,000 | 74,677,419 | 196,772,419 |
| 2021 - 2025 | 55,560,000 | 17,973,225 | 73,533,225 | 30,585,000 | 14,224,961 | 44,809,961 | 40,075,000 | 10,764,375 | 50,839,375 | 126,220,000 | 42,962,561 | 169,182,561 |
| 2026 - 2030 | 41,530,000 | 6,595,940 | 48,125,940 | 36,385,000 | 6,754,463 | 43,139,463 | 22,220,000 | 1,360,250 | 23,580,250 | 100,135,000 | 14,710,653 | 114,845,653 |
| 2031 | 2,025,000 | 101,250 | 2,126,250 | 6,005,000 | 300,250 | 6,305,250 | - | - | - | 8,030,000 | 401,500 | 8,431,500 |
| | <u>\$ 225,525,000</u> | <u>\$ 108,614,602</u> | <u>\$ 334,139,602</u> | <u>\$ 116,865,000</u> | <u>\$ 67,013,711</u> | <u>\$ 183,878,711</u> | <u>\$ 123,435,000</u> | <u>\$ 58,911,306</u> | <u>\$ 182,346,306</u> | <u>\$ 465,825,000</u> | <u>\$ 234,539,620</u> | <u>\$ 700,364,620</u> |

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – DEFEASANCE OF LONG-TERM DEBT

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.

NOTE 10 – DEFEASED BONDS OUTSTANDING

The defeased bonds outstanding at August 31, 2011 and 2010 were as follows:

| Bond issue | Year Refunded | Par Value Outstanding | |
|--|---------------|-----------------------|----------------------|
| | | August 31, 2011 | August 31, 2010 |
| Series 2003 Limited Tax Bonds | 2006 | \$ 7,100,000 | \$ 7,100,000 |
| Series 2001A Student Fee Revenue Bonds | 2007 | - | 17,355,000 |
| Total | | \$ 7,100,000 | \$ 24,455,000 |

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

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 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.

| | 2011 | 2010 |
|-------------------------------|--------------|--------------|
| Telecommunications Equipment | \$ 7,828,943 | \$ 7,828,943 |
| Less Accumulated Depreciation | (521,930) | - |
| | \$ 7,307,013 | \$ 7,828,943 |

The future minimum capital lease obligations and the net present value of the lease payments as of August 31, 2011 are as follows:

| Year Ending August 31, | |
|---------------------------|---------------------|
| 2012 | \$ <u>1,304,824</u> |

NOTE 12 – NOTES PAYABLE

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

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – NOTES PAYABLE – CONTINUED

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, 2011 were as follows:

| Year Ending August 31, | Central Utility Plant | Capital Improvements | Software Licenses | Total |
|------------------------------------|--------------------------|-------------------------|----------------------|----------------|
| 2012 | \$ 889,744 | \$ 12,707,714 | \$ 691,584 | \$ 14,289,041 |
| 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 | 63,367,325 | - | 67,808,103 |
| 2022 - 2026 | 4,444,697 | 62,029,743 | - | 66,474,440 |
| 2027 - 2031 | - | 36,594,500 | - | 36,594,500 |
| Total Payments | 13,335,519 | 225,468,563 | 691,584 | 239,495,665 |
| Less Amounts Representing Interest | (3,575,237) | (65,464,185) | - | (69,039,422) |
| Total Principal Payable | \$ 9,760,282 | \$ 160,004,378 | \$ 691,584 | \$ 170,456,243 |

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – NOTES PAYABLE – CONTINUED

Maturities of notes payable at August 31, 2010 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> |
|------------------------------------|----------------------------------|---------------------------------|------------------------------|-----------------------|
| 2011 | \$ 887,556 | \$ 7,692,123 | \$ 691,582 | \$ 9,271,261 |
| 2012 | 889,744 | 9,416,314 | 691,584 | 10,997,642 |
| 2013 | 890,550 | 9,412,395 | - | 10,302,945 |
| 2014 | 889,950 | 9,400,183 | - | 10,290,133 |
| 2015 | 888,550 | 9,395,058 | - | 10,283,608 |
| 2016 - 2020 | 4,445,791 | 46,925,056 | - | 51,370,847 |
| 2021 - 2025 | 4,441,359 | 46,828,083 | - | 51,269,442 |
| 2026 - 2029 | 889,575 | 28,245,875 | - | 29,135,450 |
| Total Payments | 14,223,075 | 167,315,087 | 1,383,166 | 182,921,328 |
| Less Amounts Representing Interest | (4,002,231) | (47,564,936) | - | (51,567,167) |
| Total Principal Payable | <u>\$ 10,220,844</u> | <u>\$ 119,750,151</u> | <u>\$ 1,383,166</u> | <u>\$ 131,354,161</u> |

NOTE 13 – OPERATING LEASES

The System leases certain educational facilities, offices and other equipment. Future minimum rental payments under non-cancelable operating leases having remaining terms in excess of one year as of August 31, 2011 for each of the next five years and thereafter, and in the aggregate are as follows:

| <u>Year Ending August 31</u> | |
|----------------------------------|-----------------------|
| 2012 | \$ 1,260,771 |
| 2013 | 1,005,994 |
| 2014 | 252,383 |
| 2015 | 257,564 |
| 2016 | 262,936 |
| Thereafter | <u>820,008</u> |
| Total | <u>\$ \$3,859,656</u> |

Rent expense totaled approximately \$2 million and \$2.1 million for the years ended August 31, 2011 and 2010, 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, 2011 are as follows:

| Year Ending August 31, | | |
|---------------------------|--|---------------|
| 2012 | | \$ 4,427,044 |
| 2013 | | 4,278,993 |
| 2014 | | 4,342,815 |
| 2015 | | 4,441,315 |
| 2016 | | 1,844,904 |
| Thereafter | | 40,000 |
| Total | | \$ 19,375,071 |

The System received approximately \$5 million in rental income for the years ended August 31, 2011 and 2010, respectively.

NOTE 15 – RETIREMENT PLANS

The State of Texas has joint contributory retirement plans for almost all its employees. 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 benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2011 and 2010 and a state contribution rate of 6.664% for fiscal years 2011 and 2010. In certain instances the reporting district is required to make all or a portion of the state's 6.664% contribution for fiscal years 2011 and 2010.

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 program 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 6.65% and 6.4%, respectively. The College contributes 1.49% for employees who were participating in ORP prior to September 1, 1995 and .18% for employees who began ORP participation after that date. 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 \$8,423,783 and \$8,272,513 for the fiscal years ended August 31, 2011 and 2010, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the System.

The total payroll for all System employees was \$170,788,199 and \$164,741,434 for fiscal years 2011 and 2010, respectively. The total payroll of employees covered by the Teacher Retirement System was \$96,609,306 and \$88,572,621 and the total payroll of employees covered by the Optional Retirement Program was \$44,406,309 and \$44,543,534 for fiscal years 2011 and 2010, 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. The plan is 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 program at August 31, 2011 and 2010 were 679 and 663, respectively.

During fiscal years ended August 31, 2011 and August 31, 2010, employee contributions amounting to \$4,113,420 and \$3,993,780 were invested in the plan respectively.

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. After the 680 hour maximum is reached, the full-time employee begins earning catastrophic leave up to a maximum of 720 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.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 – COMPENSATED ABSENCES – CONTINUED

Employees earn up to 160 vacation hours depending on the number of years employed with the System. Up to 80 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 \$2,013,653 and \$1,360,458 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, 2011 and 2010, 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, 2011 and 2010, there were ten funds for the benefit of the Public Facility Corporation. These trust assets represent bond proceeds to be utilized for construction purposes. Based upon the most recent available information, the assets of these funds are reported by the trustee at values totaling \$4,957,011 and \$6,140,141 at August 31, 2011 and 2010, 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 \$18,315,057 at August 31, 2011. The System has also entered into contracts for technology capital projects, with commitments of \$1,468,165 remaining at August 31, 2011. Proceeds from the sales of the Limited Tax Bonds Series 2003, Junior Lien Revenue Bonds Series 2006, Maintenance Tax Notes Series 2008, Maintenance Tax Notes Series 2009, Maintenance Tax Notes Series 2010, and Maintenance Tax Notes Series 2011 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 at were \$204,582 at August 31, 2011. Proceeds from the sale of the Public Facility Corporation Lease Revenue Bond Series 2005C, Series 2006 and 2007 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 180 calendar day notice provided that the 180 notice prior 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, 2011, amounts due under this agreement totaled \$1,995,793 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.

NOTE 21 – 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 in Note 5. 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 2011 and 2010 for which monies have not been received nor funds expended totaled \$18,385,088 and \$57,168,862 respectively. Of these amounts, \$11,997,183 and \$49,422,410 were from Federal Contract and Grant Awards; \$2,242,365 and \$5,832,556 were from State Contract and Grant Awards; \$153,241 and \$188,896 from Local Contract and Grant Awards; and \$3,992,299 and \$1,725,000 were from Non-Governmental Contract and Grant Awards for the fiscal years ended August 31, 2011 and 2010, respectively.

NOTE 22 – 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 \$413.36 and \$807.86 per month for the year ended August 31, 2011 (\$360.54 and \$704.52 per month for the year ended August 31, 2010) and totaled \$10,226,697 for the year ended August 31, 2011 (\$10,601,439 for the year ended August 31, 2010). The cost of providing those benefits for 440 retirees in the year ended August 31, 2011 was \$2,216,307 (retiree benefits for 416 retirees cost \$2,174,982 in the year ended August 31, 2010). For 2,269 active employees, the cost of providing benefits was \$8,013,030 for the year ended August 31, 2011 (active employee benefits for 2,145 employees cost \$8,426,457 for the year ended August 31, 2010). 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 23 – POSTEMPLOYMENT 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, 2011 and 2010 were \$4,843,091 and \$2,933,482 respectively, which equaled the required contributions each year.

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:

| | 2011 | 2010 |
|--------------------------------------|--------------------|--------------------|
| Assessed Valuation of the System | \$ 157,165,651,239 | \$ 158,860,572,423 |
| Less: Exemptions | (31,190,173,147) | (28,430,763,993) |
| Net Assessed Valuation of the System | \$ 125,975,478,092 | \$ 130,429,808,430 |

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, 2011 and 2010, based on the certified rolls, as reported by the Taxing authorities amounted to \$116,179,580 and \$120,614,601, respectively, which includes any penalty and interest assessed if applicable.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 – PROPERTY TAX – CONTINUED

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:

| | August 31, 2011 | | | August 31, 2010 | | |
|-------------------------------------|-----------------------|-----------------|-------------|-----------------------|-----------------|-------------|
| | Current Operations | Debt Service | Total | Current Operations | Debt Service | Total |
| Authorized Rate per \$100 Valuation | \$ 0.50 | \$ 0.50 | \$ 1.00 | \$ 0.50 | \$ 0.50 | \$ 1.00 |
| Assessed Rate per \$100 Valuation | \$ 0.074901 | \$ 0.017319 | \$ 0.092220 | \$ 0.077839 | \$ 0.014381 | \$ 0.092220 |

Tax collections for the years ended August 31, 2011 and 2010 were as follows:

| | 2011 | 2010 |
|----------------------------------|-----------------------|-----------------------|
| Current Taxes Collected | \$ 113,187,929 | \$ 116,730,716 |
| Delinquent Taxes Collected | 2,512,676 | 2,543,093 |
| Penalties and Interest Collected | 1,482,203 | 1,452,325 |
| Total | \$ 117,182,808 | \$ 120,726,134 |

For the years ended August 31, 2011 and 2010 tax collections represent 97% 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's expected collection experience. The use of Tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 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 \$753,917 and \$652,707 to the System for scholarship awards during the years ended August 31, 2011 and 2010, respectively. The Foundation remitted \$659,550 and \$1,643,471 to the System to fund grant programs during the years ended August 31, 2011 and 2010, respectively.

During the years ended August 31, 2011 and 2010, 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 2011 and 2010 to be approximately \$1,076,732 and \$1,019,000, respectively. As of August 31, 2011 and 2010, the amount due to the System from the Foundation was \$0 and \$175,543, respectively. 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 \$9,600 in rent during the year ended August 31, 2011.

NOTE 26 – SUBSEQUENT EVENTS

The System issued \$109,490,000 in Limited Tax Refunding Bonds, Series 2011 on October 12, 2011 with interest rates ranging from 4.0% to 5.0%. The Bonds were issued at a premium of \$16,767,575. Proceeds of these Bonds were used to defease \$112,195,000 of the Limited Tax Bonds, Series 2003 and \$4,955,000 of the Limited Tax Building and Refunding Bonds, Series 2005.

The System issued \$19,590,000 in Maintenance Tax Notes, Series 2011 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. Proceeds of the Notes will be used to pay for the maintenance, repair, rehabilitation and replacement of existing facilities in the System and to pay the costs of issuance.

SUPPLEMENTAL SCHEDULES

Schedule A

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED AUGUST 31, 2011
(With Memorandum Totals for the Year Ended AUGUST 31, 2010)

| | Unrestricted | Restricted | Total Educational Activities | Auxiliary Enterprises | Total 2011 | Total 2010 |
|--|----------------------|----------------------|------------------------------------|--------------------------|-----------------------|----------------------|
| Tuition: | | | | | | |
| State Funded Courses: | | | | | | |
| In-District Resident Tuition | \$ 19,101,642 | \$ - | \$ 19,101,642 | \$ - | \$ 19,101,642 | \$ 16,256,374 |
| Out-of-District Resident Tuition | 7,238,155 | - | 7,238,155 | - | 7,238,155 | 6,769,515 |
| State Funded Continuing Education: | 6,830,370 | - | 6,830,370 | - | 6,830,370 | 6,994,148 |
| TPEG (Credit)* | 1,542,609 | - | 1,542,609 | - | 1,542,609 | 1,405,013 |
| TPEG (Non-Credit)* | 363,297 | - | 363,297 | - | 363,297 | 349,157 |
| Non-Resident Tuition | 14,318,787 | - | 14,318,787 | - | 14,318,787 | 12,692,971 |
| Non-State Funded Continuing Education | 887,143 | - | 887,143 | - | 887,143 | 2,066,251 |
| Total Tuition | 50,282,003 | - | 50,282,003 | - | 50,282,003 | 46,533,429 |
| Fees: | | | | | | |
| Installment Plan Fees | 1,264,142 | - | 1,264,142 | - | 1,264,142 | 1,088,072 |
| Non-Instructional Contract Training Fees | 37,620 | - | 37,620 | - | 37,620 | 4,800 |
| General Fees | 33,059,580 | - | 33,059,580 | - | 33,059,580 | 28,685,194 |
| Laboratory Fees | 4,278,939 | - | 4,278,939 | - | 4,278,939 | 3,393,672 |
| Other Fees | 10,478,150 | - | 10,478,150 | - | 10,478,150 | 9,657,300 |
| Out-of-District Fees | 15,296,842 | - | 15,296,842 | - | 15,296,842 | 14,483,261 |
| Student Service Fees | 1,724,191 | 5,886 | 1,730,077 | 952,601 | 2,682,678 | 2,672,602 |
| Total Fees | 66,139,464 | 5,886 | 66,145,350 | 952,601 | 67,097,951 | 59,984,901 |
| Scholarship Allowances and Discounts: | | | | | | |
| Remissions and Exemptions-State | (7,173,372) | - | (7,173,372) | (8,060) | (7,181,432) | (7,043,621) |
| Remissions and Exemptions-Local | (1,220,841) | - | (1,220,841) | - | (1,220,841) | (967,051) |
| Title IV Federal Grants | (35,746,915) | - | (35,746,915) | - | (35,746,915) | (28,124,437) |
| Other Federal Grants | (503,473) | - | (503,473) | (13,834) | (517,307) | (835,482) |
| TPEG Awards | (1,520,541) | - | (1,520,541) | - | (1,520,541) | (1,265,895) |
| Other State Grants | (1,970,236) | - | (1,970,236) | - | (1,970,236) | (1,493,197) |
| Other Local Grants | (1,314,785) | - | (1,314,785) | - | (1,314,785) | (1,132,895) |
| Total Scholarship Allowances | (49,450,163) | - | (49,450,163) | (21,894) | (49,472,057) | (40,862,578) |
| Total Net Tuition and Fees | 66,971,304 | 5,886 | 66,977,190 | 930,706 | 67,907,897 | 65,655,752 |
| Other Operating Revenues: | | | | | | |
| Federal Grants and contracts | - | 16,064,089 | 16,064,089 | - | 16,064,089 | 16,243,394 |
| State Grants and Contracts | - | 6,448,589 | 6,448,589 | - | 6,448,589 | 5,157,058 |
| Local Grants and Contracts | - | 275,085 | 275,085 | - | 275,085 | 79,055 |
| Non-Governmental Grants and Contracts | - | 1,283,150 | 1,283,150 | - | 1,283,150 | 1,286,822 |
| Sales and Services | 293,002 | - | 293,002 | 76,528 | 369,530 | 315,835 |
| Total Other Operating Revenues | 293,002 | 24,070,913 | 24,363,915 | 76,528 | 24,440,443 | 23,082,164 |
| Auxiliary Enterprises: | | | | | | |
| Bookstore | - | - | - | 2,693,341 | 2,693,341 | 2,166,708 |
| Long-Term Parking | - | - | - | 416,853 | 416,853 | 422,697 |
| Qatar | - | - | - | 4,587,566 | 4,587,566 | 1,358,845 |
| Rental of Facilities | - | - | - | 6,151,316 | 6,151,316 | 5,830,151 |
| Restaurant | - | - | - | 514,816 | 514,816 | 546,902 |
| Vending and Other Commissions | - | - | - | 172,022 | 172,022 | 167,930 |
| Total Auxiliary Enterprises | - | - | - | 14,535,914 | 14,535,914 | 10,493,233 |
| Total Operating Revenues | \$ 67,264,306 | \$ 24,076,799 | \$ 91,341,105 | \$ 15,543,148 | \$ 106,884,254 | \$ 99,231,149 |
| | | | | | (Exhibit 2) | (Exhibit 2) |

* In accordance with Education Code 50.033, \$1,905,906 and \$1,754,170 of tuition for fiscal years ended August 31, 2011 and 2010, respectively were set aside for Texas Public Education Grants (TPEG).

See Independent Auditor's Report

Schedule B

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

| | Operating Expenses | | | | 2011 Total | 2010 Total |
|---|-----------------------|---------------|---------------|-------------------|-------------------------------|-------------------------------|
| | Salaries and Wages | Benefits | | Other Expenses | | |
| | | State | Local | | | |
| Unrestricted Educational Activities | | | | | | |
| Instruction | \$ 90,655,860 | \$ - | \$ 5,539,879 | \$ 3,514,691 | \$ 99,710,430 | \$ 98,069,524 |
| Public Service | 635,448 | - | 38,832 | 501,765 | 1,176,045 | 1,342,321 |
| Academic Support | 13,249,688 | - | 809,674 | 2,254,643 | 16,314,005 | 20,294,083 |
| Student Services | 22,128,982 | - | 1,352,278 | 3,652,945 | 27,134,205 | 25,914,801 |
| Institutional Support | 29,788,022 | - | 1,820,313 | 20,529,284 | 52,137,619 | 49,740,216 |
| Operation and Maintenance of Plant | 2,235,603 | - | 136,615 | 25,978,599 | 28,350,817 | 35,937,690 |
| Total Unrestricted Educational Activities | 158,693,603 | - | 9,697,591 | 56,431,927 | 224,823,121 | 231,298,635 |
| Restricted Educational Activities | | | | | | |
| Instruction | 806,112 | 10,984,883 | 89,039 | 1,027,414 | 12,907,448 | 15,249,981 |
| Public Service | 3,971,621 | - | 452,620 | 6,166,389 | 10,590,630 | 10,135,466 |
| Academic Support | 561,984 | 1,605,481 | 115,111 | 1,019,810 | 3,302,386 | 3,155,391 |
| Student Services | 1,681,065 | 2,681,396 | 18,599 | 386,173 | 4,767,233 | 4,988,121 |
| Institutional Support | - | 3,609,451 | - | - | 3,609,451 | 3,561,935 |
| Scholarship and Fellowship | - | - | - | 65,346,087 | 65,346,087 | 49,920,320 |
| Total Restricted Educational Activities | 7,020,782 | 18,881,211 | 675,369 | 73,945,873 | 100,523,235 | 87,011,214 |
| Total Educational Activities | 165,714,385 | 18,881,211 | 10,372,960 | 130,377,800 | 325,346,356 | 318,309,849 |
| Auxiliary Enterprises | 1,570,957 | - | 325,066 | 8,300,271 | 10,196,294 | 8,226,946 |
| Auxiliary Enterprises - Qatar Expenses | 3,502,857 | - | 849,464 | 58,715 | 4,411,036 | 1,513,132 |
| Depreciation - Buildings | - | - | - | 10,055,109 | 10,055,109 | 8,984,399 |
| Depreciation - Equipment | - | - | - | 6,477,562 | 6,477,562 | 5,315,766 |
| Depreciation - Library Books | - | - | - | 534,795 | 534,795 | 532,582 |
| Total Operating Expenses | \$ 170,788,199 | \$ 18,881,211 | \$ 11,547,490 | \$ 155,804,252 | \$ 357,021,152 (Exhibit 2) | \$ 342,882,674 (Exhibit 2) |

See Independent Auditor's Report

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

| | Unrestricted | Restricted | Auxiliary Enterprises | Total 2011 | Total 2010 |
|--|-----------------------|-----------------------|--------------------------|-----------------------|-----------------------|
| NONOPERATING REVENUES: | | | | | |
| State Appropriations: | | | | | |
| Educational and General State Support | \$ 65,788,668 | \$ - | \$ - | \$ 65,788,668 | \$ 65,720,688 |
| State Group Insurance | - | 10,226,697 | - | 10,226,697 | 10,601,439 |
| State Retirement Matching | - | 8,654,514 | - | 8,654,514 | 8,272,513 |
| Other State Appropriations | 168,436 | - | - | 168,436 | 70,769 |
| Total State Appropriations | 65,957,104 | 18,881,211 | - | 84,838,315 | 84,665,409 |
| Maintenance Ad-Valorem Taxes | 94,083,625 | - | - | 94,083,625 | 102,228,627 |
| Debt Service Ad-Valorem Taxes | 21,736,440 | - | - | 21,736,440 | 17,045,182 |
| Gifts | - | 1,573,601 | - | 1,573,601 | 1,555,967 |
| Investment Income, Net | 566,942 | - | - | 566,945 | 900,323 |
| Disaster Relief Grants | - | - | - | - | 1,415,592 |
| Title IV Grants | - | 96,171,936 | - | 96,171,936 | 75,639,561 |
| Nursing Shortage Reduction | - | 151,786 | - | 151,786 | 73,453 |
| Other Nonoperating Revenue | 5,981,681 | - | 171,953 | 6,153,631 | 3,455,364 |
| Total Nonoperating Revenues | 188,325,792 | 116,778,534 | 171,953 | 305,276,279 | 286,979,478 |
| NONOPERATING EXPENSES: | | | | | |
| Interest on Capital-Related Debt | (29,424,886) | - | - | (29,424,886) | (25,379,834) |
| Hurricane Ike Expenses (Net of Recoveries) | (284,103) | - | - | (284,103) | (561,861) |
| Other Nonoperating Expenses | (10,550,397) | - | - | (10,550,397) | (10,274,777) |
| Total Nonoperating Expenses | (40,259,386) | - | - | (40,259,386) | (36,216,472) |
| NET NONOPERATING REVENUES | \$ 148,066,406 | \$ 116,778,534 | \$ 171,953 | \$ 265,016,893 | \$ 250,763,006 |
| | | | | (Exhibit 2) | (Exhibit 2) |

See Independent Auditor's Report

Schedule D

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY
 FOR THE YEAR ENDED AUGUST 31, 2011
 (With Memorandum Totals for the Year Ended August 31, 2010)

| | Detail by Source | | | | Available for Current Operations | | |
|-----------------------------------|------------------|------------|----------------|---|----------------------------------|---------------|--------------|
| | Unrestricted | Restricted | | Capital Assets Net of Depreciation & Related Debt | Total | Yes | No |
| | | Expendable | Non-Expendable | | | | |
| Current: | | | | | | | |
| Unrestricted | \$ 56,590,681 | \$ - | \$ - | \$ - | \$ 56,590,681 | \$ 56,590,681 | \$ - |
| Auxiliary Enterprises | 12,190,809 | - | - | - | 12,190,809 | 12,190,809 | - |
| Loan | - | 488,477 | - | - | 488,477 | - | 488,477 |
| Plant: | | | | | | | |
| Unexpended | 5,177,960 | - | - | - | 5,177,960 | - | 5,177,960 |
| Investment in Plant | - | - | - | 207,976,763 | 207,976,763 | - | 207,976,763 |
| Total Net Assets, August 31, 2011 | 73,959,450 | 488,477 | - | 207,976,763 | 282,424,690 (Exhibit 1) | 68,781,490 | 213,643,200 |
| Total Net Assets, August 31, 2010 | 70,082,732 | 449,237 | - | 197,012,726 | 267,544,695 (Exhibit 1) | 61,360,328 | 206,184,367 |
| Net Increase in Net Assets | \$ 3,876,718 | \$ 39,240 | \$ - | \$ 10,964,037 | \$ 14,879,995 (Exhibit 2) | \$ 7,421,162 | \$ 7,458,833 |

See Independent Auditor's Report

STATISTICAL SECTION
(Unaudited)

HOUSTON COMMUNITY COLLEGE SYSTEM
STATISTICAL SECTION NARRATIVE
(Unaudited)

Statistical Section

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Economic & Demographic Information

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

Operating Information

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

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

Table 1

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

| | For the Year Ended August 31, | | | | | | | | | |
|--|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Invested in Capital Assets, Net of Related Debt | \$ 207,977 | \$ 197,013 | \$ 197,253 | \$ 190,084 | \$ 173,412 | \$ 146,493 | \$ 148,651 | \$ 130,356 | \$ 132,961 | \$ 128,982 |
| Restricted - Expendable | 489 | 449 | 449 | 449 | 449 | 582 | 450 | 449 | 470 | 566 |
| Restricted - Nonexpendable | - | - | - | - | - | - | - | - | - | - |
| Unrestricted | 73,959 | 70,083 | 62,731 | 62,334 | 55,872 | 60,092 | 42,439 | 47,880 | 41,266 | 36,857 |
| Total Primary Government, Net of Assets | <u>\$ 282,425</u> | <u>\$ 267,545</u> | <u>\$ 260,433</u> | <u>\$ 252,867</u> | <u>\$ 229,733</u> | <u>\$ 207,167</u> | <u>\$ 191,540</u> | <u>\$ 178,685</u> | <u>\$ 174,697</u> | <u>\$ 166,405</u> |
| Net Increase in Assets | <u>\$ 14,880</u> | <u>\$ 7,112</u> | <u>\$ 7,566</u> | <u>\$ 23,134</u> | <u>\$ 22,566</u> | <u>\$ 15,627</u> | <u>\$ 12,855</u> | <u>\$ 3,988</u> | <u>\$ 8,292</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, | | | | | | | | | |
|--|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| OPERATING REVENUES: | | | | | | | | | | |
| Tuition and Fees, Net of Discounts | \$ 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 | \$ 44,736,187 |
| Federal Grants and Contracts* | 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 | 16,186,197 |
| State Grants and Contracts* | 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 | 3,419,770 |
| Local Grants and Contracts | 275,085 | 79,055 | 77,955 | 81,761 | 77,116 | 90,392 | 84,962 | 85,978 | 127,606 | 97,022 |
| Non-Governmental Grants and Contracts | 1,283,150 | 1,286,822 | 854,759 | 467,151 | 605,832 | 705,186 | 305,459 | 625,785 | 452,353 | 624,532 |
| Sales and Services of Educational Activities | 369,530 | 315,835 | 261,861 | 203,207 | 208,228 | 470,021 | 161,349 | 162,254 | 185,812 | 200,483 |
| Other Operating Revenues | - | - | - | - | 527,125 | 589,409 | 717,187 | 664,457 | 4,263,733 | 2,806,110 |
| Auxiliary Enterprises | 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 | 2,038,525 |
| Total Operating Revenues | 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 | 70,108,826 |
| NONOPERATING REVENUES: | | | | | | | | | | |
| State Appropriations | 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 | 79,156,860 |
| Ad Valorem Taxes | 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 | 59,255,705 |
| Gifts | 1,573,601 | 1,555,967 | 1,115,895 | 964,033 | 491,270 | 578,333 | 424,138 | 368,401 | 329,848 | 343,712 |
| Investment Income | 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 | 2,139,359 |
| Disaster Relief Grants | - | 1,415,592 | 1,525,611 | - | - | - | - | - | - | - |
| Title IV (Pell)* | 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 | 21,989,008 |
| Nursing Shortage Reduction* | 151,786 | 73,453 | 19,969 | 33,974 | 66,969 | 16,091 | - | - | - | - |
| Other Nonoperating Revenues | 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 | 305,276,279 | 286,979,478 | 239,779,757 | 229,597,098 | 218,442,304 | 199,645,778 | 183,072,914 | 178,466,602 | 165,305,557 | 162,884,644 |
| TOTAL REVENUES | \$ 412,160,533 | \$ 386,210,627 | \$ 330,549,766 | \$ 313,215,659 | \$ 297,323,711 | \$ 272,752,189 | \$ 256,162,418 | \$ 251,530,193 | \$ 237,032,902 | \$ 232,993,470 |

* Reclassified

See Independent Auditor's Report.

Table 2

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

| | For the Year Ended August 31, | | | | | | | | | |
|--|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| OPERATING REVENUES: | | | | | | | | | | |
| Tuition and Fees, Net of Discounts | 16.48% | 17.00% | 19.57% | 18.82% | 18.29% | 18.34% | 19.64% | 20.15% | 19.80% | 19.20% |
| Federal Grants and Contracts | 3.90% | 4.21% | 3.78% * | 4.15% | 4.35% | 4.98% | 5.34% | 5.27% | 6.14% | 6.95% |
| State Grants and Contracts | 1.56% | 1.34% | 1.12% | 0.95% | 0.94% | 0.86% | 0.91% | 1.16% | 1.55% | 1.47% |
| Local Grants and Contracts | 0.07% | 0.02% | 0.02% | 0.03% | 0.03% | 0.03% | 0.03% | 0.03% | 0.05% | 0.04% |
| Non-Governmental Grants and Contracts | 0.31% | 0.33% | 0.26% | 0.15% | 0.20% | 0.26% | 0.12% | 0.25% | 0.19% | 0.27% |
| Sales and Services of Educational Activities | 0.09% | 0.08% | 0.08% | 0.06% | 0.07% | 0.17% | 0.06% | 0.06% | 0.08% | 0.09% |
| Other Operating Revenues | 0.00% | 0.00% | 0.00% | 0.00% | 0.18% | 0.22% | 0.28% | 0.26% | 1.80% | 1.20% |
| Auxiliary Enterprises | 3.53% | 2.72% | 2.63% | 2.53% | 2.47% | 1.94% | 2.15% | 1.86% | 0.64% | 0.87% |
| Total Operating Revenues | 25.93% | 25.69% | 27.46% | 26.70% | 26.53% | 26.80% | 28.53% | 29.05% | 30.26% | 30.09% |
| NONOPERATING REVENUES: | | | | | | | | | | |
| State Appropriations | 20.58% | 21.92% | 24.71% | 25.82% | 26.00% | 28.10% | 29.88% | 29.33% | 31.69% | 33.97% |
| Ad Valorem Taxes | 28.10% | 30.88% | 32.60% | 31.04% | 29.89% | 30.28% | 28.45% | 28.12% | 26.39% | 25.43% |
| Gifts | 0.38% | 0.40% | 0.34% | 0.31% | 0.17% | 0.21% | 0.17% | 0.15% | 0.14% | 0.15% |
| Investment Income | 0.14% | 0.23% | 1.27% | 3.56% | 5.89% | 4.07% | 1.97% | 1.65% | 0.50% | 0.92% |
| Disaster Relief Grants | 0.00% | 0.37% | 0.46% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Title IV (Pell)* | 23.33% | 19.59% | 12.48% | 10.09% | 10.20% | 9.64% | 10.32% | 10.68% | 10.61% | 9.44% |
| Nursing Shortage Reduction* | 0.04% | 0.02% | 0.01% | 0.01% | 0.02% | 0.01% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other Nonoperating Revenues | 1.49% | 0.89% | 0.68% | 2.48% | 1.30% | 0.89% | 0.67% | 1.02% | 0.41% | 0.00% |
| Total Nonoperating Revenues | 74.07% | 74.31% | 72.54% | 73.30% | 73.47% | 73.20% | 71.47% | 70.95% | 69.74% | 69.91% |
| TOTAL REVENUES | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

* Reclassified

See Independent Auditor's Report.

Table 3

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

| | For the Year Ended August 31, | | | | | | | | | |
|------------------------------------|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| OPERATING EXPENSES: | | | | | | | | | | |
| Instruction | \$ 112,617,878 | \$ 113,319,505 | \$ 105,158,760 | \$ 96,006,367 | \$ 92,249,139 | \$ 88,156,430 | \$ 86,655,657 | \$ 86,189,526 | \$ 86,245,997 | \$ 85,114,740 |
| Public Service | 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 | 14,932,525 |
| Academic Support | 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 | 7,716,447 |
| Student Services | 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 | 23,300,379 |
| Institutional Support | 55,747,070 | 53,302,151 | 47,880,656 | 44,359,869 | 43,163,084 | 40,884,807 | 36,375,786 | 36,569,971 | 38,261,309 | 36,067,497 |
| Operation and Maintenance of Plant | 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 | 21,584,565 |
| Scholarships and Fellowships | 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 | 16,432,494 |
| Auxiliary Enterprises | 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 | 1,215,878 |
| Depreciation | 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 | 8,559,925 |
| Total Operating Expenses | 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 | 214,924,450 |
| NON-OPERATING EXPENSES: | | | | | | | | | | |
| Interest on Capital Related Debt | 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 | 6,386,429 |
| Hurricane Ike Expense, Net | 284,103 | 561,861 | 297,616 | - | - | - | - | - | - | - |
| Other Non-Operating Expenses | 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 | 3,720,040 |
| Total Non-Operating Expenses | 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 | 10,106,469 |
| Total Expenses | \$ 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 | \$ 225,030,919 |

See Independent Auditor's Report.

Table 3

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

| | For the Year Ended August 31, | | | | | | | | | |
|-------------------------------------|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| OPERATING EXPENSES: | | | | | | | | | | |
| Instruction | 28.35% | 29.89% | 32.56% | 33.57% | 33.57% | 34.29% | 35.57% | 36.38% | 37.98% | 37.82% |
| Public Service | 2.96% | 3.03% | 3.09% | 3.45% | 4.14% | 4.45% | 4.60% | 4.84% | 5.44% | 6.64% |
| Academic Support | 4.94% | 6.19% | 6.39% | 6.87% | 6.54% | 6.36% | 6.29% | 5.75% | 4.81% | 3.43% |
| Student Services | 8.03% | 8.15% | 8.51% | 9.03% | 8.97% | 9.69% | 10.16% | 9.29% | 9.57% | 10.35% |
| Institutional Support | 14.03% | 14.06% | 14.82% | 15.51% | 15.71% | 15.90% | 14.93% | 15.44% | 16.85% | 16.03% |
| Operation and Maintenance of Plant | 7.14% | 9.48% | 10.10% | 9.41% | 9.75% | 8.97% | 8.30% | 8.73% | 8.76% | 9.59% |
| Scholarships and Fellowships | 16.45% | 13.17% | 7.68% | 6.36% | 6.00% | 6.08% | 6.33% | 6.89% | 7.19% | 7.30% |
| Auxiliary Enterprises | 3.68% | 2.57% | 2.70% | 2.34% | 2.45% | 1.52% | 1.01% | 0.74% | 0.53% | 0.54% |
| Depreciation | 4.30% | 3.91% | 3.44% | 3.53% | 3.83% | 3.88% | 4.00% | 3.84% | 2.60% | 3.80% |
| Total Operating Expenses | 89.87% | 90.45% | 89.28% | 90.07% | 90.95% | 91.13% | 91.19% | 91.91% | 93.74% | 95.51% |
| NON-OPERATING EXPENSES: | | | | | | | | | | |
| Interest on Capital Related Debt | 7.41% | 6.69% | 7.86% | 7.22% | 7.71% | 6.69% | 7.05% | 6.39% | 4.37% | 2.84% |
| Hurricane Ike Expenses, Net | 0.07% | 0.15% | 0.09% | - | - | - | - | - | - | - |
| Other Non-Operating Expenses | 2.66% | 2.71% | 2.77% | 2.72% | 1.34% | 2.18% | 1.76% | 1.70% | 1.90% | 1.65% |
| Total Non-Operating Expenses | 10.13% | 9.55% | 10.72% | 9.93% | 9.05% | 8.87% | 8.81% | 8.09% | 6.26% | 4.49% |
| 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.

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 | |
| 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 | 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 | |
| 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 | n/a | |

Note: as to Workforce \$1; 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.

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

| | | SEMESTER CREDIT HOUR (SCH) | | | | | | | |
|---------------|----------|--------------------------------------|--------------|-----------------|---------------------------------|----------------|-----------------|-------------------------------|--|
| | | OUT OF STATE/INTERNATIONAL | | | | | | | |
| Academic Year | Semester | Out of State / International Tuition | General Fees | Technology Fees | Student Activity / Services Fee | Recreation Fee | Cost for 12 SCH | Increase from Prior Year-Fall | |
| 2010-2011* | Summer | \$ 1,080 | \$ 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 | n/a | |

Note: as to Workforce \$1; 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) |
|-------------|--------------------------------|-------------------------------|------------------------------|---|--------------------------|--------------|-----------------------|
| 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 |
| 2002 | 73,053,582,789 | 5,671,542,030 | 67,382,040,759 | 92.24% | 0.082333 | - | 0.082333 |

* 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.

HOUSTON COMMUNITY COLLEGE SYSTEM
STATE APPROPRIATION PER FULL TIME STUDENT EQUIVALENT AND CONTACT HOURS
LAST TEN FISCAL YEARS
(Unaudited)

| Fiscal Year | State Appropriation* | FTSE** | State Appropriation per FTSE |
|-------------|-------------------------|--------|------------------------------------|
| 2010-2011 | \$ 66,127,252 | 81,192 | \$ 814 |
| 2009-2010 | 65,791,457 | 76,499 | 860 |
| 2008-2009 | 63,627,432 | 66,319 | 959 |
| 2007-2008 | 63,627,433 | 59,085 | 1,077 |
| 2006-2007 | 61,312,488 | 56,225 | 1,090 |
| 2005-2006 | 61,312,368 | 53,417 | 1,148 |
| 2004-2005 | 61,423,796 | 52,805 | 1,163 |
| 2003-2004 | 58,896,561 | 54,089 | 1,089 |
| 2002-2003 | 61,017,666 | 54,701 | 1,115 |
| 2001-2002 | 65,610,392 | 53,504 | 1,226 |

| Fiscal Year | State Appropriation* | Academic Contract Hours | Voc/Tech Contract Hours | Total Contract Hours | State Appropriation per Contact Hour |
|-------------|-------------------------|----------------------------|----------------------------|-------------------------|---|
| 2010-2011 | \$ 66,127,252 | 17,801,976 | 5,924,078 | 23,726,054 | \$ 2.79 |
| 2009-2010 | 65,791,457 | 16,652,752 | 5,680,164 | 22,332,916 | 2.95 |
| 2008-2009 | 63,627,432 | 14,346,048 | 4,883,890 | 19,229,938 | 3.31 |
| 2007-2008 | 63,627,433 | 12,739,152 | 4,422,288 | 17,161,440 | 3.71 |
| 2006-2007 | 61,312,488 | 12,077,904 | 4,378,250 | 16,456,154 | 3.73 |
| 2005-2006 | 61,312,368 | 11,487,128 | 4,260,486 | 15,747,614 | 3.89 |
| 2004-2005 | 61,423,796 | 11,406,432 | 4,613,888 | 16,020,320 | 3.83 |
| 2003-2004 | 58,896,561 | 11,009,608 | 4,894,274 | 15,903,882 | 3.70 |
| 2002-2003 | 61,017,666 | 11,027,648 | 4,980,274 | 16,007,922 | 3.81 |
| 2001-2002 | 65,610,392 | 10,785,752 | 5,191,054 | 15,976,806 | 4.11 |

* This includes all funded contact hours.

** Annual FTSE is the sum of semesterly FTSE. It is defined as the number of full-time students plus total hours taken by part-time students divided by 12. This only includes student taking academic courses in fall, spring and summer semesters.

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 | | | | | | | | | |
|-------------------------------------|-------------|--|---------------------------|---------------------------|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Centerpoint Energy Inc | Utility | \$ 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 | \$ 852,479,660 |
| Crescent Real Estate | Real Estate | 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 | 690,407,420 |
| Cullen Allen Holdings Lp | Real Estate | - | 632,088,821 | 679,738,613 | 740,183,451 | 597,559,584 | - | - | - | - | - |
| Hines Interests Ltd Ptnrsp | Real Estate | 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 | 793,831,620 |
| AT&T Mobility Llc | Utility | 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 | 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 | 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 | 465,445,880 |
| Houston Refining | Oil & Gas | - | - | 407,442,917 | - | - | - | - | - | - | - |
| Valero Energy Corp | Oil & Gas | - | - | 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 | 331,875,591 | - | - | - | - | - | - | - | - | - |
| Southwestern Bell | Utility | - | - | - | - | 529,778,957 | 554,904,933 | 603,569,106 | 551,237,140 | 578,867,530 | 802,430,600 |
| HG Galleria I II III LP | Real Estate | 319,442,735 | 315,388,094 | - | - | 324,487,276 | - | - | - | - | - |
| Triaechahn Allen Ctr LP | Real Estate | - | - | - | - | - | 494,993,746 | 415,503,465 | 427,714,270 | 458,739,180 | 493,003,060 |
| 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 | 227,448,310 |
| Block 98 Partners Li D | Real Estate | - | - | - | - | - | - | 335,909,200 | - | - | - |
| Exxon Mobil Corp | Oil & Gas | 305,020,231 | 305,281,064 | - | - | - | - | 302,072,770 | 191,526,250 | 317,717,860 | 330,311,610 |
| Continental Airlines | Airline | - | - | - | - | - | - | - | 236,174,370 | 326,389,070 | 389,707,480 |
| Pacifico Antonio & Trustees | | - | - | - | - | - | - | - | - | 301,983,230 | 259,641,700 |
| Totals | | \$ 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 | \$ 5,304,707,340 |
| Total Taxable Assessed Value | | \$ 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 | \$ 67,382,040,759 |

Source: Local County Appraisal District

See Independent Auditor's Report.

Table 7

HOUSTON COMMUNITY COLLEGE SYSTEM
 PRINCIPAL TAXPAYERS (Taxable Value)-CONTINUED
 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 | 0.89% | 0.86% | 0.99% | 0.99% | 1.11% | 1.22% | 1.15% | 1.25% | 1.27% | 1.27% |
| Crescent Real Estate | Real Estate | 0.90% | 0.79% | 0.97% | 1.32% | 1.32% | 1.04% | 0.79% | 1.16% | 0.95% | 1.02% |
| Cullen Allen Holdings Lp | Real Estate | 0.00% | 0.48% | 0.58% | 0.71% | 0.65% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Hines Interests Ltd Ptnrsp | Real Estate | 0.77% | 0.66% | 0.56% | 0.92% | 1.07% | 0.68% | 0.79% | 0.83% | 1.03% | 1.18% |
| AT&T Mobility Llc | Utility | 0.35% | 0.38% | 0.49% | 0.56% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Tpg 2101 Citywest 1 & 2 Lp | Real Estate | 0.39% | 0.36% | 0.45% | 0.55% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Chevron Chemical Co | Oil & Gas | 0.50% | 0.36% | 0.39% | 0.46% | 0.44% | 0.40% | 0.31% | 0.28% | 0.00% | 0.00% |
| Anheuser Busch Inc | Brewery | 0.29% | 0.31% | 0.36% | 0.43% | 0.50% | 0.55% | 0.59% | 0.60% | 0.68% | 0.69% |
| Houston Refining | Oil & Gas | 0.00% | 0.00% | 0.35% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Valero Energy Corp | Oil & Gas | 0.00% | 0.00% | 0.32% | 0.37% | 0.34% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Teachers Insurance | Insurance | 0.00% | 0.00% | 0.00% | 0.55% | 0.56% | 0.35% | 0.00% | 0.00% | 0.00% | 0.00% |
| Shell Oil Co | Oil & Gas | 0.26% | 0.00% | 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% | 0.58% | 0.65% | 0.75% | 0.69% | 0.82% | 1.19% |
| HG Galleria I II III LP | Real Estate | 0.25% | 0.24% | 0.00% | 0.00% | 0.35% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Triachahn Allen Ctr LP | Real Estate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.58% | 0.52% | 0.53% | 0.65% | 0.73% |
| Lyondell Chemical Co | Oil & Gas | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.35% | 0.00% | 0.00% | 0.00% | 0.00% |
| HG Shopping Centers LP | Real Estate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.35% | 0.33% | 0.30% | 0.32% | 0.34% |
| Block 98 Partners Lt D | Real Estate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.42% | 0.00% | 0.00% | 0.00% |
| Exxon Mobil Corp | Oil & Gas | 0.24% | 0.23% | 0.00% | 0.00% | 0.00% | 0.00% | 0.38% | 0.24% | 0.45% | 0.49% |
| Continental Airlines | Airline | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.29% | 0.46% | 0.58% |
| Pacifico Antonio & Trustees | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.43% | 0.39% |
| Totals | | 4.85% | 4.68% | 5.45% | 6.85% | 6.92% | 6.18% | 6.03% | 6.16% | 7.05% | 7.87% |

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 |
| 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% |
| 2001-2002 | 0.082333 | 67,382,040,759 | 55,477,656 | 56,837,213 | 102.45% | 2,418,492 | 59,255,705 | 106.81% |

* "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 | | | | | | | | | |
|--|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2011 | 2010 | 2009* | 2008* | 2007* | 2006* | 2005* | 2004* | 2003 | 2002 |
| General Obligation Bonds | \$ 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 | 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>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> | <u>-</u> |
| Per Capita | \$ 132.60 | \$ 118.77 | \$ 92.82 | \$ 95.80 | \$ 72.86 | \$ 76.23 | \$ 72.84 | \$ 73.37 | \$ - | \$ - |
| Per Student | \$ 3,605.41 | \$ 3,376.61 | \$ 2,995.76 | \$ 3,485.68 | \$ 2,745.23 | \$ 2,983.95 | \$ 2,846.49 | \$ 2,783.79 | \$ - | \$ - |
| As a Percentage of Taxable Assessed Value | 0.23% | 0.20% | 0.17% | 0.18% | 0.15% | 0.17% | 0.18% | 0.19% | 0.00% | 0.00% |
| Revenue Bonds | \$ 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 | \$ 152,049,177 |
| 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 | <u>1,304,824</u> | <u>3,914,472</u> | <u>6,524,120</u> | <u>-</u> | <u>34,395,970</u> | <u>35,436,616</u> | <u>37,523,860</u> | <u>39,895,534</u> | <u>42,100,491</u> | <u>28,404,310</u> |
| Total Outstanding Debt | <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> | <u>\$ 180,453,487</u> |
| Per Capita | \$ 288.00 | \$ 283.42 | \$ 254.96 | \$ 259.82 | \$ 233.15 | \$ 185.83 | \$ 167.10 | \$ 164.10 | \$ 93.58 | \$ 87.94 |
| Per Student | \$ 7,830.98 | \$ 8,057.88 | \$ 8,229.05 | \$ 9,453.49 | \$ 8,784.27 | \$ 7,274.57 | \$ 6,530.40 | \$ 6,225.98 | \$ 3,657.12 | \$ 3,336.23 |
| As a Percentage of Taxable Assessed Value | 0.50% | 0.47% | 0.47% | 0.53% | 0.54% | 0.46% | 0.43% | 0.42% | 0.23% | 0.22% |

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 | | | | |
|---|------------------------------|--------------------|--------------------|--------------------|-------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| TAXABLE ASSESSED VALUE | \$ 125,975,478,092 | \$ 130,429,808,430 | \$ 117,021,714,313 | \$ 104,790,367,164 | \$ 91,844,567,892 |
| GENERAL OBLIGATION BONDS: | | | | | |
| Statutory Tax Levy Limit for Debt Service | 629,877,390 | 652,149,042 | 585,108,572 | 523,951,836 | 459,222,839 |
| Less: Funds Restricted for Repayment of General Obligation Bonds | - | - | - | - | - |
| Total Net General Obligation Debt | 629,877,390 | 652,149,042 | 585,108,572 | 523,951,836 | 459,222,839 |
| Current Year Debt Service Requirements | 20,616,717 | 16,768,273 | 11,034,759 | 11,059,125 | 11,069,990 |
| Excess of Statutory Limit for Debt Service over Current Requirements | \$ 609,260,673 | \$ 635,380,769 | \$ 574,073,813 | \$ 512,892,711 | \$ 448,152,849 |
| Net Current Requirements as a % of Statutory Limit | 3.27% | 2.57% | 1.89% | 2.11% | 2.41% |
| | For the Year Ended August 31 | | | | |
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| TAXABLE ASSESSED VALUE | \$ 84,801,822,246 | \$ 80,374,399,473 | \$ 80,259,613,280 | \$ 76,806,418,188 | \$ 73,053,582,789 |
| GENERAL OBLIGATION BONDS: | | | | | |
| Statutory Tax Levy Limit for Debt Service | 424,009,111 | 401,871,997 | 401,871,997 | 401,298,066 | 353,873,552 |
| Less: Funds Restricted for Repayment of General Obligation Bonds | - | - | - | - | - |
| Total Net General Obligation Debt | 424,009,111 | 401,871,997 | 401,871,997 | 401,298,066 | 353,873,552 |
| Current Year Debt Service Requirements | 10,258,879 | 11,704,474 | 11,816,469 | - | - |
| Excess of Statutory Limit for Debt Service over Current Requirements | \$ 413,750,232 | \$ 390,167,523 | \$ 390,055,528 | \$ 401,298,066 | \$ 353,873,552 |
| Net Current Requirements as a % of Statutory Limit | 2.42% | 2.91% | 2.94% | 0.00% | 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 |
| 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 | 81,401,976 | 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 | 74,049,778 | 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 |
| 2002 | 42,387,561 | 1,328,019 | 1,607,173 | 25,225,918 | 2,612,338 | 7,792,752 | 1,557,900 | 936,054 | 143,574 | 776,998 | 406,835 |

| Fiscal Year Ended August 31 | Debt Service Requirements | | | Coverage Ratio |
|-----------------------------------|---------------------------|---------------|---------------|-------------------|
| | Principal | Interest | Total | |
| 2011 | \$ 11,335,000 | \$ 10,712,486 | \$ 22,047,486 | 3.69 |
| 2010 | 10,770,000 | 10,325,724 | 21,095,724 | 3.51 |
| 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 |
| 2002 | 3,585,000 | 6,060,779 | 9,645,779 | 4.39 |

See Independent Auditor's Report.

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 |
|---------------|----------------------------|---------------------------------|---|--------------------------------------|
| 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 | - |
| *2001 | 1,927,598 | 40,895,624,862 | 21,216 | - |

* Year 2001 is estimated based on 2000 and 2002 data due to information not being available.

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.

HOUSTON COMMUNITY COLLEGE SYSTEM
PRINCIPAL EMPLOYERS
Fiscal Years 2008-2011
(Unaudited)

| Houston-Sugar Land-Baytown MSA (Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty Montgomery, San Jacinto, Waller) | June 2011 (p) | June 2010* | June 2009 | June 2008 |
|---|----------------------|------------------|------------------|------------------|
| | Number of Employees | | | |
| Total Nonagricultural | | | | |
| Trade, Transportation, & Utilities | 525,500 | 515,800 | 517,000 | 530,300 |
| Professional, & Business Services | 377,900 | 363,600 | 359,000 | 392,000 |
| Government | 377,200 | 381,800 | 364,000 | 352,400 |
| Education & Health Services | 311,600 | 308,900 | 296,200 | 291,200 |
| Mining/Logging & Construction | 264,500 | 252,800 | 270,400 | 90,600 |
| Manufacturing | 227,500 | 217,500 | 225,000 | 237,800 |
| Leisure & Hospitality | 249,400 | 241,100 | 243,800 | 239,800 |
| Financial Activities | 134,400 | 136,200 | 140,000 | 147,500 |
| Other Services | 95,800 | 92,700 | 93,700 | 97,300 |
| Information | 30,000 | 32,500 | 34,900 | 37,100 |
| Total | <u>2,593,800</u> | <u>2,542,900</u> | <u>2,544,000</u> | <u>2,416,000</u> |
| | Percent of Employees | | | |
| Total Nonagricultural | | | | |
| Trade, Transportation, & Utilities | 20.26% | 20.28% | 20.32% | 21.95% |
| Professional, & Business Services | 14.57% | 14.30% | 14.11% | 16.23% |
| Government | 14.54% | 15.01% | 14.31% | 14.59% |
| Education & Health Services | 12.01% | 12.15% | 11.64% | 12.05% |
| Natural Resources, Mining & Construction | 10.20% | 9.94% | 10.63% | 3.75% |
| Manufacturing | 8.77% | 8.55% | 8.84% | 9.84% |
| Leisure & Hospitality | 9.62% | 9.48% | 9.58% | 9.93% |
| Financial Activities | 5.18% | 5.36% | 5.50% | 6.11% |
| Other Services | 3.69% | 3.65% | 3.68% | 4.03% |
| Information | <u>1.16%</u> | <u>1.28%</u> | <u>1.37%</u> | <u>1.54%</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)

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Faculty | | | | | | | | | | |
| Full-Time | 910 | 848 | 829 | 821 | 810 | 814 | 799 | 743 | 755 | 739 |
| Part-Time | 2,921 | 2,345 | 2,049 | 2,499 | 2,513 | 2,391 | 2,329 | 2,023 | 2,278 | 2,429 |
| Total | <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> | <u>3,168</u> |
| Percent | | | | | | | | | | |
| Full-Time | 23.8% | 26.6% | 28.8% | 24.7% | 24.4% | 25.4% | 25.5% | 26.9% | 24.9% | 23.3% |
| Part-Time | 76.2% | 73.4% | 71.2% | 75.3% | 75.6% | 74.6% | 74.5% | 73.1% | 75.1% | 76.7% |
| Staff and Administrators | | | | | | | | | | |
| Full-Time | 1,272 | 1,185 | 1,102 | 1,079 | 1,080 | 1,053 | 1,049 | 1,067 | 1,043 | 912 |
| Part-Time | 1,169 | 1,323 | 1,259 | 1,504 | 1,408 | 1,226 | 1,288 | 1,301 | 1,657 | 1,412 |
| Total | <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> | <u>2,324</u> |
| Percent | | | | | | | | | | |
| Full-Time | 52.1% | 47.2% | 46.7% | 41.8% | 43.4% | 46.2% | 44.9% | 45.1% | 38.6% | 39.2% |
| Part-Time | 47.9% | 52.8% | 53.3% | 58.2% | 56.6% | 53.8% | 55.1% | 54.9% | 61.4% | 60.8% |
| Students per Full-time | | | | | | | | | | |
| Faculty | 62.2 | 57.1 | 53.6 | 53.0 | 55.3 | 51.6 | 55.1 | 55.6 | 57.1 | 58.2 |
| Staff Member | 44.5 | 40.9 | 40.3 | 40.3 | 41.5 | 39.9 | 42.0 | 38.7 | 41.3 | 47.2 |
| Average Annual 9/12 Month | | | | | | | | | | |
| Faculty Salary* | \$ 62,533 | \$ 62,833 | \$ 60,378 | \$ 56,047 | \$ 54,766 | \$ 55,228 | \$ 54,264 | \$ 51,928 | \$ 49,570 | \$ 51,021 |

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

See Independent Auditor's Report.

Table 15

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

| Student Classification* | Fall 2010 | | Fall 2009 | | Fall 2008 | | Fall 2007 | | Fall 2006 | | Fall 2005 | | Fall 2004 | | Fall 2003 | |
|----------------------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|
| | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent |
| Freshman | 32,660 | 57.71% | 28,401 | 58.67% | 25,883 | 58.23% | 25,559 | 58.78% | 25,959 | 57.95% | 24,444 | 58.17% | 24,644 | 55.99% | 23,615 | 57.13% |
| Sophomore | 13,447 | 23.76% | 10,695 | 22.09% | 9,883 | 22.24% | 8,756 | 20.14% | 8,812 | 19.67% | 8,669 | 20.63% | 8,917 | 20.26% | 8,179 | 19.79% |
| Unclassified | 3,390 | 5.99% | 2,374 | 4.90% | 2,042 | 4.59% | 1,872 | 4.31% | 1,859 | 4.15% | 1,840 | 4.38% | 1,777 | 4.04% | 1,481 | 3.58% |
| Assoc. Degree | 120 | 0.21% | 165 | 0.34% | 177 | 0.40% | 168 | 0.39% | 164 | 0.37% | 187 | 0.45% | 189 | 0.43% | 138 | 0.33% |
| BS & Above | 361 | 0.64% | 514 | 1.06% | 644 | 1.45% | 601 | 1.38% | 627 | 1.40% | 684 | 1.63% | 800 | 1.82% | 571 | 1.38% |
| Continuing Ed. Only | 6,614 | 11.69% | 6,256 | 12.92% | 5,817 | 13.09% | 6,528 | 15.01% | 7,378 | 16.47% | 6,198 | 14.75% | 7,686 | 17.46% | 7,352 | 17.79% |
| Total | 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% | 41,336 | 100.00% |
| Semester Hour Load** | Fall 2010 | | Fall 2009 | | Fall 2008 | | Fall 2007 | | Fall 2006 | | Fall 2005 | | Fall 2004 | | Fall 2003 | |
| | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent |
| Less than 3 | 748 | 1.32% | 624 | 1.29% | 613 | 1.38% | 310 | 0.71% | 677 | 1.51% | 270 | 0.64% | 285 | 0.65% | 247 | 0.60% |
| 3-5 semester hrs | 13,516 | 23.88% | 10,755 | 22.22% | 10,229 | 23.01% | 10,198 | 23.45% | 10,519 | 23.48% | 9,606 | 22.86% | 9,547 | 21.69% | 8,676 | 20.99% |
| 6-8 Semester hrs | 13,781 | 24.35% | 11,575 | 23.91% | 10,532 | 23.70% | 10,301 | 23.69% | 10,338 | 23.08% | 9,608 | 22.86% | 9,628 | 21.88% | 9,061 | 21.92% |
| 9-11 semester hrs | 10,359 | 18.30% | 8,750 | 18.08% | 7,589 | 17.07% | 6,956 | 16.00% | 7,088 | 15.82% | 6,827 | 16.25% | 6,892 | 15.66% | 6,365 | 15.40% |
| 12-14 semester hrs | 9,958 | 17.60% | 8,950 | 18.49% | 8,176 | 18.40% | 7,791 | 17.92% | 7,505 | 16.75% | 8,030 | 19.11% | 8,425 | 19.14% | 8,083 | 19.55% |
| 15-17 semester hrs | 1,443 | 2.55% | 1,341 | 2.77% | 1,318 | 2.97% | 1,264 | 2.91% | 1,138 | 2.54% | 1,310 | 3.12% | 1,328 | 3.02% | 1,335 | 3.23% |
| 18 & over | 173 | 0.31% | 154 | 0.32% | 172 | 0.39% | 136 | 0.31% | 156 | 0.35% | 173 | 0.41% | 222 | 0.50% | 217 | 0.52% |
| Continuing Ed. Only | 6,614 | 11.69% | 6,256 | 12.92% | 5,817 | 13.09% | 6,528 | 15.01% | 7,378 | 16.47% | 6,198 | 14.75% | 7,686 | 17.46% | 7,352 | 17.79% |
| Total | 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% | 41,336 | 100.00% |
| Average course load | 7.8 SCH | | 7.9 SCH | | 7.8 SCH | | 7.7 SCH | | 7.7 SCH | | 7.8 SCH | | 7.9 SCH | | 8.0 SCH | |
| Tuition Status*** | Fall 2010 | | Fall 2009 | | Fall 2008 | | Fall 2007 | | Fall 2006 | | Fall 2005 | | Fall 2004 | | Fall 2003 | |
| | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent |
| Texas Resident (in-District) | 31,267 | 55.25% | 26,003 | 53.72% | 22,159 | 49.86% | 21,820 | 50.18% | 22,343 | 49.87% | 21,488 | 51.14% | 21,067 | 47.87% | 19,007 | 45.98% |
| Texas Resident (out-of-District) | 12,298 | 21.73% | 10,446 | 21.58% | 11,254 | 25.32% | 10,728 | 24.67% | 11,289 | 25.20% | 10,925 | 26.00% | 11,699 | 26.58% | 11,502 | 27.83% |
| Non-Resident Tuition | 6,170 | 10.90% | 5,528 | 11.42% | 5,061 | 11.39% | 4,264 | 9.81% | 3,615 | 8.07% | 3,222 | 7.67% | 3,342 | 7.59% | 3,143 | 7.60% |
| Tuition Waiver | 243 | 0.43% | 172 | 0.36% | 155 | 0.35% | 144 | 0.33% | 174 | 0.39% | 189 | 0.45% | 219 | 0.50% | 216 | 0.52% |
| Other | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | - | 0.00% | 116 | 0.28% |
| Not Applicable (Cont. Ed.) | 6,614 | 11.69% | 6,256 | 12.92% | 5,817 | 13.09% | 6,528 | 15.01% | 7,378 | 16.47% | 6,198 | 14.75% | 7,686 | 17.46% | 7,352 | 17.79% |
| Total | 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% | 41,336 | 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 2010 | | Fall 2009 | | Fall 2008 | | Fall 2007 | | Fall 2006 | | Fall 2005 | | Fall 2004 | | Fall 2003 | |
|------------------|------------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|
| | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent |
| Female | 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% | 21,679 | 52.45% |
| Male | 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% | 19,657 | 47.55% |
| Total | 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% | 41,336 | 100.00% |
| Ethnic Origin | Fall 2010* | | Fall 2009 | | Fall 2008 | | Fall 2007 | | Fall 2006 | | Fall 2005 | | Fall 2004 | | Fall 2003 | |
| | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent |
| White | 11,393 | 20.13% | 9,506 | 19.64% | 8,623 | 19.40% | 9,307 | 21.40% | 10,663 | 23.80% | 10,193 | 24.26% | 12,204 | 27.73% | 12,183 | 29.47% |
| African American | 15,685 | 27.72% | 11,558 | 23.88% | 10,156 | 22.85% | 9,938 | 22.85% | 10,386 | 23.18% | 9,480 | 22.56% | 10,042 | 22.82% | 9,191 | 22.23% |
| Hispanic | 17,721 | 31.31% | 14,160 | 29.25% | 13,257 | 29.83% | 12,371 | 28.45% | 12,518 | 27.94% | 11,337 | 26.98% | 12,339 | 28.03% | 11,253 | 27.22% |
| Asian | 5,881 | 10.39% | 4,832 | 9.98% | 4,676 | 10.52% | 4,718 | 10.85% | 4,762 | 10.63% | 5,116 | 12.17% | 4,635 | 10.53% | 4,392 | 10.63% |
| Native American | 138 | 0.24% | 121 | 0.25% | 101 | 0.23% | 91 | 0.21% | 108 | 0.24% | 101 | 0.24% | 132 | 0.30% | 124 | 0.30% |
| Foreign | 4,270 | 7.55% | 3,875 | 8.01% | 3,654 | 8.22% | 3,190 | 7.34% | 2,867 | 6.40% | 4,527 | 10.77% | 3,711 | 8.43% | 3,279 | 7.93% |
| Unknown | 1,504 | 2.66% | 4,353 | 8.99% | 3,979 | 8.95% | 3,869 | 8.90% | 3,495 | 7.80% | 1,268 | 3.02% | 950 | 2.16% | 914 | 2.21% |
| Total | 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% | 41,336 | 100.00% |
| Age | Fall 2010 | | Fall 2009 | | Fall 2008 | | Fall 2007 | | Fall 2006 | | Fall 2005 | | Fall 2004 | | Fall 2003 | |
| | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent |
| Under 18 | 3,046 | 5.38% | 1,886 | 3.90% | 1,778 | 4.00% | 2,826 | 6.50% | 2,687 | 6.00% | 2,075 | 4.94% | 1,768 | 4.02% | 1,264 | 3.06% |
| 18 - 21 | 17,205 | 30.40% | 15,275 | 31.56% | 14,191 | 31.93% | 13,157 | 30.26% | 13,007 | 29.03% | 12,051 | 28.68% | 11,968 | 27.19% | 11,103 | 26.86% |
| 22 - 24 | 9,328 | 16.48% | 8,303 | 17.15% | 7,745 | 17.43% | 7,203 | 16.56% | 7,444 | 16.62% | 7,245 | 17.24% | 7,674 | 17.44% | 7,337 | 17.75% |
| 25 - 35 | 16,569 | 29.28% | 14,186 | 29.31% | 12,663 | 28.49% | 12,137 | 27.91% | 12,564 | 28.05% | 12,247 | 29.14% | 13,171 | 29.93% | 12,425 | 30.06% |
| 36 - 50 | 7,957 | 14.06% | 6,749 | 13.94% | 6,219 | 13.99% | 6,198 | 14.25% | 6,974 | 15.57% | 6,558 | 15.61% | 7,395 | 16.80% | 7,208 | 17.44% |
| 51 & over | 2,468 | 4.36% | 1,967 | 4.06% | 1,783 | 4.01% | 1,842 | 4.24% | 1,973 | 4.40% | 1,704 | 4.06% | 1,930 | 4.39% | 1,849 | 4.47% |
| Unknown | 19 | 0.03% | 39 | 0.08% | 67 | 0.15% | 121 | 0.28% | 150 | 0.33% | 142 | 0.34% | 107 | 0.24% | 150 | 0.36% |
| Total | 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% | 41,336 | 100.00% |
| Average Age | 27.4 | | 27.3 | | 27.2 | | 27.2 | | 28.4 | | 27.6 | | 28.0 | | 28.3 | |

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

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

See Independent Auditor's Report.

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

| Contact Hours | | | | |
|---------------|------------|-----------|------------|-----------|
| Fiscal Year | Academic | Voc Tech | Total | CEU |
| 2010-2011 | 17,801,976 | 5,924,078 | 23,726,054 | 1,928,319 |
| 2009-2010 | 16,652,752 | 5,680,164 | 22,332,916 | 1,888,884 |
| 2008-2009 | 14,346,048 | 4,883,890 | 19,229,938 | 1,819,150 |
| 2007-2008 | 12,739,152 | 4,422,288 | 17,161,440 | 1,850,300 |
| 2006-2007 | 12,077,904 | 4,378,250 | 16,456,154 | 2,099,330 |
| 2005-2006 | 11,487,128 | 4,260,486 | 15,747,614 | 1,994,869 |
| 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 | 2,153,453 |
| 2001-2002 | 10,785,752 | 5,191,054 | 15,976,806 | 2,375,461 |

See Independent Auditor's Report.

Table 18

HOUSTON COMMUNITY COLLEGE SYSTEM
TRANSFERS TO SENIOR INSTITUTIONS
2008-2009 GRADUATES*
(Includes Only Public Senior Colleges in Texas)

| | Total Student Count | Total Student Count | Total Student Count | Total of all Sample Transfer Students | % of all Sample Transfer Students |
|---|------------------------|---------------------------|---------------------------|--|--|
| | Academic | Technical | Tech-Prep | | |
| 1 Angelo State University | 6 | 2 | | 8 | 0.07% |
| 2 Baylor College of Medicine | 2 | 1 | | 3 | 0.03% |
| 3 Lamar University | 144 | 24 | 4 | 172 | 1.57% |
| 4 Midwestern State University | 15 | 7 | 1 | 23 | 0.21% |
| 5 Prairie View A&M University | 284 | 38 | 4 | 326 | 2.98% |
| 6 Sam Houston State University | 261 | 23 | 5 | 289 | 2.64% |
| 7 Stephen F. Austin State University | 190 | 8 | 3 | 201 | 1.83% |
| 8 Sul Ross State University | 1 | | | 1 | 0.01% |
| 9 Tarleton State University | 4 | | | 4 | 0.04% |
| 10 Texas A&M International University | 2 | | | 2 | 0.02% |
| 11 Texas A&M University | 860 | 18 | 13 | 891 | 8.13% |
| 12 Texas A&M University - Commerce | 6 | 1 | | 7 | 0.06% |
| 13 Texas A&M University - Corpus Christi | 38 | 1 | | 39 | 0.36% |
| 14 Texas A&M University - Kingsville | 16 | 2 | 1 | 19 | 0.17% |
| 15 Texas A&M University at Galveston | 30 | | | 30 | 0.27% |
| 16 Texas Southern University | 685 | 74 | 8 | 767 | 7.00% |
| 17 Texas State University | 229 | 9 | 4 | 242 | 2.21% |
| 18 Texas Tech University | 239 | 7 | 2 | 248 | 2.26% |
| 19 Texas Tech University Health Sciences Center | 29 | 5 | | 34 | 0.31% |
| 20 Texas Woman's University | 106 | 19 | 1 | 126 | 1.15% |
| 21 The Texas A&M University System Health Science Center | 9 | 1 | | 10 | 0.09% |
| 22 The University of Texas - Pan American | 9 | | | 9 | 0.08% |
| 23 The University of Texas at Arlington | 67 | 4 | | 71 | 0.65% |
| 24 The University of Texas at Austin | 1,109 | 30 | 9 | 1,148 | 10.48% |
| 25 The University of Texas at Brownsville | 2 | | | 2 | 0.02% |
| 26 The University of Texas at Dallas | 28 | 1 | 2 | 31 | 0.28% |
| 27 The University of Texas at El Paso | 5 | 2 | | 7 | 0.06% |
| 28 The University of Texas at San Antonio | 254 | 9 | 1 | 264 | 2.41% |
| 29 The University of Texas at Tyler | 12 | | | 12 | 0.11% |
| 30 The University of Texas Health Science Center at Houston | 106 | 10 | | 116 | 1.06% |
| 31 The University of Texas Health Science Center at San Antonio | 19 | 3 | | 22 | 0.20% |
| 32 The University of Texas M.D. Anderson Cancer Center | 60 | 7 | | 67 | 0.61% |
| 33 The University of Texas Medical Branch at Galveston | 75 | 12 | 1 | 88 | 0.80% |
| 34 The University of Texas of the Permian Basin | 4 | | | 4 | 0.04% |
| 35 The University of Texas Southwestern Medical Center at Dallas | 4 | | | 4 | 0.04% |
| 36 University of Houston | 3,319 | 254 | 100 | 3,673 | 33.52% |
| 37 University of Houston - Downtown | 1,294 | 126 | 40 | 1,460 | 13.32% |
| 38 University of Houston at Clear Lake | 159 | 23 | 4 | 186 | 1.70% |
| 39 University of Houston at Victoria | 220 | 31 | 10 | 261 | 2.38% |
| 40 University of North Texas | 75 | 2 | 1 | 78 | 0.71% |
| 41 University of North Texas Health Science Center at Fort Wc | 1 | | | 1 | 0.01% |
| 42 West Texas A&M University | 8 | 2 | 1 | 11 | 0.10% |
| | <u>9,986</u> | <u>756</u> | <u>215</u> | <u>10,957</u> | <u>100.00%</u> |

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

*Latest information

See Independent Auditor's Report.

HOUSTON COMMUNITY COLLEGE SYSTEM
CAPITAL ASSET INFORMATION
FISCAL YEARS 2008 - 2011
(Unaudited)

| | Fiscal Year 2011 | Fiscal Year 2010 | Fiscal Year 2009 | Fiscal Year 2008 |
|---|---------------------|---------------------|---------------------|---------------------|
| <u>Academic buildings *</u> | | | | |
| Number of Academic Buildings | 63 | 72 | 71 | 71 |
| Square footage | 3,164,033 | 3,122,289 | 3,637,525 | 3,136,077 |
| <u>Libraries</u> | | | | |
| Number of Libraries | 15 | 14 | 14 | 14 |
| Square footage | 148,020 | 147,058 | 121,595 | 99,712 |
| Number of Volumes | | | | |
| Circulating books | 206,784 | 193,635 | 186,610 | 176,367 |
| Reference books | 24,553 | 24,674 | 24,641 | 23,908 |
| Media items | 27,471 | 27,068 | 22,699 | 21,168 |
| Magazines, Journals, Newspapers | 276 | 274 | 307 | 642 |
| Electronic books (Digital video) | 60,897 | 37,407 | 36,873 | 30,094 |
| Electronic Journals | 21,935 | 35,848 | 15,357 | 17,736 |
| Total | <u>341,916</u> | <u>318,906</u> | <u>286,487</u> | <u>269,915</u> |
| <u>Administrative and support buildings</u> | | | | |
| Number of Administrative and support buildings | 3 | 3 | 4 | 4 |
| Square footage | 628,674 | 601,000 | 601,000 | 601,000 |
| <u>Transportation</u> | | | | |
| Bus | 2 | 2 | 1 | 2 |
| Cars | 31 | 28 | 28 | 19 |
| Golf Cart | 19 | 19 | 15 | 12 |
| Motorcycle/Segway | 5 | | | |
| Motor Home/Mobile Unit | 2 | 2 | 1 | 1 |
| SUV | 4 | 2 | 1 | 1 |
| Tank | 2 | 2 | 2 | 2 |
| Tractors | 35 | 36 | 33 | 33 |
| Trailers | 45 | 46 | 40 | 32 |
| Truck | 11 | 14 | 13 | 11 |
| Truck, Heavy (Fire Truck) | 6 | 0 | 0 | 0 |
| Vans | 23 | 21 | 19 | 20 |
| Utility Vehicles | 6 | 4 | 4 | 2 |
| Total | <u>191</u> | <u>176</u> | <u>157</u> | <u>135</u> |

*Buildings include academic, 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, 2011, and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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*.

We noted certain matters that we reported to management of the System in a separate letter dated November 10, 2011.

Texas Public Funds Investment Act

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

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.

Gainer Donnelly & Desroches LLP

November 10, 2011

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, 2011. 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, 2011. 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 item 2011-1.

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.

The System's response to the finding 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.

Gainer Donnelly & Desroches LLP

November 10, 2011

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2011

| Federal Grantor Pass-through Grantor Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Pass-Through Disbursements and Expenditures |
|--|---------------------------|-------------------------------------|--|
| U. S. Department of Education | | | |
| Direct Programs: | | | |
| Student Financial Aid Cluster: | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | | \$ 941,544 |
| Federal Work-Study Program | 84.033 | | 940,922 |
| Federal Pell Grant Program | 84.063 | | 94,861,367 |
| Federal Direct Student Loans | 84.268 | | 96,002,391 |
| Academic Competitiveness Grants | 84.375 | | 369,025 |
| Teacher Education Assistance for College and Higher Education Grants (TEACH Grants) | 84.379 | | <u>117,990</u> |
| Total Student Financial Aid Cluster | | | 193,233,239 |
| TRIO Cluster: | | | |
| TRIO - Student Support Services | 84.042 | | 396,043 |
| TRIO - Upward Bound | 84.047 | | <u>871,404</u> |
| Total TRIO Cluster | | | 1,267,447 |
| Higher Education - Institutional Aid | 84.031A | | 183,980 |
| Fund for the Improvement of Postsecondary Education | 84.116Z | | 260,125 |
| Bilingual Education - Professional Development | 84.195 | | 27,433 |
| Tech-Prep Demonstration Grants | 84.353 | | 16,214 |
| Transition Programs for Students with Intellectual Disabilities into Higher Education | 84.407 | | 194,014 |
| Pass-Through From: | | | |
| Texas Educational Agency | | | |
| Adult Education - Basic Grants to States | 84.002 | 124100017110415 | 514,227 |
| Adult Education - Basic Grants to States | 84.002 | 114100017110374 | 5,610,518 |
| Adult Education - Basic Grants to States | 84.002 | 114100087110375 | 120,241 |
| Adult Education - Basic Grants to States | 84.002 | 124100087110433 | <u>8,890</u> |
| Total Adult Education - Basic Grants to States | | | 6,253,876 |
| University of St. Thomas | | | |
| Higher Education - Institutional Aid | 84.031C | UST CCRAA 001-HCCS | 70,895 |
| Texas Higher Education Coordinating Board | | | |
| Career and Technical Education - Basic Grants to States | 84.048 | 104220 | 11,166 |
| Career and Technical Education - Basic Grants to States | 84.048 | 114221 | <u>1,105,074</u> |
| Total Career and Technical Education - Basic Grants to States | | | 1,116,240 |
| Byrd Honors Scholarships | 84.185 | N/A | 750 |
| College Access Challenge Grant Program | 84.378 | 06020 | 2,100 |
| College Access Challenge Grant Program | 84.378 | 03286 | 21,000 |
| Leveraging Educational Assistance Partnership | 84.069A | N/A | 57,679 |
| Leveraging Educational Assistance Partnership | 84.069B | N/A | <u>78,663</u> |
| Total Leveraging Educational Assistance Partnership | | | 136,342 |
| Lone Star College System | | | |
| Tech-Prep Education | 84.243 | N/A | 69,898 |
| Total U.S Department of Education | | | <u>397,354,238</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 - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2011

| Federal Grantor Pass-through Grantor Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Pass-Through Disbursements and Expenditures |
|---|---------------------------|-------------------------------------|--|
| U.S. Department of Agriculture | | | |
| Direct Programs: | | | |
| Hispanic Serving Institutions Education Grants | 10.223 | | \$ 7,337 |
| Hispanic Serving Institutions Education Grants | 10.223 | | 13,294 |
| Hispanic Serving Institutions Education Grants | 10.223 | | 30,559 |
| Hispanic Serving Institutions Education Grants | 10.223 | | 96,076 |
| Hispanic Serving Institutions Education Grants | 10.223 | | 956 |
| Hispanic Serving Institutions Education Grants | 10.223 | | 158,535 |
| Hispanic Serving Institutions Education Grants | 10.223 | | 114,870 |
| Pass-Through From: | | | |
| Texas A&M University - Corpus Christi | | | |
| Hispanic Serving Institutions Education Grants | 10.223 | 10-035 | <u>5,830</u> |
| Total Hispanic Serving Institutions Education Grants | | | <u>427,457</u> |
| Total U.S Department of Agriculture | | | <u>427,457</u> |
| U.S. Department of Housing and Urban Development | | | |
| Direct Programs: | | | |
| Hispanic-Serving Institutions Assisting Communities | 14.514 | | 2,793 |
| Pass-Through From: | | | |
| Child Care Council of Greater Houston, Inc. | 14.218 | | <u>40,464</u> |
| Total U.S Department of Housing And Urban Development | | | <u>43,257</u> |
| U.S. Department of Labor | | | |
| Pass-Through From: | | | |
| WIA Cluster | | | |
| Houston-Galveston Area Council | | | |
| ARRA - WIA Adult Program | 17.258 | 737-10 | 60,864 |
| ARRA - WIA Dislocated Workers | 17.260 | 737-10 | <u>207,949</u> |
| | | | 268,813 |
| North Central Texas Council of Government and Workforce Solutions for North Central Texas Community Based Job Training Grants | 17.269 | FY10-DOLCBJT-04 | 45,042 |
| Texas Workforce Commission | | | |
| WIA Dislocated Worker Formula Grants | 17.278 | 2911WSW005 | <u>227</u> |
| Total U.S. Department of Labor | | | <u>314,082</u> |
| National Aeronautics and Space Administration | | | |
| Pass-Through From: | | | |
| University of Texas at Austin | | | |
| Aerospace Education Services Program | 43.001 | UTA06-540 | 8,851 |
| Space Telescope Science Institute | | | |
| Aerospace Education Services Program | 43.001 | HST-ED-90315.01-A | <u>24,293</u> |
| Total National Aeronautics and Space Administration | | | <u>33,144</u> |
| National Science Foundation | | | |
| Direct Programs: | | | |
| Education and Human Resources | 47.076 | | 120,026 |
| Pass-Through From: | | | |
| University of Houston System | | | |
| Education and Human Resources | 47.076 | R-09-0170 | 40,534 |
| Education and Human Resources | 47.076 | R-08-0146 | <u>14,486</u> |
| | | | 55,020 |
| Total National Science Foundation | | | <u>175,046</u> |

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

Schedule E

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
 FOR THE YEAR ENDED AUGUST 31, 2011

| Federal Grantor Pass-through Grantor Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Pass-Through Disbursements and Expenditures |
|---|---------------------------|-------------------------------------|--|
| U. S. Department of Veterans Affairs | | | |
| Direct Programs: | | | |
| Post 9/11 Veterans Educational Assistance | 64.028 | | \$ <u>2,377,559</u> |
| Total U.S. Department of Veterans Affairs | | | <u>2,377,559</u> |
| U.S. Department of Energy | | | |
| Direct Programs: | | | |
| ARRA - Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance | 81.087 | | <u>482,525</u> |
| Total U.S. Department of Energy | | | <u>482,525</u> |
| U. S. Department of Health and Human Services | | | |
| Direct Programs: | | | |
| Student Financial Assistance Cluster: | | | |
| ARRA - Scholarships for Disadvantaged Students | 93.407 | | 35,686 |
| Scholarships for Health Professions Students from Disadvantaged Backgrounds | 93.925 | | <u>54,409</u> |
| Total Student Financial Aid Cluster | | | 90,095 |
| Specially Selected Health Projects | 93.888 | | 114,879 |
| Head Start Cluster | | | |
| Head Start | 93.600 | | 181,597 |
| Pass-Through From: | | | |
| Healthy Family Initiatives | | | |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | N/A | 4,504 |
| University of Texas at Austin | | | |
| Substance Abuse and Mental Health Services - Projects of Regional and National Significance | 93.243 | UTA02-155 | 7,001 |
| Texas Education Agency | | | |
| TANF Cluster | | | |
| Temporary Assistance for Needy Families | 93.558 | 103625017110295 | 2,752 |
| Temporary Assistance for Needy Families | 93.558 | 113625017110351 | <u>193,822</u> |
| Total Temporary Assistance for Needy Families | | | 196,574 |
| YMCA of Greater Houston | | | |
| Refugee and Entrant Assistance - Targeted Assistance Grants | 93.584 | 529-08-0181-00010B | 31,729 |
| Refugee and Entrant Assistance - Targeted Assistance Grants | 93.584 | 529-08-0181-00010C | <u>299,832</u> |
| Total Refugee and Entrant Assistance - Targeted Assistance Grants | | | 331,561 |
| Gulf Coast Community Service Association | | | |
| ARRA - Community Services Block Grant | 93.710 | N/A | 13,979 |
| Pitt Community College | | | |
| ARRA - Health Information Technology Professionals in Health Care | 93.721 | N/A | <u>396,969</u> |
| Total U.S. Department of Health and Human Services | | | <u>1,337,159</u> |
| Corporation for National and Community Service | | | |
| Direct Programs: | | | |
| AmeriCorps | 94.006 | | <u>140,334</u> |
| Total Corporation for National and Community Service | | | <u>140,334</u> |
| Department of Homeland Security | | | |
| Direct Programs: | | | |
| Scientific Leadership Awards | 97.062 | | <u>54,300</u> |
| Total Department of Homeland Security | | | <u>54,300</u> |
| Total Federal Financial Assistance | | | \$ <u>208,238,416</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 SCHEDULE

The Schedule of Expenditures of Federal Awards presents the federal grant activity of the System for the year ended August 31, 2011. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and includes awards received directly from federal agencies as well as federal awards passed through other government agencies.

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

NOTE 2 – FEDERAL ASSISTANCE RECONCILIATION

| | |
|---|-----------------------|
| Federal Grants and Contracts Revenue – per Schedule A | \$ 16,064,089 |
| Reconciling Items: | |
| Schedule C – Title IV Grants | 96,171,936 |
| Federal Direct Student Loans | <u>96,002,391</u> |
| Total Federal Revenues per Schedule of Expenditures of Federal Awards | \$ <u>208,238,416</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 | \$ 239,649 |
| Association for the Advancement of Mexican Americans | 1,079,442 |
| AVANCE | 217,031 |
| Chinese Community Center | 215,379 |
| Community Family Center | 1,252,803 |
| Gulf Coast Community Services | 142,899 |
| Harris County Community Supervision and Correction | 64,909 |
| Houston International University | 129,044 |
| Houston Read Commission | 911,025 |
| Meadowbrook Learning Center | 18,576 |
| Neighborhood Centers Inc. | 250,167 |
| Research and Development Institute | 100,202 |
| SEARCH | <u>57,570</u> |
| Total Passed-through to Subrecipients | \$ <u>4,678,696</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 | \$ | 3,365 |
| El Centro College | | 18,033 |
| St. Edward’s University | | 6,255 |
| Texas A&M University | | 2,416 |
| University of Houston | | <u>41,501</u> |
| Total Passed-through to Subrecipients | \$ | <u>71,570</u> |

The following were subrecipients of ARRA – WIA Adult Program, CFDA 17.258 and ARRA – WIA Dislocated Program, CFDA 17.259. These amounts are included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

| | | |
|---|--------|--------------------|
| Ontility | \$ | 69,760 |
| Society of Piping Engineers & Designers | | <u>65,605</u> |
| Total Passed-through to Subrecipients | \$ | <u>135,365</u> |

The following were subrecipients of Aerospace Education Services Program, CFDA 43.001. These amounts were included as expenditures in the accompanying schedule of Expenditures of Federal Awards.

| | | |
|---|--------|------------------|
| University of Houston | \$ | <u>5,333</u> |
| Total Passed-through to Subrecipients | \$ | <u>5,333</u> |

The following were subrecipients of the ARRA – 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.

| | | |
|---|--------|--------------------|
| Ontility | \$ | <u>213,872</u> |
| Total Passed-through to Subrecipients | \$ | <u>213,872</u> |

The following were subrecipients of the Temporary Assistance to Needy Families, CFDA 93.558. These amounts were included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

| | | |
|---|--------|------------------|
| Research and Development | \$ | <u>5,813</u> |
| Total Passed-through to Subrecipients | \$ | <u>5,813</u> |

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS
FOR THE YEAR ENDED AUGUST 31, 2011

| State Grantor Program Title | Grantor's Number | Pass-Through Disbursements and Expenditures |
|--|---------------------|--|
| Texas Education Agency | | |
| ABE - GED | 100100017110315 | \$ 432,570 |
| ABE - GED | 110100017110374 | 1,322,184 |
| ABE - GED | 104100087110335 | 4,501 |
| ABE - GED | 113625017110351 | 98,612 |
| Dropout Recovery Pilot Program Cycle | 101045477110008 | <u>160,702</u> |
| Total ABE - GED | | <u>2,018,569</u> |
| Total Texas Education Agency | | <u>2,018,569</u> |
| Texas Higher Education Coordinating Board | | |
| Adult Basic Education Innovation Grant | 03472 | 383,084 |
| College Connection Program | N/A | 168 |
| Collegiate G-Force Work-Study Mentorship Program | N/A | 7,863 |
| Nursing Shortage Reduction Program | N/A | 151,786 |
| Rider 58 Funds | N/A | 20,200 |
| Summer Bridge and Transition Program Category A | 1426 | 78,649 |
| Summer Bridge and Transition Program Category C | 1427 | 53,479 |
| Texas College Work Study Program | N/A | 172,249 |
| Texas Educational Opportunity Grant | N/A | 922,140 |
| Texas Grant Program | N/A | 1,811,150 |
| Top 10% Scholarship | | 2,000 |
| Vocational/Professional Nursing Allocation | N/A | 15,186 |
| Pass-Through From: | | |
| University of Texas Health Science Center | 0007828A | <u>18,416</u> |
| Total Texas Higher Education Coordinating Board | | <u>3,636,370</u> |
| Texas Workforce Commission | | |
| Skills Development - BMC | 2809SDF002 | 1,393 |
| Skills Development - GE Sensing | 2809SDF000 | 21,452 |
| Skills Development - Goodman | 2810SDF001 | 248,670 |
| Skills Development - Hoerbiger | 2809SDF006 | 5,718 |
| Skills Development - RTI | 2809SDF009 | 4,013 |
| Skills Development - St. Joseph's Medical Center | 2809SDF001 | 72,250 |
| Skills Development - Texas Children's Hospital | 2809SDF010 | 124,018 |
| Skills for Small Business Initiative | 2810SSD000 | 2,866 |
| Pass-Through From: | | |
| Lamar Institute of Technology | N/A | <u>56,349</u> |
| Total Texas Workforce Commission | | <u>536,729</u> |
| Comptroller of Public Accounts | | |
| Jobs and Education for Texans | 4776-6 | 315,810 |
| Jobs and Education for Texans | 3572-21 | <u>66,921</u> |
| Total Jobs and Education for Texans | | <u>382,731</u> |
| Total Comptroller of Public Accountants | | 382,731 |
| Texas State Board of Public Accountancy | N/A | <u>25,976</u> |
| Total State Financial Assistance | | <u>\$ 6,600,375</u> |

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE

The Schedule of Expenditures of State of Texas Awards presents the activity of State of Texas awards programs of the System for the year ended August 31, 2011. 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.

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 2 – STATE ASSISTANCE RECONCILIATION

| | | |
|---|----|-----------|
| State Grants and Contracts Revenue – per Schedule A | \$ | 6,448,589 |
| Reconciling Item – Nonoperating Nursing Shortage Reduction - Schedule C | | 151,786 |
| Total State Revenues per Schedule of Expenditures of State Awards | \$ | 6,600,375 |

NOTE 3 – SUBRECIPIENTS

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

| | | |
|---|----|--------|
| Community Family Center | \$ | 26,121 |
| Houston READ Commission | | 28,208 |
| Research and Development Institute, Inc | | 7,335 |
| Total Passed-through to Subrecipients | \$ | 61,664 |

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.

| | | |
|---------------------------------------|----|--------|
| Chinese Community Center | \$ | 34,528 |
| Literacy Advance of Houston | | 2,000 |
| Total Passed-through to Subrecipients | \$ | 36,528 |

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

| | | |
|---------------------------------------|----|---------|
| BMC Software Distribution, Inc. | \$ | 29,707 |
| Global Custom Commerce | | 14,746 |
| Global Knowledge Network LLC | | 48,450 |
| Goodman Manufacturing | | 45,285 |
| Hoerbiger Corporation of America | | 7,822 |
| Impac Systems Engineering | | 45,199 |
| Mehrdad Fazli | | 28,800 |
| St. Joseph Medical Center | | 66,308 |
| Texas Children’s Hospital | | 116,375 |
| Total passed-through to subrecipients | \$ | 402,692 |

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2011

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 X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal and State of Texas Awards

Internal control over major programs:

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

Identification of major programs:

| <u>Federal - CFDA Number</u> | <u>Name of Federal Programs</u> |
|--|---|
| 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) |
| 93.407 | ARRA – Scholarships for Disadvantaged Students |
| 93.925 | Scholarships for Disadvantaged Students |

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
 FOR THE YEAR ENDED AUGUST 31, 2011

SECTION I – SUMMARY OF AUDITOR’S RESULTS – CONTINUED

Identification of major programs – Continued:

| <u>Federal - CFDA Number</u> | <u>Name of Federal Programs</u> |
|---|---|
| Cluster of Programs – Workforce Investment Act: | |
| 17.258 | ARRA – WIA Adult Program |
| 17.260 | ARRA – WIA Dislocated Workers |
| 64.028 | Post 9/11 Veterans Educational Assistance |
| 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> |
| N/A | Texas Grant Program |
| N/A | Texas Educational Opportunity Grant |
| 2401/5470 | Jobs and Education for Texans |
| 2141 | Adult Basic Education Innovation Grant |

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

| | |
|----------------|-----------|
| Federal | \$452,828 |
| State of Texas | \$300,000 |

Auditee qualified as low-risk auditee?

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2011

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

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.

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

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2011

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

Finding 2011-1 - Continued

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.

Views of Responsible Officials and Planned Corrective Actions

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

- 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.
- Pell Grants are disbursed later and the process is being automated. Pell Grants are not disbursed until the review is done to ensure continued eligibility. Recalculations are being performed prior to disbursement.
- Financial aid will conduct periodic reviews with student financials and review outstanding accounts receivables.

SCHEDULE OF PRIOR YEAR FINDINGS

None