

**NORTH HARRIS MONTGOMERY
COMMUNITY COLLEGE DISTRICT**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEARS ENDED
AUGUST 31, 2007 and 2006**

Prepared By
The Department of Finance & Treasury

5000 Research Forest Drive
The Woodlands, TX 77381

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
 Comprehensive Annual Financial Report
 For the Fiscal Years Ended August 31, 2007 and 2006

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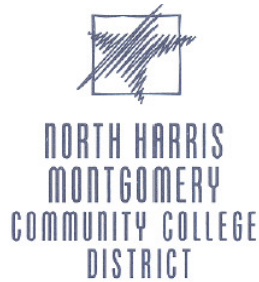
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Introductory Section



December 6, 2007

To the Members of the Board of Trustees, Taxpayers of Harris and Montgomery Counties and to the citizens of the North Harris Montgomery Community College District service area:

Texas statutes require the Comptroller of Public Accounts and the Texas Higher Education Coordinating Board to jointly prescribe a system for financial accounting and reporting for institutions of higher education. Pursuant to that requirement, we have prepared the comprehensive annual report of the North Harris Montgomery Community College District (the District) for the fiscal years ended August 31, 2007 and 2006.

The report consists of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect the District's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with generally accepted accounting principles (GAAP).

The District's system of internal controls is supported by written policies and procedures and is continually reviewed, evaluated, and modified to meet current needs. The system is monitored by an Internal Audit Department whose auditors administer a broad-scope auditing program. Through this program, the adequacy and effectiveness of the District's internal control system are reviewed and evaluated. The review scope ranges from financial/compliance areas to economy and efficiency in the use of resources.

Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The District's financial statements have been audited by McConnell and Jones LLP, a firm of licensed certified public accountants. The goal of the independent audit is to provide a reasonable assurance that the financial statements of the District for the year ended August 31, 2007 and 2006 are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and, evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the years ended August 31, 2007 and 2006 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of

District Services & Training Center

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Board of Trustees: Randy Bates, J.D., *chair*; Stephanie Marquard, *vice-chair*; John Fox, *secretary*; Priscilla Kelly, *assistant secretary*; Richard Campbell, Ph.D.; Chris Daniel; David Holsey, D.D.S.; Maria Flotte O'Neill; David Vogt; **Chancellor:** Richard Carpenter, Ed.D.

transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

District Profile

The idea of a college campus in the North Houston region was once only a vision in the minds of community leaders. It began the journey to reality in 1972 when residents in the Aldine, Humble and Spring Independent School Districts elected to create a junior college district, which became known as North Harris County College. We opened our doors in the fall of 1973 and our 16-member staff welcomed 613 students to the first classes held at Aldine High School.

To say that we have grown in the past 35 years is an understatement. The original three school districts have been joined by eight others: New Caney in 1981, Tomball in 1982, Conroe in 1991, Willis and Splendora in 1996, Klein in 1998, and Cypress-Fairbanks and Magnolia in 2000.

Located in the North Houston metro area of Texas, the District serves 1,400 square miles in Harris and Montgomery Counties. For the academic year just ended the District served over 62,600 credit students and 34,000 continuing education students. Enrollment is 49,000 this semester in credit classes and 14,000 in continuing education. Based on certified contact hours reported by the Texas Higher Education Coordinating Board, the District was the third largest community college district in the state. The District continues to be one of the largest and fastest growing community college districts in Texas, with five distinct colleges:

- North Harris College
- Kingwood College
- Tomball College
- Montgomery College
- Cy-Fair College

North Harris Montgomery Community College District is a publicly-supported, two-year, comprehensive community college system that involves diverse individuals, businesses, and the community in quality educational opportunities for the successful development of knowledge, skills, and attitudes for a rapidly changing world. Through its colleges and centers, NHMCCD develops learning communities for:

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

The District is governed by a nine member Board of Trustees who are elected to serve 6 year terms. The Chief Executive Officer of the District is the Chancellor. The Chancellor, through the Executive Council consisting of the Executive Vice Chancellor, vice chancellors and college presidents, is responsible for management of the daily operations of the District.

Economic and Financial Condition

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

Local Economy Harris and Montgomery Counties, the geographical area in which the District operates, enjoy a very robust economy. Harris County is a southeast Texas county and a major component of the Houston Primary Metropolitan Statistical area. The economy in the county is based on petrochemicals, space exploration, manufacturing and education. The county is ranked as the 6th largest manufacturing county in the country. The Texas Almanac lists cattle, rice and forest products as the principal sources of agricultural income in the county. The county's population for 2000 was 3,400,578, an increase of 20.6% since 1990. The total 2000 Effective Buying Income was \$66.6 billion with 77.8% of the households having incomes in excess of \$20,000. The County's median income per household was \$41,887 compared to the state median of \$35,942. Retail sales for 2000 totaled \$42.4 billion. Mineral production in the county includes oil, gas, cement, salt, lime, gravel, clay and stone.

Cash Management Practices Cash was invested in obligations of U.S agencies, treasury bills, commercial paper and local government money market pools. The maturities of the investments range from 1 day to 20 months. The average buy yield of the portfolio at August 31, 2007 was 4.37%. The recent rise in interest is reflected in shorter maturities of investments as the District attempts to maximize earning potential. Investment income includes the increase or decrease in the fair value of investments. The fair value of securities will increase or decrease due to changes in market interest rates during the year. As individual securities come closer to their maturity date, the fair value of the security moves toward its par value. As the price moves toward par value, the unrealized gain or loss is reduced proportionally and is eliminated by the time the security matures. The District generally holds securities to maturity.

Debt Management The District has \$55,295,957 of limited tax levy debt and \$184,418,830 in general obligation debt outstanding at August 31, 2007. Limited tax levy debt are special obligations of the District payable as to principal and interest solely from and secured by a first lien on and a pledge of certain revenues including tuition, fees, investment income and commissions. For the 2007 fiscal year, the pledged revenues provided approximately 9.7 times coverage of the debt service on limited tax levy debt. The District's limited tax levy debt is currently rated AA- by Standard and Poor's and Aa3 by Moody's.

The District is authorized to sell bonds and to levy an ad valorem tax in payment of the debt by the Constitution and the laws of the State of Texas. At August 31, 2007 the District had \$184,418,830 in general obligation debt outstanding. Ad valorem property taxes to support outstanding debt are limited to a maximum rate of \$0.50 tax per hundred dollars of taxable appraised value. Proceeds from general obligation debt may be used to purchase land for sites, construct, improve, renovate and equip District facilities; to refund certain bonds of the District; and to pay the issuance costs of bonds. The District's general obligation debt is currently rated AA by Standard and Poor's and Aa2 by Moody's.

Facilities Master Plan During the 2005-2006 fiscal year, the District conducted a comprehensive facilities review and evaluation focused on providing facilities and infrastructure for the District's five colleges. Led by the Chancellor and Executive Council, the planning process included a college leadership group, community advisory committees, architects, demographers, and the Districts' financial advisors. The master planning process culminated with a recommendation for a \$249.6 million referendum to authorize the issuance of general obligation bonds to provide facilities for growth and to enhance the District's education mission. On November 7, 2006 the District conducted an unsuccessful referendum. District administration is currently considering alternatives to manage growth and provide adequate facilities.

Awards and Acknowledgements The District was awarded, for the third consecutive year, the GFOA Certificate of Achievement in Financial Reporting for its comprehensive annual financial report for the fiscal years ending August 31, 2006, 2005 and 2004. The current year's comprehensive annual financial report will

also be submitted to the program. Management believes that the current year report also meets the criteria of the Certificate of Achievement Program.

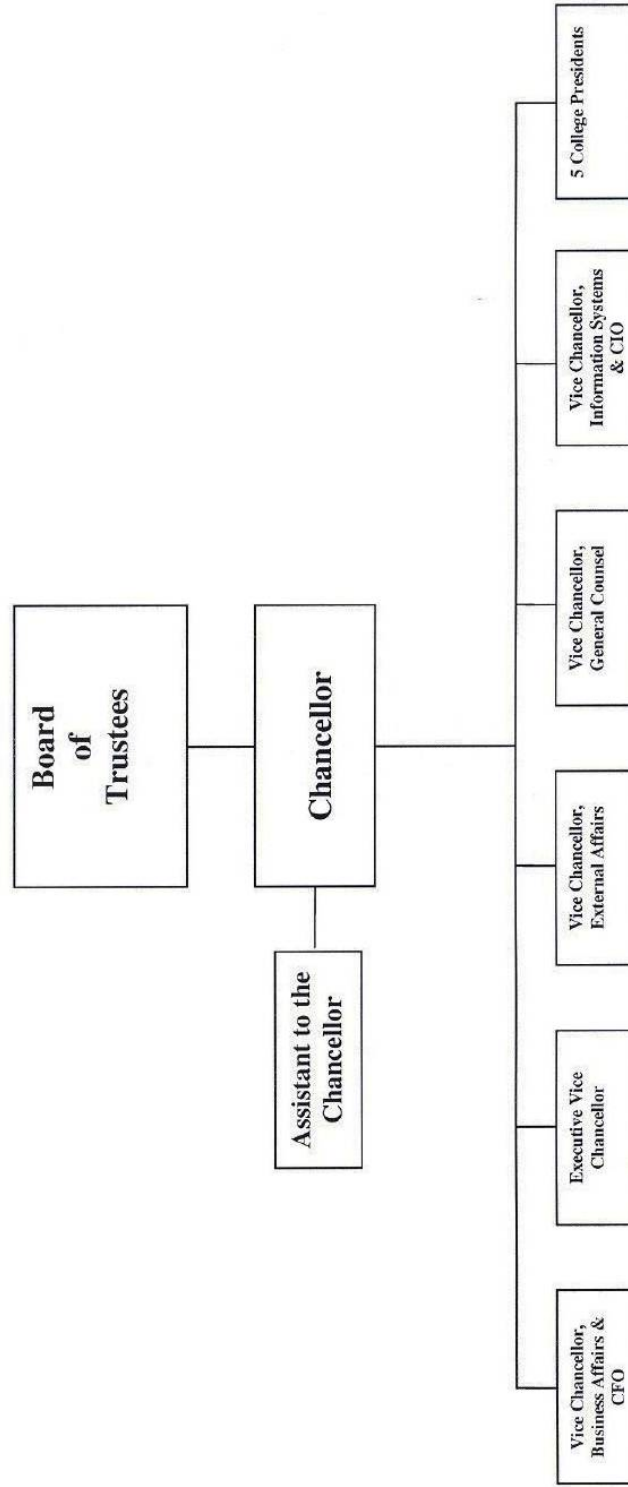
The preparation of this report could not have been accomplished without the services of the entire staff of Business Affairs. I would like to express my appreciation to all staff that assisted and contributed to the preparation of this report. Credit must also be given to the Chancellor and Board of Trustees for their unfailing support in maintaining the highest standards of professionalism of the District's finances.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Cynthia F. Gilliam".

Cynthia F. Gilliam
Vice Chancellor of Business Affairs & CFO

North Harris Montgomery Community College District Organizational Chart



NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
ORGANIZATIONAL DATA
For the Fiscal Year 2007

BOARD OF TRUSTEES

W. Randolph Bates, Jr., Chair
Stephanie Marquard, Vice Chair
John Fox, Secretary
Priscilla Kelly, Assistant Secretary
Dr. Richard Campbell
Chris Daniel
Dr. David Holsey
Alan Quintero
David Vogt

ADMINISTRATION

Dr. Richard Carpenter, Chancellor
Open Position, Executive Vice Chancellor
Dr. Stephen Head, President, North Harris College
Dr. Linda Stegall, President, Kingwood College
Dr. Tom Butler, President, Montgomery College
Dr. Ray Hawkins, President, Tomball College
Dr. Diane Troyer, President, Cy-Fair College
Renee Byas Smith, Vice Chancellor & General Counsel
Cynthia Gilliam, Vice Chancellor for Business Affairs & Chief Financial Officer
Ray Laughter, Vice Chancellor for External Affairs
Tom Hill, Vice Chancellor, Information Technology/CIO

North Harris College
2700 W.W. Thorne Drive
Houston, TX 77073
281.618.5400

Kingwood College
20000 Kingwood Drive
Kingwood, TX 77339
281.312.1600

Montgomery College
3200 College Park Drive
Conroe, TX 77384
936-321-5161

Tomball College
30555 Tomball Parkway
Tomball, TX 77375
281.351.3300

Cy-Fair College
9191 Barker Cypress Road
Cypress, TX 77433-1214
281.290.3200

The University Center
3232 College Park Drive
The Woodlands, TX 77384
281.618.7140

District Services and Training Center
5000 Research Forest Drive
The Woodlands, TX 77381
832.813.6500

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**North Harris Montgomery
Community College District,
Texas**

**For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2006**

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the North Harris Montgomery Community College District, Texas for its Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2006.

In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. District management believes that this 2007 CAFR conforms to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA for their review.



President

Executive Director

Financial Section

INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
North Harris Montgomery Community College District

We have audited the accompanying financial statements of the North Harris Montgomery Community College District (the "District") as of and for the years ended August 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of August 31, 2007 and 2006, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

The management's discussion and analysis on pages 12 through 19, is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinion on the District's financial statements taken as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules on pages 41 through 52 are presented for purposes of additional analysis as required by the Texas Higher Education Coordinating Board, U.S. Office of Budget and Management and Budget Circular A-133, *Audits of States Local Governments, and Non-Profit Organizations*, and the *State of Texas Single Audit Circular* and are also not a

required part of the basic financial statements of the District. The information in the supplemental schedules and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Houston, Texas
November 8, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Harris Montgomery Community College District

The purpose of the annual report is to provide readers with financial information about the activities and financial condition of North Harris Montgomery Community College District (the "District"). The report consists of three basic financial statements that provide information on the District as a whole: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These reports begin on page 21 and should be read in conjunction with the notes to the financial statements. The following summary and management discussion of the results is intended to provide the readers with an overview of the District's financial activities. For purposes of the summary and discussion, the terms "2007", "2006", and "2005" refer to fiscal years ending August 31, 2007, August 31, 2006, and August 31, 2005, respectively.

Accounting Standards

In June 1999, the Governmental Accounting Standard's Board (GASB) released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities", which applies the new reporting standards to public colleges and universities.

Financial and Enrollment Highlights - 2007

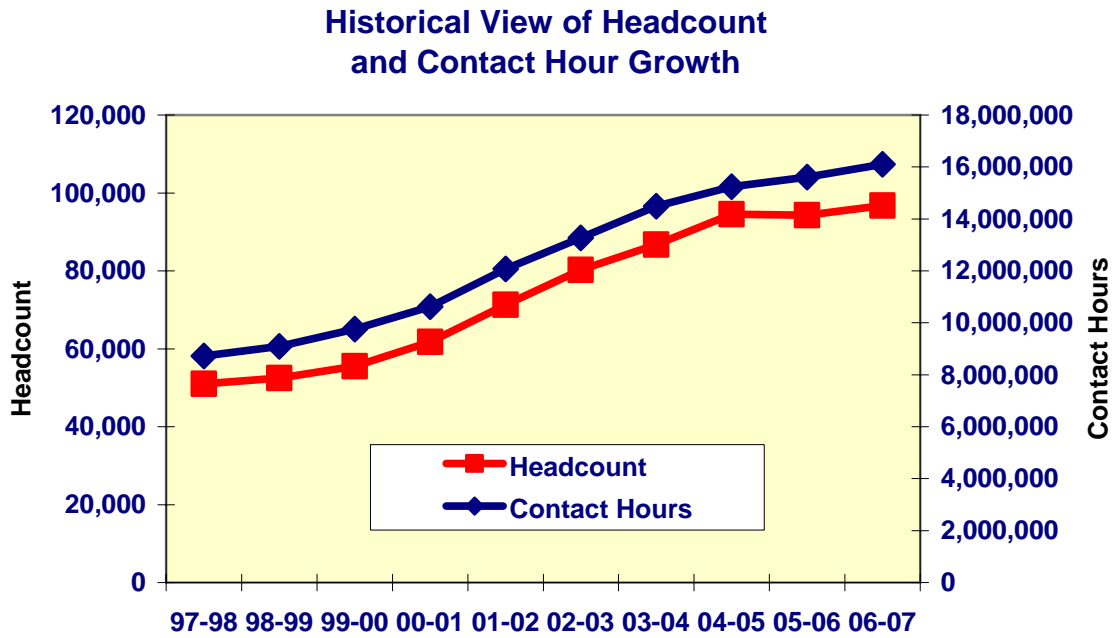
- Net assets increased \$20 million, which represents a 14% increase over 2006.
- Construction in progress balances decreased to approximately \$6,000 reflecting the substantial completion of all of the construction projects funded with proceeds from the 2003 general obligation bonds.
- Revenue bonds of \$29.9 million were issued in May 2007 to provide funds for critical infrastructure and repair needs. Factoring in scheduled principal repayments, the net effect was to increase total bonds payable by \$9.3 million.
- Refunding bonds were also issued in August 2007 for \$13.4 million.
- Operating expenses for educational activities increased \$15 million, which represents an 8% increase as compared to a 3% increase in headcount, and a 5% increase in enrollments. The increases were primarily direct expenditures for instruction, academic support and operation and maintenance of plant.
- Fundable contact hours, the basis on which community colleges in Texas are appropriated State funds, increased 3%.

Financial and Enrollment Highlights - 2006

- Net assets increased \$25.9 million, which represents a 21.5% increase over 2005.
- Construction in progress balances remained unchanged at approximately \$1 million reflecting substantial completion of construction projects in 2005.
- The District did not issue any new debt during the year, but did issue refunding bonds in September 2005, for \$47.6 million.
- Repayment of principal decreased total bonds payable by \$17.8 million.
- Deferred revenues increased \$2.3 million (a 13% increase), primarily due to a \$2 per credit hour tuition increase effective for the Spring 2006 semester.
- Revenues from grants and contracts increased \$4.3 million (15%), as the District continues to search for additional funding sources to accommodate the financial consequences of student growth.

- Operating expenses for educational activities increased \$13.8 million, which represents an 8% increase as compared to a 3% increase in headcount, and a 4% increase in enrollments. The increases were primarily direct expenditures for instruction and academic support, addressing needs that were previously deferred due to limited funding.
- Fundable contact hours, the basis on which community colleges in Texas are appropriated State funds, increased 2%.

The following chart depicts the growth in student headcount and contact hours for the past ten years:



The Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the District. Net assets increased 14% for 2007 and 21% for 2006.

	2007	August 31 2006	2005
Current Assets:			
Cash and short-term investments	\$ 100,868,333	\$ 63,895,345	\$ 45,095,408
Receivables	17,052,766	16,451,842	15,678,425
Inventory, prepaid expenses & other	820,112	385,107	429,638
Total current assets	<u>118,741,211</u>	<u>80,732,294</u>	<u>61,203,471</u>
Non-Current Assets:			
Restricted cash & cash equivalents		7,840	437,962
Capital assets, net of accumulated depreciation (Note 8)	328,031,973	333,775,179	337,553,138
Total assets	<u>\$ 446,773,184</u>	<u>\$ 414,515,313</u>	<u>\$ 399,194,571</u>
Current Liabilities:			
Accounts payable & accrued liabilities	\$ 14,770,820	\$ 13,719,877	\$ 8,838,807
Deferred revenues	22,226,015	20,480,821	18,136,377
Bonds payable-current portion	28,194,020	16,937,427	15,073,551
	<u>65,190,855</u>	<u>51,138,125</u>	<u>42,048,735</u>
Non-Current Liabilities:			
Accrued compensable absences	3,420,815	3,296,149	2,931,533
Bonds payable-noncurrent portion	211,520,767	213,507,401	233,556,601
Total liabilities	<u>\$ 280,132,437</u>	<u>\$ 267,941,675</u>	<u>\$ 278,536,869</u>
Net Assets:			
Invested in capital assets	119,597,719	105,148,483	88,361,983
Restricted	6,536,978	3,822,347	2,809,770
Unrestricted	40,506,050	37,602,808	29,485,951
Total net assets	<u>\$ 166,640,747</u>	<u>\$ 146,573,638</u>	<u>\$ 120,657,704</u>

The increase in total current assets for 2007 (\$38 million) reflects the District's investment philosophy of positioning assets for maximum investment return in a rising interest rate environment. Net capital assets declined \$5.7 million during 2007 as depreciation expense exceeded purchases of capital assets. The decline is a result of the completion of construction projects financed with proceeds from the 2003 general obligation bond authorization.

Total liabilities increased during 2007 by \$12 million as a result of the issuance of revenue bonds of \$29.9 million.

The increases in total net assets of \$20 million for 2007 and \$25.9 million for 2006 represent a 38% increase in the past two years. Of significance is the mix of reserves and the purposes for which they may be used. The largest increase since 2005 is in the reserves invested in capital assets, \$31 million or 35%. As student enrollment trends continue upward, the District's physical assets have also grown to support student growth. Restricted net assets are assets that cannot be used for current operations because they are subject to restrictions imposed by creditors, grantors or statute. These reserves have grown by \$3.7 million (132%) since 2005. Unrestricted net assets (available to fund current operations) have increased by \$11 million (37%) since 2005. Unrestricted net assets cover 68 days of operating expenses, or 19%, in 2007.

Statement of Revenues, Expenses and Changes in Net Assets

	2007	August 31 2006	2005
Operating Revenues			
Student tuition and fees	\$ 36,814,548	\$ 33,411,958	\$ 30,134,103
Grants & contracts	28,561,225	32,650,602	28,357,859
Auxiliary enterprises	5,671,353	5,390,095	4,886,285
Other	910,264	891,357	1,088,570
Total operating revenues	<u>71,957,390</u>	<u>72,344,012</u>	<u>64,466,817</u>
Operating Expenses			
Educational Activities	199,827,096	184,837,854	171,007,760
Auxiliary Activities	5,304,332	5,132,064	4,795,874
Depreciation Expense	8,825,363	8,702,177	8,458,848
Total operating expenses	<u>213,956,791</u>	<u>198,672,095</u>	<u>184,262,482</u>
Net Operating Expenses	(141,999,401)	(126,328,083)	(119,795,665)
Non-Operating Revenues			
Ad-valorem taxes	105,123,688	98,567,064	86,951,108
State Appropriations	62,749,843	62,265,831	54,696,754
Investment income	4,477,292	2,540,321	1,111,005
Capital appropriations	(11,359,249)	(12,517,976)	(11,431,062)
Other	1,074,936	1,388,777	655,277
Total non-operating revenues-net	<u>162,066,510</u>	<u>152,244,017</u>	<u>131,983,082</u>
Increase in Net Assets	20,067,109	25,915,934	12,187,417
Net Assets, Beginning of Year	<u>146,573,638</u>	<u>120,657,704</u>	<u>108,470,287</u>
Net Assets, End of Year	<u>\$ 166,640,747</u>	<u>\$ 146,573,638</u>	<u>\$ 120,657,704</u>

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the District, as well as the non-operating revenues and expenses. Ad-valorem taxes for maintenance and operations, and state appropriations, while budgeted for operations, are not considered to be exchange transactions and are therefore classified as non-operating revenues according to generally accepted accounting principles.

Student tuition and fees increased by \$3.4 million for 2007, which directly correlates to the increase in credit tuition rates in the spring of 2006, as well as the 5% increase in credit enrollments for 2007. For 2006, student tuition and fees increased \$3.3 million on a 4% increase in credit hours. A \$4 per credit hour tuition increase was effective for the spring 2006 semester. The District's \$36 per credit hour tuition rate remains below the Texas average tuition rate for community colleges.

State and local grants and contracts revenues decreased by \$4 million in 2007 (45.5%) but were relatively the same as in 2005. In 2006, \$4.4 million received from Harris County Public Library for the construction of the Tomball library was included in local grants and contracts.

Auxiliary enterprise revenues increased 5% for 2007. Food service revenues increased 13%, while bookstore commissions increased 4%. Other auxiliary revenues declined slightly.

Expenses for educational activities increased \$15 million (8%) in 2007 and \$13.8 million (8%) in 2006. Combined increases in the cost of instruction and academic support amounted to \$6.7 million (44%) of the

increase. Of significance during 2007 is the addition of 25 new full time faculty positions, as the District continues its efforts to maintain or improve the percentage of class sections taught by full-time faculty. Operation and maintenance of plant increased \$3.7 million (15%) as the District continues to invest in repair and replacement of facilities to support the effects of increasing enrollment.

Tax revenues increased \$6.6 million in 2007 (\$11.6 million in 2006) as a result of new properties and appraised value increases in existing properties. Investment income increased by 76% from \$2.5 million in 2006 to \$4.4 million in 2007. The increase was the result of both a rising short-term yield curve and the District's focus on maintaining a short-term portfolio.

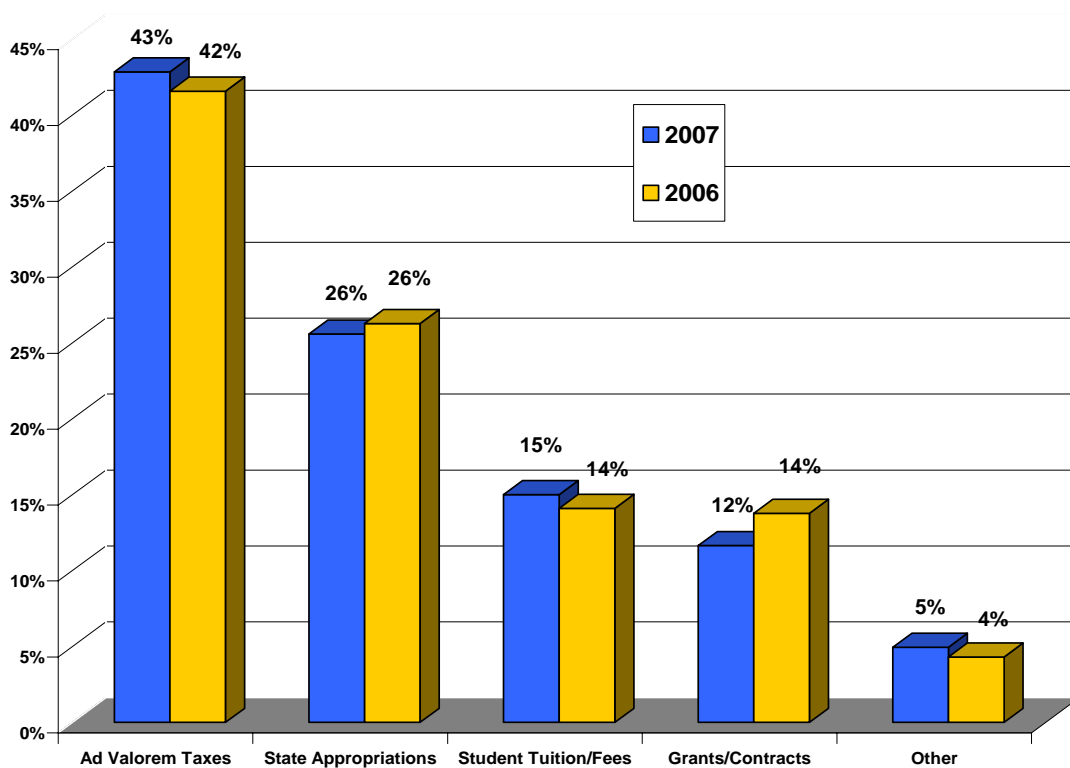
State appropriations for 2007 represent the second year of biennium funding, so no significant change in the amounts received as compared to 2006 occurred. State appropriations increased \$7.5 million in 2006 for both education and general state support (\$4.5 million) and state on-behalf benefits for appropriation eligible employees (\$3.0 million). The increases for 2006 (the first year of the state biennium funding cycle) result from increases instituted by the 79th Texas Legislature.

Capital appropriations consist of interest and fees on capital asset-related debt. No significant changes occurred during 2007.

Total Revenues

The District has four main sources of revenue: ad valorem taxes, state appropriations, student tuition and fees, and grants and contracts. The total revenues for 2007 and 2006 were \$245,383,149 and \$237,106,005, respectively.

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

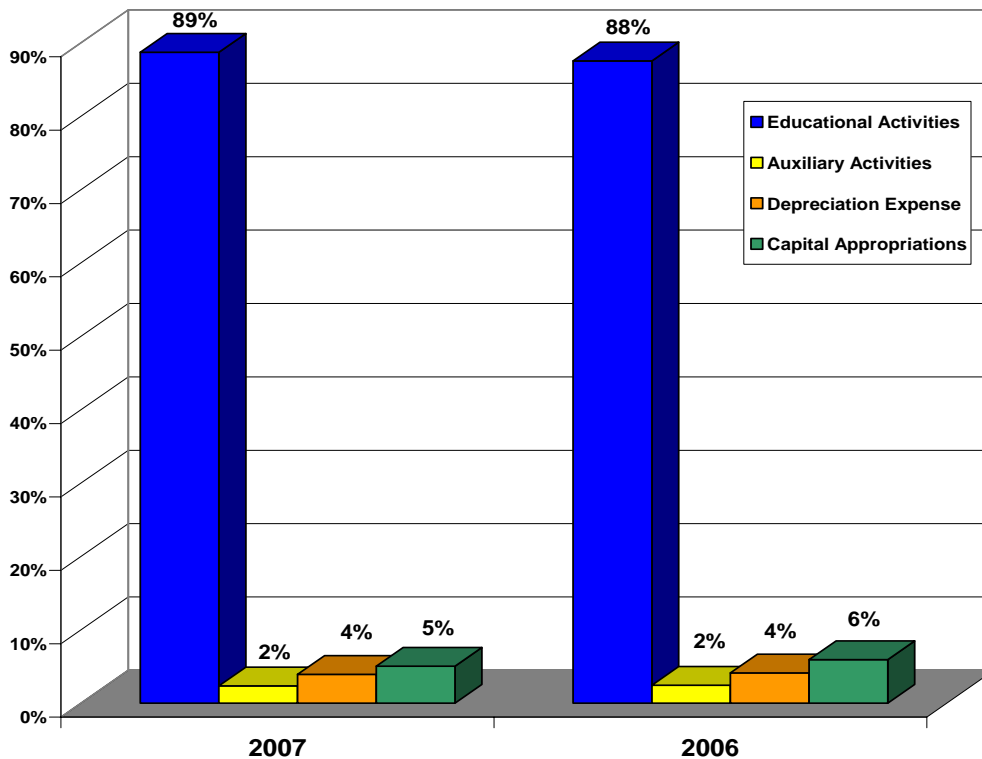


The largest source of revenue for both 2007 and 2006 for the District is ad valorem taxes (43% and 42% for 2007 and 2006, respectively). State appropriations are the second largest revenue source at 26% in both 2007 and 2006. These two sources, along with student tuition and fees, and grants and contracts, provide the majority of funding required for operating expenses. Auxiliary and investment income comprise the majority of Other Revenues.

Total Expenses

Expenses for the District can be grouped into four main categories: educational activities, auxiliary activities, depreciation expense, and capital appropriations. The total expenses for 2007 and 2006 were \$225,316,040 and \$211,190,071, respectively.

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



At 89% and 88% of the total expenditures for 2007 and 2006, respectively, educational activities are, by a sizeable margin, the District's largest expense category. Capital appropriations will continue to occupy a position in the chart, as the District continues to invest in physical facilities to support the effects of burgeoning enrollments. Paralleling this growth in physical facilities, depreciation expense will also continue to hold a position in the chart. Auxiliary activities support and supplement the District's educational activities, but are a relatively minor portion of total expenses.

Capital Assets and Long-Term Debt Activity

As depicted in Footnote 6 to the financial statements, the cost of capital assets remained relatively the same from 2006 to 2007 at \$403 million. The following lists some of the major projects and changes that occurred during 2007 and 2006:

- 2007 Projects - Most of the projects in 2007 were repair and replacement of existing assets. Furniture for three campuses, additional parking and sidewalk lighting at Cy-Fair College, and water system and cooling improvements at Cy-Fair College were the major projects completed in 2007.
- 2006 Completed Projects – Expansion of the Student Center at Cy-Fair College and the Irrigation/Water Filtration project at Cy-Fair College were completed.

- Land Purchases and Sales – A 55 acre tract of land at Montgomery College was purchased during 2007 to provide for future expansion of the campus. A 1.8 acre tract of land was purchased for future expansion at Tomball Colleges' Willow Chase Center during 2006.
- Other Assets – Furniture, equipment, library assets, and vehicles decreased by \$1.5 million during 2007. A physical inventory of furniture, equipment and vehicles was completed in 2007. The inventory resulted in the write-off of capital assets that were either sold at auction, deemed obsolete, or fell below the current capitalization threshold. Purchases of furniture, equipment, library assets and vehicles increased \$3 million during 2006.
- Capitalized Interest – Interest paid on debt proceeds to finance the construction of new facilities was capitalized in the amount of \$2 thousand for 2007, and \$41 thousand for 2006.

As detailed in Note 7 to the financial statements, financing for the above projects has been achieved through the issuance of long-term bonds.

Economic Factors and Subsequent Events

Several current economic factors and events subsequent to the close of the 2007 fiscal year are worthy of note, as explained next:

- Enrollments for the fall 2007 semester were 6% greater than the fall 2006 semester.
- On November 1, 2007, the North Harris Montgomery Community College District Board of Trustees voted to change the name of the District to Lone Star College System. The new name became effective on November 5, 2007.

FINANCIAL STATEMENTS

EXHIBIT 1**NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT****STATEMENTS OF NET ASSETS**

AUGUST 31, 2007 AND 2006

ASSETS	2007	2006
Current assets:		
Cash and cash equivalents	\$ 67,041,364	\$ 43,441,318
Short term investments	33,826,969	20,454,027
Accounts receivable (See Note 17)	17,052,766	16,451,842
Inventories	54,967	59,496
Prepaid items	765,145	325,611
Total current assets	<u>118,741,211</u>	<u>80,732,294</u>
Noncurrent assets:		
Restricted cash and cash equivalents		7,840
Capital assets, net (See Note 6)	328,031,973	333,775,179
Total non-current assets	<u>328,031,973</u>	<u>333,783,019</u>
TOTAL ASSETS	<u>\$ 446,773,184</u>	<u>\$ 414,515,313</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities (See Note 17)	\$ 12,731,495	\$ 11,809,776
Accrued compensable absences	300,000	300,000
Funds held for others	1,739,325	1,610,101
Deferred revenues	22,226,015	20,480,821
Bonds payable-current portion	28,194,020	16,937,427
Total current liabilities	<u>65,190,855</u>	<u>51,138,125</u>
Noncurrent liabilities:		
Accrued compensable absences	3,420,815	3,296,149
Bonds payable-noncurrent portion	211,520,767	213,507,401
Total non-current liabilities	<u>214,941,582</u>	<u>216,803,550</u>
TOTAL LIABILITIES	<u>280,132,437</u>	<u>267,941,675</u>
NET ASSETS		
Invested in capital assets, net of related debt	119,597,719	105,148,483
Restricted:		
Expendable-		
Loans	485,631	485,631
Debt service	6,051,347	3,336,716
Unrestricted	40,506,050	37,602,808
TOTAL NET ASSETS (Schedule D)	<u>\$ 166,640,747</u>	<u>\$ 146,573,638</u>

The Notes to the Financial Statements are an integral part of this statement

EXHIBIT 2

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Tuition and fees (net of discounts of \$10,016,966 in 2007 and \$10,161,532 in 2006)	\$ 36,814,548	\$ 33,411,958
Federal grants and contracts	23,859,077	24,029,031
State and local grants and contracts	4,702,148	8,621,571
Auxiliary enterprises	5,671,353	5,390,095
Other operating revenue	<u>910,264</u>	<u>891,357</u>
Total operating revenues (Schedule A)	<u>71,957,390</u>	<u>72,344,012</u>
EXPENSES		
Operating expenses		
Instruction	81,584,567	77,225,194
Public service	1,474,702	1,475,056
Academic support	31,411,111	29,009,673
Student services	16,704,792	15,550,983
Institutional support	30,898,395	28,571,088
Operation and maintenance of plant	27,361,558	23,665,249
Scholarships and fellowships	10,391,971	9,340,611
Auxiliary enterprises	5,304,332	5,132,064
Depreciation	<u>8,825,363</u>	<u>8,702,177</u>
Total operating expenses (Schedule B)	<u>213,956,791</u>	<u>198,672,095</u>
Operating loss	(141,999,401)	(126,328,083)
NON-OPERATING REVENUE (EXPENSES)		
Ad-Valorem taxes		
Maintenance and operations	73,755,838	70,130,332
General obligation bonds	31,367,850	28,436,732
State Appropriations	62,749,843	62,265,831
Gifts	17,000	8,200
Investment income, net	4,477,292	2,540,321
Interest and fees on capital asset-related debt (net of capitalized interest costs of \$2,819 in 2007 and \$41,977 in 2006)	(11,359,249)	(12,517,976)
Gain (Loss) on disposal of capital assets	(245,000)	(6,106)
Other non-operating revenues	<u>1,302,936</u>	<u>1,386,683</u>
Total non-operating revenue	<u>162,066,510</u>	<u>152,244,017</u>
Increase in net assets	20,067,109	25,915,934
NET ASSETS, BEGINNING OF YEAR	<u>146,573,638</u>	<u>120,657,704</u>
NET ASSETS, END OF YEAR	<u>\$ 166,640,747</u>	<u>\$ 146,573,638</u>

The Notes to the Financial Statements are an integral part of this statement

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 52,154,798	\$ 49,458,575
Receipts from grants and contracts	29,557,243	33,214,108
Payments to suppliers for goods and services	(50,008,736)	(39,192,031)
Payments to or on behalf of employees	(144,330,863)	(135,841,222)
Payments for scholarships and fellowships	(19,380,147)	(18,618,188)
Payments for loans issued to students	(10,255,471)	(10,303,676)
Receipts from collection of loans to students and employees	10,338,896	10,373,461
Other receipts	1,039,488	891,357
Net cash used by operating activities	<u>(130,884,792)</u>	<u>(110,017,616)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from state appropriations	74,701,654	71,206,348
Receipts from ad-valorem taxes	62,749,843	62,265,831
Net cash provided by non-capital financing activities	<u>137,451,497</u>	<u>133,472,179</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from ad-valorem taxes	31,772,153	28,404,141
Proceeds from capital debt	43,310,000	49,583,248
Paid for acquisition and construction of capital assets	(3,893,462)	(5,064,659)
Proceeds from sale of capital assets	273,895	560
Principal paid on capital debt and leases	(34,560,199)	(67,768,572)
Interest paid on capital debt and leases	(10,824,438)	(12,774,316)
Net cash provided (used) by capital and related financing activities	<u>26,077,949</u>	<u>(7,619,598)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	41,450,000	9,888,910
Interest on investments	4,212,552	2,534,841
Purchase of investments and related fees	(54,715,000)	(13,150)
Net cash provided (used) by investing activities	<u>(9,052,448)</u>	<u>12,410,601</u>
Net Increase in Cash and Cash Equivalents	23,592,206	28,245,566
Cash and Cash Equivalents, Beginning of Year	43,449,158	15,203,592
Cash and Cash Equivalents, End of Year	<u>\$ 67,041,364</u>	<u>\$ 43,449,158</u>

The Notes to the Financial Statements are an integral part of this statement

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (141,999,401)	\$ (126,328,083)
Adjustments to reconcile operating loss to net cash		
Used by operating activities		
Depreciation expense	8,825,363	8,702,177
Bad debt expense	500,000	-
Changes in assets and liabilities		
Receivables, net	(563,783)	(331,023)
Inventories	4,528	(6,741)
Prepaid items	(439,533)	51,271
Accounts payable and accrued liabilities	788,973	5,049,987
Deferred revenue	1,745,171	2,344,442
Funds held for others	129,224	135,738
Accrued compensable absences	124,666	364,616
Total adjustments	<u>11,114,609</u>	<u>16,310,467</u>
Net cash used by operating activities	<u>\$ (130,884,792)</u>	<u>\$ (110,017,616)</u>

The Notes to the Financial Statements are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Years Ended August 31, 2007 and 2006

1. REPORTING ENTITY

North Harris Montgomery Community College District (the "District") was established in 1972 as a Union Junior College District, in accordance with the laws of the State of Texas, to serve the educational needs of the north-central part of Harris County and the southern part of Montgomery County, Texas. The District encompasses the Aldine, Conroe, Cypress-Fairbanks, Humble, Klein, Magnolia, New Caney, Splendora, Spring, Tomball and Willis Independent School Districts. The District is a comprehensive, public, two-year institution offering academic, general, occupational, developmental, and continuing adult education programs through a network of colleges. The colleges of North Harris, Kingwood, Tomball, Montgomery and Cy-Fair comprise the District.

The District is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*. While the District receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

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

The North Harris Montgomery Community College District 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 District. The District 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, 2007 and 2006 and the cost of services provided by the District to the Foundation during the years then ended are not significant to the District. The Foundation has therefore not been included as a component unit in the financial statements of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The accompanying financial statements of the District have been prepared in accordance with the Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges. The accompanying financial statements of the District are presented in accordance with generally accepted accounting principles.

The District applies all applicable GASB pronouncements and all applicable Financial Accounting Standard Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or

contradict GASB pronouncements. The District has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The District is reported as a special-purpose government engaged in business-type activities.

Basis of Accounting

The financial statements of the District have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Tuition Discounting

Texas Public Education Grants:

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

Title IV, Higher Education Act Program Funds:

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

Other Tuition Discounts:

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

Budgetary Data

Each community college in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The District'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.

Cash and Cash Equivalents

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

Investments

In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity date greater than three months but less than one year at time of purchase. The District has designated public funds investment pools comprised of \$65,122,957 and \$29,792,223 at 2007 and 2006, respectively, to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

Inventories

Inventories consist of food service supplies. Inventories are valued at the lower of cost or market under the “first-in, first-out” method and are charged to expense as consumed.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment the District’s capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovations to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 50 years for land improvements, 15 years for library books, 10 years for furniture, machinery, vehicles and other equipment and 5 years for telecommunications and peripheral equipment.

Deferred Revenues

Tuition and fees of \$20,941,384 and \$19,685,812 and federal, state, and local grants of \$1,284,631 and \$795,009 related to the period after August 31, 2007 and 2006, respectively, have been reported as deferred revenues at August 31, 2007 and 2006, respectively.

Estimates

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

Operating and Non-Operating Revenue and Expense Policy

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

New Accounting Pronouncement

In July 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefit Other Than Pension Plans. Statement No. 45 establishes standards for the measurement, recognition, and display of other post-employment benefits expenses and related liabilities and assets, and other related disclosure requirements. The requirements of Statement No. 45 become effective for fiscal periods beginning after December 15, 2006. The District has not yet determined the effect on the financial statements for implementation of this statement

In September 2006, the GASB issued Statement No. 48, Sales and Pledges of Receivable and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues. This statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or as collateralized

borrowings resulting in a liability. The statement also includes disclosure requirements for future revenues that are pledged or sold. The requirements of Statement No. 48 become effective for fiscal periods beginning after December 15, 2006. The District does not expect this statement to have any impacts on the District's financial statements.

In November 2006, the GASB issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This statement provided guidance on how to calculate and report the costs and obligations associated with pollution and cleanup efforts. The requirements of Statement No. 49 become effective for fiscal periods beginning after December 15, 2007. The District is not expected to participate in pollution remediation activities and, therefore, will not accrue a liability and/or capitalize pollution remediation costs.

3. AUTHORIZED INVESTMENTS

The District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act ("PFIA") (Sec. 2256.001 Texas Government Code) and as authorized by local policy. The District's Board of Trustees has adopted a written investment policy regarding the investment of its funds as defined in the PFIA. Such investments include (1) obligations of the United States or its agencies, (2) Certificates of Deposit issued by a bank domiciled in Texas, or a savings bank domiciled in Texas and that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, (3) Fully collateralized repurchase agreements with a defined termination date secured by obligations of the United States government, its agencies or instrumentalities, (4) SEC registered Money Market Mutual Funds rated "AAA", (5) Constant dollar local government investment pools, and, (6) Commercial paper with a maximum maturity of 120 days rated A1/P1 or equivalent.

4. DEPOSITS AND INVESTMENTS

At August 31, 2007 and 2006, the carrying amount of the District's demand deposits was \$-0- and \$-0- respectively, and total bank balances equaled \$336,736 and \$48,883, respectively. Bank balances of \$100,000 in each year are covered by federal depository insurance and \$336,736 and \$-0- were covered by collateral pledged in the District's name for the years ended August 31, 2007 and 2006, respectively. The collateral was held in the Federal Reserve account of an independent third-party agent.

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

	2007	2006
Demand Deposits	\$ -	\$ -
Petty Cash on Hand	43,466	41,454
Short-Term Securities	1,874,941	13,615,481
External Investment Pools	65,122,957	29,792,223
Total Cash and Cash Equivalents	<u>\$ 67,041,364</u>	<u>\$ 43,449,158</u>

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

	Fair Value at August 31,	
	2007	2006
U. S. Agency Notes and Bonds	\$ 33,826,969	\$ 20,454,027
Total Cash and Deposits	67,041,364	43,449,158
Total Deposits and Investments	<u>\$ 100,868,333</u>	<u>\$ 63,903,185</u>
Cash and Cash Equivalents (Exhibit 1)	\$ 67,041,364	\$ 43,441,318
Short Term Investments (Exhibit 1)	33,826,969	20,454,027
Restricted Cash and Cash Equivalents (Exhibit 1)	-	7,840
Total Deposits and Investments	<u>\$ 100,868,333</u>	<u>\$ 63,903,185</u>

As of August 31, 2007 the District had the following investments and maturities:

Investment Type	Fair Value	Weighted Average Maturity (Days)
External Investment Pools	\$ 65,122,957	1
Money Market	1,874,941	1
U. S. Agency Notes and Bonds	33,826,969	160
Total Fair Value	<u>\$ 100,824,867</u>	<u>54</u>

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

Credit Risk and Concentration of Credit Risk - In accordance with state law and the District'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". To reduce market risk the District has established portfolio diversification requirements by issuer and/or type of investment. The District's portfolio is within the stated parameters at August 31, 2007.

The credit quality (ratings) and concentration of the District's portfolio as of August 31, 2007 is as follows:

Security	Credit Rating	Concentration	
		Actual	Limit
Cash and External Investment Pools	AAA/AAAm	66%	100%
FHLB (Federal Home Loan Bank)	AAA	11%	90%
FNMA (Federal National Mortgage Assoc)	AAA	7%	90%
FHLMC (Federal Home Loan Mortgage Corporation)	AAA	6%	90%
FMCDN (Federal Home Loan Mortgage Corporation)	AAA	5%	90%
FNDN (Federal National Mortgage Assoc Discount Note)	AAA	5%	90%

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 fair value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same value as the value in TexPool shares.

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

5. DERIVATIVES

In September, 2006 the District entered into two constant maturity interest rate swaps in order to assist the District in managing its interest rate risk exposure. Interest rate swaps are agreements between two parties where one stream of future interest payments is exchanged for another. The goal of interest rate swaps is to limit or manage exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than otherwise available. The constant maturity swap is a variation of a regular interest rate swap in which one of the interest revenue streams exchanged is reset periodically according to a fixed maturity market rate of a product with a duration extending beyond the reset period. The contracts are obligations of the District separate and apart from its' obligation to pay scheduled principal and interest on outstanding debt obligations.

The District entered into two contracts for certain of its outstanding general obligation and revenue bonds in the amount of \$41,155,000 and \$25,155,000, respectively. The contracts were executed independently of each other and neither is dependent upon the other with regards to terms, execution or results. Both transactions were approved by the Attorney General of Texas pursuant to Chapter 1371, Texas Government Code, as amended.

General Obligation Bonds

On September 12, 2006 the District entered into a constant maturity interest rate swap with Bear Stearns Financial Products, Inc. (BSFP) for certain of its outstanding general obligation bonds in the notional amount of \$41,155,000 for the initial calculation period and declining annually thereafter as scheduled repayments of principal occur. The contract was executed on a forward start basis with an effective date of November 15, 2007 and a termination date of February 15, 2028. The District has contractually agreed to a monthly payment and receipt of funds, beginning December 15, 2007, in which the District will pay the counterparty the USD-BMA Municipal Swap Index and receive 67% of the 10 year LIBOR index. No options are embedded in the contract and the District neither received nor paid cash upon execution of the contract.

Fair value – As of August 31, 2007, the swap agreement had a positive fair value of \$6,783. The positive fair value signifies the amount the District would receive from BSFP upon the termination of the agreement as of that date. The fair value was calculated using a market quotation from BSFP.

Credit risk – The swap agreement's fair value represented the District's credit exposure to BSFP as of August 31, 2007. Should BSFP fail to perform according to the terms of the swap agreement, the possible loss would be equivalent to the swap agreement's fair value, if positive. However, should interest rates change and the fair value becomes negative, the District would not be exposed to credit risk. As of August 31, 2007, BSFP's Standard and Poor's (S&P) rating was AAA and Moody's Investors Service (Moody's) rating was Aaa.

Interest rate risk – The swap agreement increases the District's exposure to interest rate risk. Fluctuations in interest rates will affect the monthly payment and receipt of funds. As the USD-BMA Municipal Swap Index increases or the 10 year LIBOR index decreases, the District's net payment on the swap agreement increases.

Termination risk – The swap agreement is subject to mandatory redemption in the event of default or if ratings assigned to either the District's or BSFP's long-term unenhanced debt obligations are withdrawn or reduced to BBB by S&P or Baa2 by Moody's. The swap agreement is subject to an optional termination by the District at any time during the term of the agreement at the then prevailing market value.

Revenue Bonds

On September 13, 2006 the District entered into a constant maturity interest rate swap with Citibank, N.A., New York (Citibank) for certain of its outstanding revenue bonds in the notional amount of \$25,155,000 for the initial calculation period and declining annually thereafter as scheduled repayments of principal occur. The contract was executed on a forward start basis with an effective date of November 15, 2007 and a

termination date of February 15, 2028. The District has contractually agreed to a monthly payment and receipt of funds, beginning December 15, 2007, in which the District will pay the counterparty the USD – BMA Municipal Swap Index and receive 65% of the 10 year LIBOR index. No options are embedded in the contract and the District neither received nor paid cash upon execution of the contract.

Fair value – As of August 31, 2007, the swap agreement had a positive fair value of \$16,203. The positive fair value signifies the amount the District would receive from Citibank upon the termination of the agreement as of that date. The fair value was calculated using a market quotation from Citibank.

Credit risk – The swap agreement’s fair value represented the District’s credit exposure to Citibank as of August 31, 2007. Should CitiBank fail to perform according to the terms of the swap agreement, the possible loss would be equivalent to the swap agreement’s fair value, if positive. However, should interest rates change and the fair value becomes negative, the District would not be exposed to credit risk. As of August 31, 2007, CitiBank’s Standard and Poor’s (S&P) rating was AA and Moody’s Investors Service (Moody’s) rating was Aaa.

Interest rate risk – The swap agreement increases the District’s exposure to interest rate risk. Fluctuations in interest rates will affect the monthly payment and receipt of funds. As the USD-BMA Municipal Swap Index increases or the 10 year LIBOR index decreases, the District’s net payment on the swap agreement increases.

Termination risk – The swap agreement is subject to mandatory redemption in the event of default or if ratings assigned to either the District’s or Citibank’s long-term unenhanced debt obligations are withdrawn or reduced to BBB by S&P or Baa2 by Moody’s. The swap agreement is subject to an optional termination by the District at any time during the term of the agreement at the then prevailing market value.

6. CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2007 was as follows:

	Balance August 31, 2006	Increase	Decrease	Balance August 31, 2007
<u>Not Depreciated:</u>				
Land	\$ 42,997,872	\$ 1,646,343	\$ (115,553)	\$ 44,528,662
Construction in Progress	1,167,760	1,917,992	(3,079,963)	5,789
Subtotal	<u>44,165,632</u>	<u>3,564,335</u>	<u>(3,195,516)</u>	<u>44,534,451</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	320,955,108	686,497	-	321,641,605
Other Real Estate Improvements	5,589,000	-	-	5,589,000
Total Buildings & Other Real Estate Impr.	<u>326,544,108</u>	<u>686,497</u>	<u>-</u>	<u>327,230,605</u>
Library Books	11,977,912	510,607	(305,664)	12,182,855
Furniture, Machinery, Vehicles, & Other	20,707,285	1,919,577	(3,688,165)	18,938,697
Total Buildings and Other Capital Assets	<u>359,229,305</u>	<u>3,116,681</u>	<u>(3,993,829)</u>	<u>358,352,157</u>
<u>Accumulated Depreciation</u>				
Buildings and Building Improvements	44,091,251	5,793,585	-	49,884,836
Other Real Estate Improvements	3,960,985	756,489	-	4,717,474
Total Buildings & Other Real Estate Impr.	<u>48,052,236</u>	<u>6,550,074</u>	<u>-</u>	<u>54,602,310</u>
Library Books	7,350,938	609,567	(305,664)	7,654,841
Furniture, Machinery, & Equipment	14,216,584	1,665,722	(3,284,822)	12,597,484
Total Buildings and Other Capital Assets	<u>69,619,758</u>	<u>8,825,363</u>	<u>(3,590,486)</u>	<u>74,854,635</u>
Net Capital Assets	<u>\$ 333,775,179</u>	<u>\$ (2,144,347)</u>	<u>\$ (3,598,859)</u>	<u>\$ 328,031,973</u>

Capital assets activity for the year ended August 31, 2006 was as follows:

	Balance August 31, 2005	Increase	Decrease	Balance August 31, 2006
<u>Not Depreciated:</u>				
Land	\$ 42,313,684	\$ 684,188	\$ -	\$ 42,997,872
Construction in Progress	902,035	1,815,400	(1,549,675)	1,167,760
Subtotal	<u>43,215,719</u>	<u>2,499,587</u>	<u>(1,549,675)</u>	<u>44,165,632</u>
<u>Buildings and Other Capital Assets</u>				
Buildings and Building Improvements	320,047,642	907,466	-	320,955,108
Other Real Estate Improvements	5,589,000	-	-	5,589,000
Total Buildings & Other Real Estate Impr.	<u>325,636,642</u>	<u>907,466</u>	<u>-</u>	<u>326,544,108</u>
Library Books	11,461,643	516,269	-	11,977,912
Furniture, Machinery, Vehicles, & Other	18,179,649	2,557,236	(29,600)	20,707,285
Total Buildings and Other Capital Assets	<u>355,277,934</u>	<u>3,980,971</u>	<u>(29,600)</u>	<u>359,229,305</u>
<u>Accumulated Depreciation</u>				
Buildings and Building Improvements	38,312,046	5,779,205	-	44,091,251
Other Real Estate Improvements	3,255,492	705,493	-	3,960,985
Total Buildings & Other Real Estate Impr.	<u>41,567,538</u>	<u>6,484,698</u>	<u>-</u>	<u>48,052,236</u>
Library Books	6,745,489	605,449	-	7,350,938
Furniture, Machinery, & Equipment	12,627,488	1,612,030	(22,934)	14,216,584
Total Buildings and Other Capital Assets	<u>60,940,515</u>	<u>8,702,177</u>	<u>(22,934)</u>	<u>69,619,758</u>
Net Capital Assets	<u>\$ 337,553,138</u>	<u>\$ (2,221,618)</u>	<u>\$ (1,556,341)</u>	<u>\$ 333,775,179</u>

7. LONG-TERM LIABILITIES

Long-term liability activity for the year ended August 31, 2007 was as follows:

	Balance September 1, 2006	Additions	Reductions	Balance August 31, 2007	Current Position
<u>Bonds</u>					
General obligation bonds	\$ 203,904,611	\$ 14,515,307	\$ (34,001,088)	\$ 184,418,830	\$ 26,385,870
Revenue Bonds	26,540,217	30,104,336	(1,348,596)	55,295,957	1,808,150
Subtotal	<u>230,444,828</u>	<u>44,619,643</u>	<u>(35,349,684)</u>	<u>239,714,787</u>	<u>28,194,020</u>
<u>Notes</u>					
General obligation notes	-	-	-	-	-
Revenue Bonds	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Leases	-	-	-	-	-
Accrued compensable absences	3,596,149	902,411	(777,745)	3,720,815	300,000
Total long-term liabilities	<u>\$ 234,040,977</u>	<u>\$ 45,522,054</u>	<u>\$ (36,127,429)</u>	<u>\$ 243,435,602</u>	<u>\$ 28,494,020</u>

Long-term liability activity for the year ended August 31, 2006 was as follows:

	Balance September 1, 2005	Additions	Reductions	Balance August 31, 2006	Current Position
Bonds					
General obligation bonds	\$ 220,638,596	\$ 49,583,248	\$ (66,317,233)	\$ 203,904,611	\$ 15,591,088
Revenue Bonds	27,991,556	-	(1,451,339)	26,540,217	1,346,339
Subtotal	248,630,152	49,583,248	(67,768,572)	230,444,828	16,937,427
Notes					
General obligation notes	-	-	-	-	-
Revenue Bonds	-	-	-	-	-
Subtotal	-	-	-	-	-
Leases	-	-	-	-	-
Accrued compensable absences	3,231,533	997,581	(632,965)	3,596,149	300,000
Total long-term liabilities	\$ 251,861,685	\$ 50,580,829	\$ (68,401,537)	\$ 234,040,977	\$ 17,237,427

8. BONDS PAYABLES

General information related to bonds payable is summarized below:

Series	Purpose	Maturity Date	Interest Rate	Original Issue Amount	Repayment Source	Amount Outstanding	
						8/31/2007	8/31/2006
Revenue Bonds							
2000 Rev	Constr/Refunding	2001 - 2025	5.12% - 6.50%	\$ 11,000,000	Pledged Rev	\$ 9,308,271	\$ 9,607,616
2003 Rev	Construction	2004 - 2028	2.50% - 5.00%	10,000,000	Pledged Rev	7,886,974	8,340,000
2003A Rev	Construction	2004 - 2018	2.00% - 4.25%	10,390,000	Pledged Rev	7,998,634	8,592,601
2007 Rev	Construction	2008 - 2038	4.00% - 5.00%	29,900,000	Pledged Rev	30,102,078	-
						<u>\$ 55,295,957</u>	<u>\$ 26,540,217</u>
General Obligation Bonds							
1997 Var	Construction	2015 - 2016	variable	\$ 20,000,000	Ad Val Tax	\$ 2,530,000	\$ 7,530,000
1999	Construction	2000 - 2025	4.45% - 5.25%	34,300,000	Ad Val Tax	1,225,000	2,315,000
2001A	Construction	2002 - 2026	3.60% - 5.37%	50,000,000	Ad Val Tax	16,453,346	18,772,951
2002A	Construction	2003 - 2027	3.26% - 5.37%	95,040,000	Ad Val Tax	72,897,584	91,607,698
2002B	Refunding	2004 - 2009	2.22% - 4.50%	3,649,990	Ad Val Tax	560,343	990,631
2003	Constr/Refunding	2004 - 2028	2.50% - 5.00%	36,464,997	Ad Val Tax	21,380,025	27,095,265
2005 Ref	Refunding	2006 - 2013	3.00% - 5.00%	6,915,000	Ad Val Tax	4,768,647	5,888,868
2005A Ref	Refunding	2006 - 2026	3.00% - 5.00%	50,244,217	Ad Val Tax	49,431,999	49,704,198
2007 Ref	Refunding	2008 - 2012	3.44% - 4.00%	13,410,000	Ad Val Tax	15,171,886	-
						<u>\$ 184,418,830</u>	<u>\$ 203,904,611</u>

The revenue pledged as security for the revenue bond debt service includes a portion of tuition and fees, investment income, and auxiliary revenues. Such pledged revenue amounted to \$24,553,000 and \$22,164,000, for the years ended August 31, 2007 and 2006, respectively.

Debt service requirements at August 31, 2007 were as follows:

For the Year Ended August 31	General Obligation Bonds		Revenue Bonds		Total Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
	2008	\$ 26,385,870	\$ 9,425,565	\$ 1,808,150	\$ 2,843,013	\$ 28,194,020
2009	12,618,781	6,994,419	2,248,150	2,394,285	14,866,931	9,388,704
2010	12,859,827	6,445,832	2,243,150	2,308,439	15,102,977	8,754,271
2011	13,180,369	5,878,433	2,288,150	2,218,918	15,468,519	8,097,351
2012	13,777,770	5,265,703	2,353,150	2,120,065	16,130,920	7,385,768
2013-2017	48,518,926	17,323,743	12,025,749	9,092,722	60,544,675	26,416,465
2018-2022	30,647,569	10,164,734	9,569,882	6,598,342	40,217,451	16,763,076
2023-2027	25,759,478	2,980,633	8,271,226	4,403,267	34,030,704	7,383,900
2028-2032	670,240	14,963	5,951,552	2,790,125	6,621,792	2,805,088
2033-2037	-	-	7,117,245	1,303,650	7,117,245	1,303,650
2038	-	-	1,419,553	63,675	1,419,553	63,675
Total	\$ 184,418,830	\$ 64,494,025	\$ 55,295,957	\$ 36,136,501	\$ 239,714,787	\$ 100,630,526

reported and paid to the Internal Revenue Service at least every five years. During the current year, The District performed calculations of excess investment earnings on various bonds and at August 31, 2006 does not expect to incur a liability.

9. VARIABLE RATE BONDS

At August 31, 2007 and 2006 the District had Series 1997 Variable Rate Bonds (the “Bonds”) outstanding in the amount of \$2,530,000 and \$7,530,000, respectively. The Bonds are repriced to the investor periodically and the interest rate is reset at the same time to the District. The District currently uses a weekly mode for repricing. The interest rates vary weekly based on yield quotations for issues of tax-exempt bonds having similar characteristics. At August 31, 2007 and 2006, the Bonds had a rate of 3.98% and 3.41%, respectively. The Bonds are convertible, at the option of the District, and pursuant to an order by the Board of Trustees, between Variable Rate Periods, Fixed Rate Periods or Flexible Rate Periods in accordance with the Order Authorizing issuance of such Bonds. To accomplish a conversion from one rate method to another, the District must give written notice of the proposed conversion together with an Opinion of Bond Counsel to the Remarketing Agent not less than 45 days before the proposed conversion date.

10. ADVANCE REFUNDING BONDS

On September 14, 2005 the District issued \$47,645,000 of Limited Tax Refunding Bonds, Series 2005A. The issue consisted solely of Refunding Bonds with a reoffering premium of \$2,574,749. The bonds mature serially through February 15, 2026. Interest on the Bonds ranges from 3.000% to 5.000%. The net refunding proceeds were applied to refund \$23,565,000 of outstanding Limited Tax Refunding Bonds, Series 1999 with interest rates ranging from 4.45% to 5.25% and \$24,125,000 of outstanding Limited Tax Refunding Bonds, Series 2001 with interest rates ranging from 4.305% to 5.375%. The Series 1999 Bonds are callable on February 15, 2008 and the Series 2001 Bonds are callable on February 15, 2010. The aggregate debt service payments of the refunded bonds (\$75,439,094) is \$2,659,079 less than the aggregate debt service payments of the refunding bonds (\$72,780,015). The net present value savings of the refunding transaction is \$1,779,605. The refunding proceeds were deposited into an irrevocable trust with an escrow agent to provide all of the debt service payments. The refunded bonds are considered defeased and the liability for those bonds was removed from the District’s liabilities in fiscal year 2006.

On August 1, 2007 the District issued \$13,410,000 of Limited Tax Refunding Bonds, Series 2007. The issue consisted solely of Refunding Bonds with a reoffering premium of \$1,107,839. The bonds mature serially through February 15, 2012. Interest on the Bonds ranges from 3.443% to 5.000%. The net refunding proceeds were applied to refund \$13,410,000 of outstanding Limited Tax General Obligation Bonds, Series 2002 with interest rates of 5.375%. The Series 2002 Bonds are callable on February 15, 2012. The aggregate debt service payments of the refunded bonds (\$19,419,787) is \$4,595,788 less than the aggregate debt service payments of the refunding bonds (\$14,823,999). The net present value savings of the refunding transaction is \$449,887. The refunding proceeds were deposited into an irrevocable trust with an escrow agent to provide all of the debt service payments. The refunded bonds are considered defeased and the liability for those bonds was removed from the District’s liabilities in fiscal year 2007.

11. DEFEASED BONDS OUTSTANDING

For the fiscal years ended August 31, 2007 and 2006 the District had the following defeased bonds outstanding.

Series	2007	2006
1999	\$ 23,565,000	\$ 23,565,000
2001	24,125,000	24,125,000
2002	13,410,000	-

12. OPERATING LEASES

The District leases certain of its 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, 2007, for each of the next five years and in the aggregate are as follows:

<u>Year Ended 8/31/07</u>	<u>Total</u>
2008	\$ 2,025,453
2009	2,024,463
2010	1,407,780
2011	1,270,511
2012	1,102,976
2013-2016	<u>3,900,000</u>
Total minimum lease payments	11,731,182
Less: Amount representing interest costs	<u>-</u>
Present value of minimum lease payments	<u>\$ 11,731,182</u>

Rent expense for the years ended August 31, 2007 and 2006 was \$2,424,454 and \$2,252,462, respectively.

13. EMPLOYEES' RETIREMENT PLAN

The State of Texas has joint contributory retirement plans for almost all its employees. Within the first 90 days of employment higher education employees make an irrevocable choice to be covered by either the Teacher Retirement System or the Optional Retirement Plan. The total payroll for all District employees was \$122,049,525 and \$114,467,450 for fiscal years 2007 and 2006, respectively.

Teacher Retirement System

The District participates in the Teacher Retirement System of Texas (TRS). TRS is a cost-sharing multiple-employer public employee retirement system except that all risks and costs are not shared by the employer but are the liability of the State of Texas. Regulations of the State of Texas assign the authority to establish and amend benefit provisions to the TRS Board of Trustees. Because the TRS bears sole responsibility for retirement commitments beyond contributions fixed by the Legislature, TRS does not separately account for each of its component government agencies. Further information regarding actuarial assumptions and conclusions, as well as audited financial statements, is included in the annual financial report of TRS. That report may be obtained from the TRS website, www.trs.state.tx.us, under the TRS Publications heading.

The percentages of participant salaries currently contributed by the State and by each participant are 6.0% and 6.4%, respectively, of annual compensation.

The total payroll of employees covered by the Teacher Retirement System for the years 2007 and 2006 was \$63,637,285 and \$58,945,341, respectively. The retirement expense to the State for District employees was \$3,818,237 and \$3,536,720 for the fiscal years ended August 31, 2007 and 2006, respectively, and for both years is 100% of required contributions. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the District. These amounts are recorded by the District as on-behalf revenue and expense.

Optional Retirement Plan

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 of the Teacher Retirement System.

The optional retirement program provides for the purchase of annuity contracts. The percentages of participant salaries currently contributed by the State and each participant are 6.0% and 6.65%, respectively. The District contributes 2.5% for employees who were participating in the optional retirement program prior to September 1, 1995. 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.

The total payroll of employees covered by the Optional Retirement System was \$33,201,651 and \$31,657,477 for fiscal years 2007 and 2006, respectively. The retirement expense to the State for the District was \$1,992,099 and \$1,899,449 for the fiscal years ended August 31, 2007 and 2006, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the District. These amounts are recorded by the District as on-behalf revenue and expense.

14. DEFERRED COMPENSATION PROGRAM

Certain District 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 essentially an unfunded promise to pay by the employer to each of the plan participants.

As of August 31, 2007, the District has 8 employees participating in the program. There were 4 employees vested at August 31, 2007. At August 31, 2006 there was \$215,029 invested in plan assets. There were net contributions in the amount of \$120,898 invested in the plan during the fiscal year and vested distributions to employees amounted to \$160,967. At August 31, 2007 the total of deferred salaries and accumulated earnings of current employees is \$169,423.

15. COMPENSABLE ABSENCES

Full-time non-faculty employees on a twelve month work schedule are eligible for paid annual leave. Eligible employees accrue vacation leave at different rates depending on their length of service and position. Accrual rates range from 8 hours per month to 13.33 hours per month. The District's policy is to allow employees to carry their accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours accrued equal to twice their annual accrual rate. Eligible employees are entitled to payment for all accumulated annual leave up to the maximum allowed at the time employment with the District is terminated. The District recognizes an accrued liability for the unpaid compensated absences in the amounts of \$3,720,815 and \$3,596,149 for the fiscal years ended August 31, 2007 and 2006, respectively.

Sick leave, which is accumulated to a maximum of 520 hours, is earned at the rate of 8 hours per month. Full time employees eligible to participate in the sick leave plan are those who work a 12 month schedule and who work at least 20 hours per week. It is paid to an employee who misses work due to illness. The District's policy is to recognize the cost of sick leave when paid. The liability is not shown in the financial statements because the benefit is budgeted annually and employees are not compensated on termination for accrued sick leave balances.

16. COMMITMENTS AND CONTINGENCIES

Contingencies – The District 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 District's management, such disallowances, if any, would not be significant in relation to the financial statements of the District.

Pending Lawsuits and Claims – On August 31, 2007, various lawsuits and claims involving the District were pending. The ultimate liability with respect to litigation and other claims against the District cannot be reasonably estimated at this time. In the opinion of the District's management, any liability, to the extent not provided for by insurance or otherwise, will not have a material effect on the District.

17. DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables at August 31, 2007 and 2006 were as follows:

	August 31	
	2007	2006
Student Receivables	\$ 5,097,880	\$ 4,383,324
Taxes Receivable	6,188,104	6,235,292
Federal Receivable	3,333,929	3,842,020
Accounts Receivable	2,905,685	2,256,743
Interest Receivable	392,146	235,348
Other Receivables	117,445	482,353
Subtotal	18,035,189	17,435,080
Allowance for Doubtful Accounts	(982,423)	(983,238)
TOTAL RECEIVABLES	\$ 17,052,766	\$ 16,451,842

Payables at August 31, 2007 and 2006, were as follows:

	August 31	
	2007	2006
Vendors Payable	10,838,967	9,499,563
Salaries & Benefits Payable	1,046,100	796,574
Students Payable	345,662	1,032,445
Accrued Interest	471,453	456,796
Other Payable	29,313	24,398
TOTAL PAYABLES	\$ 12,731,495	\$ 11,809,776

18. CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with the generally accepted accounting principles. Revenues are disclosed on Exhibit 2 and Schedule A. Funds expended, but not collected, are reported as accounts receivable on Exhibit 1. Collections in excess of funds expended are reported as deferred revenues on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements.

19. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses for these risks are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the past three prior years. The District did not maintain or operate a self-insured insurance plan during the years ended August 31, 2007 and 2006.

20. POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the state. Those and similar benefits for active employees are provided

through an insurance company whose premiums are based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee was \$360.54 per month for the year ended August 31, 2007 (\$343.48 per month for 2006) and totaled \$7,826,145 for 2007 (\$7,150,831 for the year ended 2006). The cost of providing those benefits for 217 retirees in the year ended 2007 was \$1,035,217 (retiree benefits for 200 retirees cost \$956,311 in 2006). For 1,896 active employees, the cost of providing benefits was \$12,258,735 for the year ended 2007 (active employee benefits for 1,907 employees cost \$11,543,393 for the year ended 2006).

21. AD VALOREM TAX

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District at August 31:

	<u>2007</u>	<u>2006</u>
Assessed Valuation of the District	\$96,720,583,927	\$ 87,974,128,240
Less: Exemption	(6,573,726,290)	(6,037,955,445)
Less: Abatements	-	-
Net Assessed Valuation of the District	<u>\$ 90,146,857,637</u>	<u>\$ 81,936,172,795</u>

	<u>Current</u> <u>Operation</u>	<u>2007</u> <u>Debt</u> <u>Service</u>	<u>Total</u>	<u>Current</u> <u>Operation</u>	<u>2006</u> <u>Debt</u> <u>Service</u>	<u>Total</u>
Authorized Tax Rate per \$100 valuation	\$0.3000	\$0.5000	\$0.8000	\$0.3000	\$0.5000	\$0.8000
Assessed Tax Rate per \$100 valuation	\$0.0820	\$0.0347	\$0.1167	\$0.0860	\$0.0347	\$0.1207

Taxes levied for the year ended August 31, 2007 and 2006 amounted to \$105,201,383 and \$98,896,961 respectively (which includes any penalty and interest assessed, if applicable). Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which imposed.

	<u>Current</u> <u>Operations</u>	<u>2007</u> <u>Debt Service</u>	<u>Total</u>	<u>Current</u> <u>Operations</u>	<u>2006</u> <u>Debt Service</u>	<u>Total</u>
Current Taxes	\$ 71,592,439	\$ 30,467,272	\$ 102,059,711	\$ 67,431,512	\$ 27,450,839	\$ 94,882,351
Delinquent Taxes	2,160,015	927,486	3,087,501	2,362,703	953,302	3,316,005
Penalties & Interest	<u>925,547</u>	<u>373,131</u>	<u>1,298,678</u>	<u>977,390</u>	<u>301,793</u>	<u>1,279,183</u>
Total	<u>\$ 74,678,001</u>	<u>\$ 31,767,889</u>	<u>\$ 106,445,890</u>	<u>\$ 70,771,605</u>	<u>\$ 28,705,934</u>	<u>\$ 99,477,539</u>

Tax collections for the year ended August 31, 2007 and 2006 were 97.01% and 95.94%, respectively of the current tax levy. Taxes assessed are recorded in the District's financial statements net of the related allowance for uncollectible taxes, based upon the District's expected collection experience. The use of tax proceeds is restricted for the use of maintenance and general obligation debt service.

22. INCOME TAXES

The District 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 District had no unrelated business income tax liability for the year ended August 31, 2007 and 2006.

23. RELATED PARTIES

The North Harris Montgomery Community College District Foundation (the "Foundation") is a nonprofit organization with the purpose of supporting the educational and other activities of the District. The District does not appoint board members; does not fund; nor is the District obligated to pay debt related to the Foundation. However, the District does have the ability to significantly influence the policies of the Foundation. The Foundation solicits donations and acts as coordinator of gifts made by other parties. It remitted restricted gifts of \$739,920 and \$697,513 to the District during the years ended August 31, 2007 and 2006, respectively. The District furnished certain services, such as office space, utilities and some staff assistance, to the Foundation which totaled \$246,696 and \$225,816 for 2007 and 2006, respectively. There were no related receivables as of August 31, 2007 and 2006.

24. SUBSEQUENT EVENT

On November 1, 2007, the North Harris Montgomery Community College District Board of Trustees voted to change the name of the District to Lone Star College System. The new name became effective on November 5, 2007.

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF OPERATING REVENUES
YEAR ENDED AUGUST 31, 2007 (With Memorandum Totals for the Year Ended August 31, 2006)

	Unrestricted	Restricted	Educational Activities	Auxiliary Enterprises	Total	2006 Totals
Tuition						
State funded courses						
In-district resident tuition	\$ 26,111,730	\$ -	\$ 26,111,730	\$ -	\$ 26,111,730	\$ 24,638,645
Out-of-district resident tuition	4,740,009	-	4,740,009	-	4,740,009	4,216,666
Non-resident tuition	2,615,623	-	2,615,623	-	2,615,623	2,111,057
TPEG -credit (set aside)*	(1,904,211)	-	(1,904,211)	-	(1,904,211)	(1,691,502)
State-funded continuing education	4,522,764	-	4,522,764	-	4,522,764	4,313,776
TPEG -non-credit (set aside)*	(199,082)	-	(199,082)	-	(199,082)	(97,745)
Non-state funded continuing education	1,799,690	-	1,799,690	-	1,799,690	1,650,480
Total tuition	37,686,523	-	37,686,523	-	37,686,523	35,141,377
Fees						
General fee	1,269,538	-	1,269,538	-	1,269,538	1,222,140
Student service fee	1,617,835	-	1,617,835	-	1,617,835	1,556,029
Laboratory fee	854,667	-	854,667	-	854,667	881,734
Other fees	5,402,951	-	5,402,951	-	5,402,951	4,772,210
Total fees	9,144,991	-	9,144,991	-	9,144,991	8,432,113
Scholarship allowances and discounts						
Scholarship Allowances	(2,616,801)	-	(2,616,801)	-	(2,616,801)	(2,319,480)
Remissions and Exemptions	(1,028,790)	-	(1,028,790)	-	(1,028,790)	(878,692)
TPEG Allowances	(572,539)	-	(572,539)	-	(572,539)	(666,542)
State Grants to Students	(601,556)	-	(601,556)	-	(601,556)	(477,125)
Federal Grants to Students	(5,197,280)	-	(5,197,280)	-	(5,197,280)	(5,819,693)
Other	-	-	-	-	-	-
Total scholarship allow and disc	(10,016,966)	-	(10,016,966)	-	(10,016,966)	(10,161,532)
Total net tuition and fees	36,814,548	-	36,814,548	-	36,814,548	33,411,958
Additional operating revenues						
Federal grants and contracts	-	23,859,077	23,859,077	-	23,859,077	24,029,031
State grants and contracts	-	826,569	826,569	-	826,569	523,595
Local grants and contracts	1,560,592	2,314,987	3,875,579	-	3,875,579	8,097,976
Other operating revenues	910,264	-	910,264	-	910,264	891,357
Total additional operating revenues	2,470,856	27,000,633	29,471,489	-	29,471,489	33,541,959
Auxiliary enterprises						
Food Service	-	-	-	2,146,409	2,146,409	1,897,054
Bookstore	-	-	-	1,579,040	1,579,040	1,507,082
Child Care Fees	-	-	-	721,414	721,414	725,821
Special Events	-	-	-	659,601	659,601	688,911
Other	-	-	-	564,889	564,889	571,227
Total net auxiliary enterprises	-	-	-	5,671,353	5,671,353	5,390,095
Total Operating Revenues	\$ 39,285,404	\$ 27,000,633	\$ 66,286,037	\$ 5,671,353	\$ 71,957,390	\$ 72,344,012
				(Exhibit 2)	(Exhibit 2)	

*In accordance with the Education code 56.033, \$2,103,293 and \$1,789,247 was set aside for Texas Public Education Grants in 2007 and 2006, respectively.

SCHEDULE B

**NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF OPERATING EXPENSES BY OBJECT
 YEAR ENDED AUGUST 31, 2007 (with Memorandum Totals for the Year Ended August 31, 2006)**

	Operating Expenses				2007 Total	2006 Total
	Salaries and Wages	Benefits		Other Expenses		
		State	Local			
Unrestricted Educational Activities						
Instruction	\$ 61,484,394	\$ -	\$ 3,171,368	\$ 7,555,287	\$ 72,211,049	\$ 66,709,904
Public service	549,911	-	45,748	161,513	757,172	826,798
Academic support	21,472,790	-	1,284,565	5,099,172	27,856,527	26,073,905
Student services	10,022,940	-	598,310	2,678,972	13,300,222	12,160,108
Institutional support	14,690,738	-	2,037,030	10,652,226	27,379,994	25,444,565
Operation and maintenance of plant	7,369,427	-	1,893,522	17,747,059	27,010,008	22,571,890
Scholarships and fellowships	-	-	-	-	-	-
Total unrestricted educational activities	115,590,200	-	9,030,543	43,894,229	168,514,972	153,787,170
Restricted Educational Activities						
Instruction	2,116,653	\$ 5,773,939	301,029	1,181,897	9,373,518	10,515,290
Public service	259,494	72,302	48,931	336,803	717,530	648,258
Academic support	146,678	3,188,283	7,828	211,795	3,554,584	2,935,768
Student services	825,581	1,442,203	100,321	1,036,465	3,404,570	3,390,875
Institutional support	102,350	3,159,754	17,772	238,525	3,518,401	3,126,523
Operation and maintenance of plant	198,562	-	58,852	94,136	351,550	1,093,359
Scholarships and fellowships	-	-	-	10,391,971	10,391,971	9,340,611
Total restricted educational activities	3,649,318	13,636,481	534,733	13,491,592	31,312,124	31,050,684
Total educational activities	119,239,518	13,636,481	9,565,276	57,385,821	199,827,096	184,837,854
Auxiliary enterprises	1,949,807	-	395,316	2,959,209	5,304,332	5,132,064
Depreciation expense - buildings	-	-	-	6,550,074	6,550,074	6,484,698
Depreciation expense - equip & furn	-	-	-	2,275,289	2,275,289	2,217,479
Total Operating Expenses	\$ 121,189,325	\$ 13,636,481	\$ 9,960,592	\$ 69,170,393	\$ 213,956,791	\$ 198,672,095
					(Exhibit 2)	(Exhibit 2)

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
YEAR ENDED AUGUST 31, 2007 (With Memorandum Totals for the Year Ended August 31, 2006)

	Unrestricted	Restricted	Auxiliary Enterprises	August 31,	
				2007	2006
NON-OPERATING REVENUES:					
State appropriations:					
Education and general state support	\$ 49,113,362	\$ -	\$ -	\$ 49,113,362	\$ 49,113,362
State group insurance	-	7,826,145	-	7,826,145	7,490,673
State retirement matching	-	5,810,336	-	5,810,336	5,661,796
Developmental education	-	-	-	-	-
Total state appropriations	49,113,362	13,636,481	-	62,749,843	62,265,831
Maintenance ad valorem taxes	73,755,838	-	-	73,755,838	70,130,332
General obligation ad valorem taxes	-	31,367,850	-	31,367,850	28,436,732
Gifts	17,000	-	-	17,000	8,200
Investment income	4,477,292	-	-	4,477,292	2,540,321
Gain on sale of investment	-	-	-	-	-
Gain on disposal of capital asset	-	-	-	-	-
Other non-operating revenue	925,547	377,389	-	1,302,936	1,386,683
Total non-operating revenues	128,289,039	45,381,720	-	173,670,759	164,768,099
NON-OPERATING EXPENSES:					
Interest on capital related debt	-	11,359,249	-	11,359,249	12,517,976
Loss on disposal of capital assets	-	245,000	-	245,000	6,106
Other non-operating expense	-	-	-	-	-
Total non-operating expenses	-	11,604,249	-	11,604,249	12,524,082
Net non-operating revenues	\$ 128,289,039	\$ 33,777,471	\$ -	\$ 162,066,510	\$ 152,244,017
				(Exhibit 2)	(Exhibit 2)

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY
YEAR ENDED AUGUST 31, 2007 (with Memorandum Totals for the Year Ended August 31, 2006)

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets (Net)	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 38,799,592	\$ -	\$ -	\$ -	\$ 38,799,592	\$ 38,799,592	\$ -
Board designated	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Auxiliary enterprises	1,706,458	-	-	-	1,706,458	1,706,458	-
Loan	-	485,631	-	-	485,631	-	485,631
Endowment:							
Quasi:							
Unrestricted	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Endowment							
True	-	-	-	-	-	-	-
Term	-	-	-	-	-	-	-
Life income contracts	-	-	-	-	-	-	-
Annuities	-	-	-	-	-	-	-
Plant:							
Unexpended	-	-	-	-	-	-	-
Renewals	-	-	-	-	-	-	-
Debt service	-	6,051,347	-	-	6,051,347	-	6,051,347
Investment in Plant	-	-	-	119,597,719	119,597,719	-	119,597,719
Total Net Assets, August 31, 2007	40,506,050	6,536,978	-	119,597,719	166,640,747	40,506,050	126,134,697
Total Net Assets, August 31, 2006	37,602,808	3,822,347	-	105,148,483	146,573,638	37,602,808	108,970,830
Net Increase in Net Assets	\$ 2,903,242	\$ 2,714,631	\$ -	\$ 14,449,236	\$ 20,067,109	\$ 2,903,242	\$ 17,163,867

SCHEDULE E

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2007

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			
<i>Direct Programs:</i>			
Federal Supplemental Educational Opportunity Grants-FSEOG (06-07)	84.007	P007A034084	\$ 534,401
Institutional Development & Undergraduate Education Service Higher Education - Institutional Aid-Title V (06-07)	84.031S	P031S040052-06	404,374
Federal Work-Study Program (06-07)	84.033	P933A044084	251,782
Federal Work-Study Program (07-08)	84.033	P933A044084	36,137
Total Federal Work-Study Program			287,919
TRIO - Student Support Services (06-07)	84.042A	P042A050846	253,587
TRIO - Talent Search (06-07) NHC's Student Support Services Initiative	84.044A	P044A020444-6	283,076
TRIO - Upward Bound (06-07)	84.047A	P047A031128-06	385,803
TRIO - Upward Bound (06-07)	84.047A	P047A030935-06	245,007
Total TRIO - Upward Bound			630,810
Federal Pell Grant program (02-03)	84.063	P063P033422	98
Federal Pell Grant program (03-04)	84.063	P063P033422	2,025
Federal Pell Grant program (04-05)	84.063	P063P033422	(6)
Federal Pell Grant program (05-06)	84.063	P063P033422	(33,750)
Federal Pell Grant Program (06-07)	84.063	P063P033422	17,150,055
Total Federal Pell Grant Program			17,118,422
Academic Competitiveness (06-07)	84.375	n/a	15,175
<i>Pass-Through From:</i>			
Texas Education Agency			
Adult Education - State Grant Program (05-06)	84.002A	6410008711053	128,117
Adult Education - State Grant Program (06-07)	84.002A	74100017110153	759,882
Adult Education - State Grant Program (05-06)	84.002A	54100087110053	7,404
Adult Education - State Grant Program (06-07)	84.002A	74100087110163	80,519
Adult Education - State Grant Program (05-06)	84.002A	410005711060004	92,109
Adult Education - State Grant Program (06-07)	84.002A	74100037110023	330,570
Total Adult Basic Education - State Grant Program			1,398,601
Career and Technology Education (06-07) ATC Professional Development	84.048	1670	134,889
<i>Pass-Through From:</i>			
Texas Higher Education Coordinating Board			
Vocational Education - Basic Grants to States (05-06)	84.048	61404	2,450
Vocational Education - Basic Grants to States (06-07)	84.048	74233	951,384
Vocational Education - Basic Grants to States (06-07)	84.048	71409	51,058
Vocational Education - Basic Grants to States (06-07)	84.048	71502	77,320
Vocational Education - Basic Grants to States (06-07)	84.048	71104	29,442
Vocational Education - Basic Grants to States (06-07)	84.048	71103	23,931
Vocational Education - Basic Grants to States (06-07)	84.048	71407	93,268
Vocational Education - Basic Grants to States (06-07)	84.048	71501	30,457
Vocational Education - Basic Grants to States (05-06)	84.048	61301	(440)
Vocational Education - Basic Grants to States (06-07)	84.048	71404	84,472
Total Vocational Education - Basic Grants			1,343,342

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

SCHEDULE E

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

YEAR ENDED AUGUST 31, 2007

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
Texas Higher Education Coordinating Board Southwest Texas Junior College Career Foundation Core Advanced Manufacturing Grant (06-07)	84.048	71405	4,999
Texas Higher Education Coordinating Board Alamo Community College District Technical Degree Program Course Redesign (Math) (06-07)	84.048	74401	14,244
Texas Higher Education Coordinating Board Austin Community College District Bridge to Careers Project (06-07)	84.048	74402	27,159
Texas Higher Education Coordinating Board Leveraging Educational Assistance Partnership (06-07)	84.069A	n/a	25,792
Texas Higher Education Coordinating Board Special Leveraging Educational Assistance Partnership (06-07)	84.069B	n/a	43,355
Texas Higher Education Coordinating Board Robert C. Byrd Honors Scholarship (06-07)	84.185A	n/a	3,000
Texas Higher Education Coordinating Board Tech Prep Education (06-07)	84.243	71713	927,277
Fund for the Improvement of Postsecondary Education Stephen F. Austin Articulated Internet Teacher Education Program for Multilingual Classrooms (06-07)	84.116	P116B060283	3,566
Landmark College Demonstrations Projects to Ensure Students with Disabilities Receive a Higher Education (06-07)	84.333A	P333A050035-06	17,732
Total U.S. Department of Education			23,471,720
THE DEPARTMENT OF AGRICULTURE			
<i>Pass -Through from: Texas Health and Human Services Commission</i> Child and Adult Care Food Program (06-07)	10.558	75L4003	29,221
DEPARTMENT OF JUSTICE			
<i>Direct Program:</i> Bullet Proof Vest Program (06-07)	16.607	15-0404-01-754	495
DEPARTMENT OF LABOR			
<i>Pass-Through from: Houston-Galveston Area Council</i> WIA Pilots, Demonstrations, and Research Projects	17.261	229-06	2,462
NATIONAL SCIENCE FOUNDATION			
<i>Direct Program:</i> Education and Human Resources (06-07)	47.076	401988	12,863
<i>Pass-Through from: Texas Engineering Experiment Station (TEES)</i> Education and Human Resources	47.076	ESI-0353377	122,040
Total National Science Foundation			134,903

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

SCHEDULE E

NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
YEAR ENDED AUGUST 31, 2007

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass Through Disbursements and Expenditures
SMALL BUSINESS ADMINISTRATION			
<i>Pass-Through from:</i>			
University of Houston			
Small Business Development Center (06-07))	59.037	R070104	5,033
Small Business Development Center (06-07))	59.037	R040213	128,801
			<hr/>
Total Small Business Administration			133,834
HEALTH AND HUMAN SERVICES COMMISSION			
<i>Pass-Through from:</i>			
Texas Education Agency			
Temporary Assistance for Needy Families (05-06)	93.558	63625017110124	3,344
Temporary Assistance for Needy Families (06-07)	93.558	73625017110124	72,451
			<hr/>
Total Health and Human Service Commission			75,795
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
<i>Pass-Through from: Maricopa Community College</i>			
ASSETS Accent on Student Success Engaged Together in Service			
Learn & Serve: Higher Ed: HE-Consortia (06-07)	94.005	06LHHAZ001	9,291
			<hr/>
<i>Direct Program:</i>			
AACC Community College Broadening Horizon through			
Learn and Serve America - Higher Education (06-07)	94.005	03LHHDC001	1,356
			<hr/>
Total Corporation for National and Community Service			10,647
TOTAL FEDERAL FINANCIAL ASSISTANCE			<hr/> \$ 23,859,077 <hr/>

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

**NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007**

1 Basis of Presentation

The schedule of expenditures of federal awards presents the federal grant activity of North Harris Montgomery Community College District (the "District") for the year ended August 31, 2007. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations and includes awards received directly from federal agencies as well as federal awards passed through other government agencies.

2 Basis of Accounting

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

3 Student Loans Processed and Administrative Costs Recovered

Federal Grantor CFDA Number /Program Name	New Loans Processed	Administrative Cost Recovered	Total Loans Processed & Admin Cost Recovered
U.S. Department of Education Federal Family Education Loan Program 84.032	\$ 9,893,571	\$ -	\$ 9,893,571

4 Federal Assistance Reconciliation

Federal Grants and Contracts Revenue per Exhibit 2	\$ 23,859,077
Reconciling Items	-
Total Federal revenues per Schedule of Expenditures of Federal Awards	\$ 23,859,077

**NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007**

5 Subrecipients

The following amounts were passed-through to the listed subrecipients by the college. These amounts were from the Tech Prep (06-07) program CFDA 84.243A from U S Department of Education through the Texas Higher Education Coordinating Board.

ISD Name	
Aldine ISD	\$ 11,917
Alief ISD	4,878
Alvin ISD	4,647
Bellville ISD	4,824
Channelview ISD	2,811
Clear Creek ISD	10,957
Columbus ISD	2,020
Cypress-Fairbanks ISD	11,435
Deer Park ISD	21,143
El Campo ISD	1,419
Fort Bend ISD	30,145
Friendswood ISD	6,383
Galena Park ISD	4,659
Goose Creek ISD	865
Hitchcock ISD	1,141
Houston ISD	5,936
Huffman ISD	1,110
Huntsville ISD	1,526
Katy ISD	14,868
Klein ISD	11,080
LaMarque ISD	1,042
Lamar CISD	2,826
Liberty ISD	1,250
New Caney ISD	2,464
Pearland ISD	6,299
Santa Fe ISD	2,056
Sealy ISD	6,576
Spring ISD	13,888
Spring Branch	36,050
Sweeny ISD	160
Tidehaven ISD	424
Van Vleck ISD	988
Waller ISD	553
Willis ISD	1,428
Colleges	
Alvin CC	1,775
Brazosport College	3,700
College of the Mainland	95,345
Galveston College	1,608
Houston Community College System	35,435
Lee College	27,723
North Harris Montgomery Comm. College District	57,835
San Jacinto College District	1,105
TOTAL	<u>\$ 454,294</u>

**NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007**

State Grantor/Pass Through Grantor	State/Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
TEXAS HIGHER EDUCATION COORDINATING BOARD:			
<i>Direct Programs:</i>			
7800 College Work - Study Program (06-07)	N/A	N/A	\$ 33,571
7800 College Work - Study Program (07-08)	N/A	N/A	3,313
<i>Total College Work - Study Program</i>			36,884
7801 Texas Grant Program (05-06)	N/A	N/A	(3,175)
7801 Texas Grant Program (06-07)	N/A	N/A	168,988
<i>Total Texas Grant Program</i>			165,813
7804 Texas Grant Renewal Program (06-07)	N/A	N/A	93,090
7805 Texas II Grant Renewal Program (06-07)	N/A	N/A	2,364
7803 Texas II Grant Program (06-07)	N/A	N/A	48,078
<i>Total Texas II Grant Program</i>			50,442
7831 Professional Nursing (06-07)	N/A	N/A	2,141
7833 Vocational Nursing (06-07)	N/A	N/A	783
<i>Pass -Through from: University of Texas Medical Branch</i>			
7518 NIGP-RPD Category (06-07)	N/A	N/A	6,908
<i>Pass -Through from: University of Texas</i>			
7503 WF Increases Nurses & Nursing Faculty (06-07)	N/A	N/A	13,423
Total Texas Higher Education Coordinating Board			369,484

See Accompanying Notes to Schedule of Expenditures of State Awards

**NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS (continued)
FOR THE YEAR ENDED AUGUST 31, 2007**

State Grantor/Pass Through Grantor	State/Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
TEXAS WORKFORCE COMMISSION:			
<i>Direct Programs:</i>			
7514 TWC Skills Development (06-07)	N/A	2807SDF001	285,105
TEXAS EDUCATION AGENCY:			
<i>Direct Programs:</i>			
7508 Temporary Assist. for Needy Families (06-07)	N/A	70110017110124	38,938
7509 Adult Basic Education (06-07)	N/A	70100017110135	130,090
<i>Pass -Through from: TEA Aldine ISD</i>			
7517 Victory Early College High School (06-07)	N/A	71045297110001	1,833
Total Texas Education Agency			170,861
TEXAS COMPTROLLER OF PUBLIC ACCOUNTS:			
<i>Direct Programs:</i>			
7500 LEOSE/Law Enforcement Officer Standards and Education (06-07)	N/A	N/A	1,119
TOTAL STATE FINANCIAL ASSISTANCE			\$ 826,569

See Accompanying Notes to Schedule of Expenditures of State Awards

**NORTH HARRIS MONTGOMERY COMMUNITY COLLEGE DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007**

1 Significant Accounting Policies used in Preparing the Schedule

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

2 State Assistance Reconciliation

Total State Revenues	\$ 826,569
Reconciling item:	
Interest Income	-
Total expenditures per Schedule of State Awards	<u>\$ 826,569</u>

STATISTICAL SECTION

This part of the North Harris Montgomery Community College District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends <i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.</i>	54
Revenue Capacity <i>These schedules contain information to help the reader assess the District's most significant local revenue sources - tuition and fees, state appropriations and ad valorem taxes.</i>	57
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the District current levels of outstanding debt and the District's ability to issue additional debt in the future.</i>	62
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i>	65
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.</i>	67

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

North Harris Montgomery Community College District
Net Assets by Component
Fiscal Years 2002 to 2007
(unaudited)

For the Fiscal Year Ended August 31,

(amounts expressed in thousands)

	2007	2006	2005	2004	2003	2002
Invested in capital assets, net of related debt	\$119,598	\$105,149	\$88,362	\$79,699	\$81,262	\$79,681
Restricted - expendable	6,537	3,822	2,810	2,246	2,818	4,537
Restricted - nonexpendable	-	-	-	-	-	-
Unrestricted	40,506	37,603	29,486	26,525	21,283	19,133
Total net assets	<u>\$ 166,641</u>	<u>\$ 146,574</u>	<u>\$ 120,658</u>	<u>\$ 108,470</u>	<u>\$ 105,363</u>	<u>\$ 103,351</u>
Net increase in net assets	<u>\$ 20,067</u>	<u>\$ 25,916</u>	<u>\$ 12,188</u>	<u>\$ 3,107</u>	<u>\$ 2,012</u>	

Note: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2007 are available.

North Harris Montgomery Community College District
Revenues by Source
Fiscal Years 2002 to 2007
(unaudited)

	For the Year Ended August 31,					
	(amounts expressed in thousands)					
	2007	2006	2005	2004	2003	2002
Tuition and Fees (Net of Discounts)	\$ 36,815	\$ 33,412	\$ 30,134	\$ 28,615	\$ 22,311	\$ 19,423
Governmental Grants and Contracts						
Federal Grants and Contracts	23,859	24,029	24,285	21,390	18,368	18,547
State Grants and Contracts	826	524	901	910	1,680	1,416
Local Grants and Contracts	3,876	8,098	3,172	2,978	4,778	2,624
Non-Governmental Grants and Contracts	-	-	-	-	-	-
Sales and services of educational activities	-	-	-	-	-	-
Auxiliary enterprises	5,671	5,390	4,886	5,025	3,681	3,765
Other Operating Revenues	910	891	1,089	429	300	131
Total Operating Revenues	\$ 71,957	\$ 72,344	\$ 64,467	\$ 59,347	\$ 51,118	\$ 45,906
Ad Valorem Taxes:						
Maintenance and Operations	73,756	70,130	60,589	55,442	47,337	45,720
General Obligation Bonds	31,368	28,437	26,362	24,243	20,016	20,517
State Appropriations	62,750	62,266	54,697	53,998	46,501	48,744
Gifts	17	8	32	-	-	-
Investment income	4,477	2,540	1,111	1,204	2,099	2,538
Other non-operating revenues	1,303	1,387	623	618	539	2,284
Total Non-Operating Revenues	173,671	164,768	143,414	135,505	116,492	119,803
Total Revenues	\$ 245,628	\$ 237,112	\$ 207,881	\$ 194,852	\$ 167,610	\$ 165,709

	For the Year Ended August 31,					
	2007	2006	2005	2004	2003	2002
Tuition and Fees (Net of Discounts)	14.99%	14.09%	14.50%	14.69%	13.31%	11.72%
Governmental Grants and Contracts						
Federal Grants and Contracts	9.71%	10.13%	11.68%	10.98%	10.96%	11.19%
State Grants and Contracts	0.34%	0.22%	0.43%	0.47%	1.00%	0.85%
Local Grants and Contracts	1.58%	3.42%	1.53%	1.53%	2.85%	1.58%
Non-Governmental Grants and Contracts	-	-	-	-	-	-
Sales and services of educational activities	-	-	-	-	-	-
Auxiliary enterprises	2.31%	2.27%	2.35%	2.58%	2.20%	2.27%
Other Operating Revenues	0.37%	0.38%	0.52%	0.22%	0.18%	0.08%
Total Operating Revenues	29.30%	30.51%	31.01%	30.46%	30.50%	27.70%
Ad Valorem Taxes:						
Maintenance and Operations	30.03%	29.58%	29.15%	28.45%	28.24%	27.59%
General Obligation Bonds	12.77%	11.99%	12.68%	12.44%	11.94%	12.38%
State Appropriations	25.55%	26.26%	26.31%	27.71%	27.74%	29.42%
Gifts	0.01%	-	0.02%	-	-	-
Investment income	1.82%	1.07%	0.53%	0.62%	1.25%	1.53%
Other non-operating revenues	0.52%	0.58%	0.30%	0.32%	0.32%	1.38%
Total Non-Operating Revenues	70.70%	69.49%	68.99%	69.54%	69.50%	72.30%
Total Revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Note: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2007 are available.

North Harris Montgomery Community College District
Program Expenses by Function
Fiscal Years 2002 to 2007
(unaudited)

For the Year Ended August 31,						
(amounts expressed in thousands)						
	2007	2006	2005	2004	2003	2002
Instruction	\$ 81,585	\$ 77,225	\$ 69,557	\$ 71,587	\$ 63,503	\$ 54,145
Research	-	-	-	-	-	-
Public service	1,475	1,475	1,324	1,408	2,146	2,455
Academic support	31,411	29,010	25,892	16,270	19,319	15,096
Student services	16,705	15,551	13,947	12,770	13,101	11,557
Institutional support	30,898	28,571	28,728	26,468	18,687	19,831
Operation and maintenance of plant	27,362	23,665	20,843	23,262	20,705	8,481
Scholarships and fellowships	10,392	9,341	10,716	11,060	6,795	8,526
Auxiliary enterprises	5,304	5,132	4,796	4,345	3,326	3,726
Depreciation	8,825	8,702	8,459	7,389	7,995	4,613
Total Operating Expenses	\$ 213,957	\$ 198,672	\$ 184,262	\$ 174,559	\$ 155,577	\$ 128,430
Interest on capital related debt	11,359	12,518	11,431	11,728	8,330	9,151
Loss on disposal of fixed assets	245	6	-	-	1,691	-
Total Non-Operating Expenses	11,604	12,524	11,431	11,728	10,021	9,151
Total Expenses	\$ 225,561	\$ 211,196	\$ 195,693	\$ 186,287	\$ 165,598	\$ 137,581

For the Year Ended August 31,						
	2007	2006	2005	2004	2003	2002
Instruction	36.16%	36.57%	35.54%	38.43%	38.35%	39.35%
Research	0.00%	-	-	-	-	-
Public service	0.65%	0.70%	0.68%	0.76%	1.30%	1.78%
Academic support	13.93%	13.74%	13.23%	8.73%	11.67%	10.97%
Student services	7.41%	7.36%	7.13%	6.86%	7.91%	8.40%
Institutional support	13.70%	13.53%	14.68%	14.21%	11.28%	14.41%
Operation and maintenance of plant	12.13%	11.21%	10.65%	12.49%	12.50%	6.16%
Scholarships and fellowships	4.61%	4.42%	5.48%	5.94%	4.10%	6.20%
Auxiliary enterprises	2.35%	2.43%	2.45%	2.33%	2.01%	2.71%
Depreciation	3.91%	4.12%	4.32%	3.97%	4.83%	3.35%
Total Operating Expenses	94.85%	94.07%	94.16%	93.70%	93.95%	93.35%
Interest on capital related debt	5.04%	5.93%	5.84%	6.30%	5.03%	6.65%
Loss on disposal of fixed assets	0.11%	-	-	-	1.02%	-
Total Non-Operating Expenses	5.15%	5.93%	5.84%	6.30%	6.05%	6.65%
Total Expenses	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Note: Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2002-2007 are available.

North Harris Montgomery Community College District
Tuition and Fees
Last Ten Academic Years
(unaudited)

Academic Year (Fall)	Registration Fee (per student)	Resident Fees per Semester Credit Hour (SCH)						Increase from Prior Year In-District	Increase from Prior Year Out-of-District
		In-District Tuition	Out-of-District Tuition	Technology Fees	Student Activity Fees	Cost for 12 SCH In-District	Cost for 12 SCH Out-of-District		
2006	\$ 12	\$ 36	\$ 76	\$ 6	\$ 2	\$ 540	\$ 1,020	9.76%	4.94%
2005	12	32	72	6	2	492	972	0.00%	0.00%
2004	12	32	72	6	2	492	972	13.89%	6.58%
2003	12	28	68	5	2	432	912	12.50%	5.56%
2002	12	26	66	5	-	384	864	10.34%	4.35%
2001	12	24	64	4	-	348	828	0.00%	0.00%
2000	12	24	64	4	-	348	828	0.00%	0.00%
1999	12	24	64	4	-	348	828	7.41%	11.29%
1998	12	22	57	4	-	324	744	0.00%	0.00%
1997	12	22	57	4	-	324	744	0.00%	0.00%

Academic Year (Fall)	Registration Fee (per student)	Non-Resident Fees per Semester Credit Hour (SCH)						Increase from Prior Year In-District	Increase from Prior Year Out-of-District
		In-District Tuition	Out-of-District Tuition	Technology Fees	Student Activity Fees	Cost for 12 SCH Out of State	Cost for 12 SCH International		
2006	\$ 12	\$ 91	\$ 91	\$ 6	\$ 2	\$ 1,200	\$ 1,200	4.17%	4.17%
2005	12	87	87	6	2	1,152	1,152	0.00%	0.00%
2004	12	87	87	6	2	1,152	1,152	5.49%	5.49%
2003	12	83	83	5	2	1,092	1,092	4.60%	4.60%
2002	12	81	81	5	-	1,044	1,044	17.57%	17.57%
2001	12	69	69	4	-	888	888	0.00%	0.00%
2000	12	69	69	4	-	888	888	0.00%	0.00%
1999	12	69	69	4	-	888	888	2.78%	2.78%
1998	12	67	67	4	-	864	864	0.00%	0.00%
1997	12	67	67	4	-	864	864	0.00%	0.00%

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

North Harris Montgomery Community College District
Assessed Value and Taxable Assessed Value of Property
Last Ten Fiscal Years
(unaudited)

Fiscal Year	(amounts expressed in thousands)			Ratio of Taxable Assessed Value to Assessed Value	Direct Rate		
	Assessed Valuation of Property	Less: Exemptions	Taxable Assessed Value (TAV)		Maintenance & Operations (a)	Debt Service (a)	Total (a)
2006-07	\$ 96,720,584	\$ (6,573,726)	\$ 90,146,858	93.20%	\$ 0.0820	\$ 0.0347	\$ 0.1167
2005-06	87,974,128	(6,037,955)	81,936,173	93.14%	0.0860	0.0347	0.1207
2004-05	82,601,478	(7,311,588)	75,289,890	91.15%	0.0798	0.0347	0.1145
2003-04	75,893,959	(6,295,666)	69,598,293	91.70%	0.0798	0.0347	0.1145
2002-03	67,901,932	(4,063,296)	63,838,636	94.02%	0.0742	0.0313	0.1055
2001-02	62,474,553	(3,964,601)	58,509,952	93.65%	0.0760	0.0340	0.1100
2000-01	34,178,258	(2,881,157)	31,297,101	91.57%	0.0750	0.0350	0.1100
1999-00	31,955,285	(2,636,610)	29,318,675	91.75%	0.0777	0.0397	0.1174
1998-99	25,739,511	(2,083,660)	23,655,851	91.90%	0.0807	0.0391	0.1198
1997-98	23,202,740	(2,325,281)	20,877,459	89.98%	0.0680	0.0518	0.1198

Source: Local Appraisal District

Notes: Property is assessed at full market value.
(a) per \$100 Taxable Assessed Valuation

North Harris Montgomery Community College District
State Appropriation per FTSE and Contact Hour
Last Ten Fiscal Years
(unaudited)

Fiscal Year	Appropriation per FTSE			Appropriation per Contact Hour			
	State Appropriation (expressed in thousands)	FTSE (a)	State Appropriation per FTSE	(hours expressed in thousands)			State Appropriation per Contact
				Academic Contact Hours (b)	Voc/Tech Contact Hours (c)	Total Contact Hours	
2006-07	\$ 62,750	25,688	\$ 2,443	6,229	182	6,411	\$ 9.79
2005-06	62,266	25,269	2,464	6,160	236	6,396	9.74
2004-05	54,697	23,348	2,343	5,750	154	5,904	9.26
2003-04	53,997	22,114	2,442	5,649	193	5,842	9.24
2002-03	46,501	20,552	2,263	5,097	210	5,307	8.76
2001-02	48,744	18,706	2,606	4,599	223	4,822	10.11
2000-01	40,281	16,326	2,467	4,069	198	4,267	9.44
1999-00	38,613	14,810	2,607	3,879	168	4,047	9.54
1998-99	33,279	13,823	2,408	3,667	144	3,811	8.73
1997-98	32,183	12,471	2,581	3,587	142	3,729	8.63

Source

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

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

North Harris Montgomery Community College District

Principal Taxpayers

Last Ten Tax Years

(unaudited)

Taxpayer	Type of Business	Taxable Assessed Value (TAV) by Tax Year (amounts expressed in thousands)									
		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Hewlett Packard	Manufacturing	717,813	612,508	328,867	259,341	-	-	-	-	-	-
Centerpoint Energy Inc	Utility	669,281	627,004	665,897	604,808	-	-	-	-	-	-
Houston Pipeline Co LP	Utility	525,621	368,197	-	-	-	-	-	126,550	116,094	94,462
Walmart	Retail	272,154	194,673	231,324	245,454	-	-	-	-	-	-
Southwestern Bell	Utility	254,770	260,074	243,006	-	-	365,921	291,608	197,990	-	167,000
Hines Interests Ltd Psp	Real Estate	226,654	211,493	190,395	214,578	-	206,790	-	-	131,687	110,000
Wal-Mart Real Estate Bus Trs	Real Estate	220,261	-	-	-	-	-	-	-	-	-
Continental Airlines Inc	Airline	190,101	218,579	218,060	197,419	-	212,018	136,729	165,299	130,941	-
Exxon Mobil Corp	Oil and Gas	174,024	127,130	-	-	-	137,282	166,180	201,501	122,489	78,820
HEB Grocery Co LP	Retail grocer	158,170	-	-	-	-	-	-	-	-	-
Texas Cable Partners LP	Utility	-	136,543	-	-	-	-	-	-	-	-
Wachovia Development Corp	Real Estate	-	136,277	-	-	-	-	-	-	-	-
Woodlands Land Dev LP	Real Estate	-	-	248,881	248,881	302,183	250,185	355,425	126,133	322,710	-
AEP Energy Services, Inc	Utility	-	-	185,355	-	126,266	-	-	-	-	-
Gulf States Utilities	Utility	-	-	143,586	143,585	141,063	139,439	106,272	-	103,603	-
First Security Bank, Trustee	Other	-	-	136,277	-	-	-	-	-	-	-
Compaq	Manufacturing	-	-	-	202,282	538,611	859,405	680,923	753,487	669,608	884,000
Haliburton Energy	Oil and Gas	-	-	-	178,640	156,242	-	-	-	-	-
BAM Lease Company	Property Management	-	-	-	160,887	168,148	-	-	-	-	-
Houston Lighting & Power	Utility	-	-	-	-	532,028	569,840	232,752	195,534	201,055	194,000
Enron Corporation	Conglomerate	-	-	-	-	-	222,394	182,134	-	-	97,983
Weingarten Realty	Real Estate	-	-	-	-	131,219	109,772	-	-	-	46,802
Greenspoint Plaza Ltd	Property Management	-	-	-	-	186,453	-	121,144	113,300	-	-
Huntsman Inc.	Petrochemical	-	-	-	-	-	-	86,708	96,209	122,501	-
Hydril Co.	Oil and Gas	-	-	-	-	-	-	-	86,345	-	-
Sarsaparillali	-	-	-	-	-	101,913	-	-	-	-	-
GGHP Deerbrook	Shopping Mall	-	-	-	-	-	-	-	-	-	47,074
Avis	Car Rental	-	-	-	-	-	-	-	-	-	46,910
Colombia Regional Medical	Hospital	-	-	-	-	-	-	-	-	108,650	-
Totals		\$ 3,408,849	\$ 2,892,478	\$ 2,591,648	\$ 2,455,875	\$ 2,384,126	\$ 3,073,046	\$ 2,359,875	\$ 2,062,348	\$ 2,029,338	\$ 1,767,051
Total Taxable Assessed Value		\$90,146,858	\$81,936,173	\$75,289,890	\$69,598,293	\$63,838,636	\$58,509,952	\$31,297,101	\$29,318,675	\$23,655,851	\$20,877,459

Taxpayer	Type of Business	% of Taxable Assessed Value (TAV) by Tax Year									
		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Hewlett Packard	Manufacturing	0.80%	0.75%	-	0.37%	-	-	-	-	-	-
Centerpoint Energy Inc	Utility	0.74%	0.77%	0.88%	0.87%	-	-	-	-	-	-
Houston Pipeline Co LP	Utility	0.58%	0.45%	-	-	-	-	-	0.43%	0.49%	0.40%
Walmart	Retail	0.30%	0.24%	0.31%	0.35%	-	-	-	-	-	-
Southwestern Bell	Utility	0.28%	0.32%	0.32%	-	-	0.63%	0.93%	0.68%	-	0
Hines Interests Ltd Psp	Real Estate	0.25%	0.26%	0.25%	0.31%	-	0.35%	-	-	0.56%	0.47%
Wal-Mart Real Estate Bus Trs	Real Estate	0.24%	-	-	-	-	-	-	-	-	-
Continental Airlines Inc	Airline	0.21%	0.27%	0.29%	0.28%	-	0.36%	0.44%	0.56%	0.55%	0.00%
Exxon Mobil Corp	Oil and Gas	0.19%	0.16%	-	-	-	0.23%	0.53%	0.69%	0.52%	0.33%
HEB Grocery Co LP	Retail grocer	0.18%	-	-	-	-	-	-	-	-	-
Texas Cable Partners LP	Utility	-	0.17%	-	-	-	-	-	-	-	-
Wachovia Development Corp	Real Estate	-	0.17%	-	-	-	-	-	-	-	-
Woodlands Land Dev LP	Real Estate	-	-	0.33%	0.36%	0.47%	0.43%	1.14%	0.43%	1.36%	0.00%
AEP Energy Services, Inc	Utility	-	-	0.25%	-	0.20%	-	-	-	-	-
Gulf States Utilities	Utility	-	-	0.19%	0.21%	0.22%	0.24%	0.34%	-	0.44%	0.00%
First Security Bank, Trustee	Other	-	-	0.18%	-	-	-	-	-	-	-
Compaq	Manufacturing	-	-	-	0.29%	0.84%	1.47%	2.18%	2.57%	2.83%	3.74%
Haliburton Energy	Oil and Gas	-	-	-	0.26%	0.24%	-	-	-	-	-
BAM Lease Company	Property Management	-	-	-	0.23%	0.26%	-	-	-	-	-
Houston Lighting & Power	Utility	-	-	-	-	0.83%	0.97%	0.74%	0.67%	0.85%	0.82%
Enron Corporation	Conglomerate	-	-	-	-	-	0.38%	0.58%	-	-	0
Weingarten Realty	Real Estate	-	-	-	-	0.21%	0.19%	-	-	-	0
Greenspoint Plaza Ltd	Property Management	-	-	-	-	0.29%	0.00%	0.39%	0.39%	-	-
Huntsman Inc.	Petrochemical	-	-	-	-	-	0.00%	0.28%	0.33%	0.52%	0.00%
Hydril Co.	Oil and Gas	-	-	-	-	-	0.00%	-	0.29%	-	-
Sarsaparillali	-	-	-	-	-	-	-	-	-	-	-
GGHP Deerbrook	Shopping Mall	-	-	-	-	-	-	-	-	-	-
Avis	Car Rental	-	-	-	-	-	-	-	-	-	0
Colombia Regional Medical	Hospital	-	-	-	-	-	-	-	-	0.46%	0.00%
Totals		3.78%	3.53%	3.44%	3.53%	3.73%	5.25%	7.54%	7.03%	8.58%	8.46%

Source: Harris County and Montgomery County Appraisal Districts

North Harris Montgomery Community College District
Property Tax Levies and Collections
Last Ten Tax Years
(unaudited)
(amounts expressed in thousands)

Fiscal Year Ended August 31	Levy (a)	Cumulative Levy Adjustments	Adjusted Tax Levy (b)	Collections - Year of Levy (c)	Percentage	Prior Collections of Prior Levies (d)	Current Collections of Prior Levies (e)	Total Collections	Cumulative Collections of Adjusted Levy
2007	\$ 91,528	\$ 13,673	\$ 105,201	\$ 102,060	97.01%	\$ -	\$ -	\$ 102,060	97.01%
2006	91,695	5,876	97,571	94,882	97.24%	-	1,769	96,651	99.06%
2005	78,300	7,830	86,130	83,765	97.25%	1,387	381	85,533	99.31%
2004	74,477	5,173	79,650	77,593	97.42%	1,407	189	79,189	99.42%
2003	67,075	1,025	68,100	64,734	95.06%	2,864	121	67,719	99.44%
2002	60,906	3,905	64,811	62,478	96.40%	1,935	100	64,513	99.54%
2001	34,427	3,652	38,079	37,025	97.23%	848	28	37,901	99.53%
2000	34,420	1,895	36,315	35,456	97.63%	677	19	36,152	99.55%
1999	28,339	489	28,828	27,832	96.55%	869	9	28,710	99.59%
1998	25,011	1,517	26,528	25,941	97.79%	469	9	26,419	99.59%

Source: Local Tax Assessor/Collector and District records.

(a) per original certified tax levy.

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

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

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

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

North Harris Montgomery Community College District
Ratios of Outstanding Debt
Last Ten Fiscal Years
(unaudited)

	For the Year Ended August 31 (amounts expressed in thousands)									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General Bonded Debt										
General obligation bonds	\$ 184,419	\$ 203,905	\$ 220,639	\$ 236,164	\$ 212,193	\$ 222,729	\$ 132,323	\$ 89,163	\$ 95,657	\$ 68,705
Notes	-	-	-	-	-	-	-	-	-	-
Less: Funds restricted for debt service	-	-	-	-	-	-	-	-	-	-
Net general bonded debt	\$ 184,419	\$ 203,905	\$ 220,639	\$ 236,164	\$ 212,193	\$ 222,729	\$ 132,323	\$ 89,163	\$ 95,657	\$ 68,705
Other Debt										
Revenue bonds	\$ 55,296	\$ 26,540	\$ 27,992	\$ 29,408	\$ 21,600	\$ 12,835	\$ 14,075	\$ 14,189	\$ 8,230	\$ 10,280
Notes	-	-	-	-	-	-	-	-	-	-
Capital lease obligations	-	-	-	-	-	-	-	-	-	-
Total Outstanding Debt	\$ 239,715	\$ 230,445	\$ 248,631	\$ 265,572	\$ 233,793	\$ 235,564	\$ 146,398	\$ 103,352	\$ 103,887	\$ 78,985

General Bonded Debt Ratios

Per Capita	\$ 124.61	\$ 137.77	\$ 149.08	\$ 159.57	\$ 143.37	\$ 150.49	\$ 89.41	\$ 60.25	\$ 64.63	\$ 46.42
Per FTSE	7,179	8,069	9,450	10,679	10,325	11,907	8,105	6,020	6,320	5,509
As a percentage of Taxable Assessed Value	0.20%	0.25%	0.29%	0.34%	0.33%	0.38%	0.42%	0.30%	0.40%	0.33%

Total Outstanding Debt Ratios

Per Capita	\$ 161.97	\$ 155.71	\$ 167.99	\$ 179.44	\$ 157.97	\$ 159.16	\$ 98.92	\$ 69.83	\$ 70.19	\$ 53.37
Per FTSE	9,332	9,120	10,649	12,009	11,376	12,593	8,967	6,979	7,516	6,333
As a percentage of Taxable Assessed Value	0.29%	0.28%	0.33%	0.38%	0.37%	0.40%	0.47%	0.35%	0.44%	0.38%

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

North Harris Montgomery Community College District
Legal Debt Margin Information
Last Ten Fiscal Years
(unaudited)

	For the Year Ended August 31 (amounts expressed in thousands)									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Taxable Assessed Value	\$ 90,146,858	\$ 81,936,173	\$ 75,289,890	\$ 69,598,293	\$ 63,838,636	\$ 58,509,952	\$ 31,297,101	\$ 29,318,675	\$ 23,655,851	\$ 20,877,459
General Obligation Bonds										
Statutory Tax Levy Limit for Debt Service	450,734	409,681	376,449	347,991	319,193	292,550	156,486	146,593	118,279	104,387
Less: Funds Restricted for Repayment of General Obligation Bonds	(6,051)	(3,337)	(2,324)	(1,760)	(2,453)	(2,817)	(938)	(154)	(80)	(2,560)
Total Net General Obligation Debt	444,683	406,344	374,125	346,231	316,740	289,733	155,548	146,439	118,199	101,827
Current Year Debt Service Requirements	30,107	28,809	26,854	22,780	21,136	21,010	12,614	14,147	14,134	14,308
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 414,576	\$ 377,535	\$ 347,271	\$ 323,451	\$ 295,604	\$ 268,723	\$ 142,934	\$ 132,292	\$ 104,065	\$ 87,519
Net Current Requirements as a % of Statutory Limit	5.34%	6.22%	6.52%	6.04%	5.85%	6.22%	7.46%	9.55%	11.88%	11.25%

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.

North Harris Montgomery Community College District
Pledged Revenue Coverage
Last Ten Fiscal Years
(unaudited)

Revenue Bonds

Fiscal Year Ended August 31	Pledged Revenues (amounts expressed in thousands)										Debt Service Requirements (amounts expressed in thousands)		
	Tuition	Technology Fee	Registration Fees	Laboratory Fees	Education Fees	Interest Income	Vending Commission	Bookstore Commission	Total	Principal	Interest	Total	Coverage Ratio
2007	\$6,528	\$ 5,403	\$ 1,269	\$ 855	\$ 6,322	\$ 2,304	\$ 293	\$ 1,579	\$ 24,553	\$ 1,346	\$ 1,179	\$ 2,525	9.72
2006	6,160	4,772	1,222	882	5,964	1,415	242	1,507	22,164	1,451	1,222	2,673	8.29
2005	6,697	4,465	1,157	834	5,933	689	255	1,345	21,375	1,416	1,266	2,682	7.97
2004	6,184	4,157	1,061	697	5,012	645	241	1,789	19,786	1,938	995	2,933	6.75
2003	3,796	3,172	986	619	4,903	570	192	969	15,207	1,310	666	1,976	7.70
2002	1,021	2,841	877	578	4,466	564	319	842	11,508	1,240	730	1,970	5.84
2001	929	1,984	762	529	3,898	507	350	714	9,673	115	856	971	9.96
2000	742	1,790	683	468	3,156	580	330	642	8,391	880	199	1,079	7.78
1999	743	1,684	650	476	2,929	591	275	550	7,898	510	1,054	1,564	5.05
1998	690	1,618	643	434	2,619	638	141	497	7,280	770	503	1,273	5.72

North Harris Montgomery Community College District
Demographic and Economic Statistics
Fiscal Years 1998 to 2007
(unaudited)

Fiscal Year	District Population (a)	District Personal Income (thousands of dollars)	District Personal Income Per Capita (b)	District Unemployment Rate (d)
2007	1,480,000	66,959,640	\$ 45,243 (c)	4.1%
2006	1,440,000	62,549,280	43,437 (c)	5.0%
2005	1,406,264	58,645,428	41,703	5.3%
2004	1,369,371	53,490,370	39,062	6.2%
2003	1,333,474	49,531,892	37,145	7.2%
2002	1,298,518	47,058,292	36,240	5.9%
2001	867,582	32,408,526	37,355	4.7%
2000	844,839	30,081,337	35,606	4.3%
1999	673,774	21,987,267	32,633	4.8%
1998	656,111	20,656,999	31,484	4.4%

Sources:

- (a) District estimate. 2002 includes annexation of CypressFairbanks ISD and Magnolia ISD.
- (b) U.S. Department of Commerce Bureau of Economic Analysis, Local Area BEARFACTS by SMSA/FIPS Code for Harris County, Texas
- (c) Estimated using average increase in per capita income 1998-2005
- (d) U.S. Bureau of Labor Statistics, Metropolitan Area Employment and Unemployment

North Harris Montgomery Community College District
Principal Employers (a)
Fiscal Year 2007 (b)
(unaudited)

Principal Employment Sectors (a)	2005 (b)		2001 (b)	
	Number of Employees	Percentage of Total Employment	Number of Employees	Percentage of Total Employment
Local Government	402,961	11.27%	376,255	11.17%
Retail Trade	364,111	10.18%	356,622	10.59%
Construction	278,914	7.80%	271,022	8.05%
Health Care and Social Assistance	275,259	7.70%	237,563	7.05%
Professional and Technical Services	271,786	7.60%	244,541	7.26%
Manufacturing	267,052	7.47%	289,970	8.61%
Administrative and Waste Services	245,929	6.88%	215,071	6.39%
Accommodation and Food Services	227,514	6.36%	203,885	6.05%
Other Services, except public administration	209,730	5.87%	193,435	5.74%
Wholesale Trade	153,485	4.29%	143,967	4.27%
Total	2,696,741	75.42%	2,532,331	75.19%
 Total Employment	 3,575,609		 3,367,964	

Source:

U.S. Department of Commerce Bureau of Economic Analysis, Regional Economic System Information, Houston Economic Area (Houston-Baytown-Huntsville)

Notes:

(a) Principal employer data was not available for the District.

(b) Data is normally presented with the current year compared to nine years prior. Latest data available for employment sectors is 2005 year and the earliest year available that is comparable is the 2001 year.

North Harris Montgomery Community College District
Faculty, Staff, and Administrators Statistics
Last Ten Fiscal Years
(unaudited)

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Faculty										
Full-Time	704	661	646	605	532	471	441	416	392	373
Part-Time	1,910	1,799	1,636	1,557	1,272	1,130	998	936	866	869
Total	2,614	2,460	2,282	2,162	1,804	1,601	1,439	1,352	1,258	1,242
Percent										
Full-Time	26.9%	26.9%	28.3%	28.0%	29.5%	29.4%	30.6%	30.8%	31.2%	30.0%
Part-Time	73.1%	73.1%	71.7%	72.0%	70.5%	70.6%	69.4%	69.2%	68.8%	70.0%
Staff and Administrators										
Full-Time	1,214	1,187	1,142	1,091	940	852	807	744	673	629
Part-Time	1,260	1,078	1,064	894	895	778	745	689	647	617
Total	2,474	2,265	2,206	1,985	1,835	1,630	1,552	1,433	1,320	1,246
Percent										
Full-Time	49.1%	52.4%	51.8%	55.0%	51.2%	52.3%	52.0%	51.9%	51.0%	50.5%
Part-Time	50.9%	47.6%	48.2%	45.0%	48.8%	47.7%	48.0%	48.1%	49.0%	49.5%
FTSE per Full-time Faculty	36.49	38.23	36.14	36.55	38.63	39.72	37.02	35.60	35.26	33.43
FTSE per Full-Time Staff Member	21.16	21.29	20.44	20.27	21.86	21.96	20.23	19.91	20.54	19.83
Average Annual Faculty Salary	\$ 61,426	\$ 58,424	\$ 58,090	\$ 56,738	\$ 57,252	\$ 56,877	\$ 55,827	\$ 55,832	\$ 54,809	\$ 53,925

North Harris Montgomery Community College District
Enrollment Details
Last Ten Fiscal Years
(unaudited)

Student Classification	Fall 2006		Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001		Fall 2000		Fall 1999		Fall 1998		Fall 1997			
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent		
00-30 hours	23,372	56.73%	24,543	60.93%	22,752	61.76%	22,907	65.95%	21,379	66.90%	18,610	66.46%	16,355	66.03%	18,610	66.46%	16,355	66.03%	18,610	66.46%	16,355	66.03%
31-60 hours	10,107	24.53%	10,002	24.83%	9,080	24.65%	7,690	22.14%	6,993	21.88%	6,172	22.04%	5,484	22.14%	6,172	22.04%	5,484	22.14%	6,172	22.04%	5,484	22.14%
>60 hours	7,721	18.74%	5,736	14.24%	5,010	13.60%	4,137	11.91%	5,586	11.22%	3,221	11.50%	2,930	11.83%	3,221	11.50%	2,930	11.83%	3,221	11.50%	2,930	11.83%
Total	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%	28,003	100.00%	24,769	100.00%	28,003	100.00%	24,769	100.00%
Semester Hour Load	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than 3	223	0.54%	227	0.56%	156	0.42%	381	1.10%	329	1.03%	293	1.05%	339	1.37%	293	1.05%	339	1.37%	293	1.05%	339	1.37%
3-5 semester hours	9,669	23.47%	9,142	22.70%	8,075	21.92%	7,664	22.06%	7,730	24.19%	6,448	23.03%	5,705	23.03%	6,448	23.03%	5,705	23.03%	6,448	23.03%	5,705	23.03%
6-8 Semester hours	10,254	24.89%	10,308	25.59%	9,394	25.50%	8,230	23.69%	7,483	23.42%	6,680	23.85%	5,757	23.24%	6,680	23.85%	5,757	23.24%	6,680	23.85%	5,757	23.24%
9-11 semester hours	7,716	18.73%	7,589	18.84%	6,889	18.70%	6,075	17.49%	5,305	16.60%	4,486	16.02%	3,926	15.85%	4,486	16.02%	3,926	15.85%	4,486	16.02%	3,926	15.85%
12-14 semester hours	11,206	27.20%	10,938	27.15%	10,471	28.42%	10,348	29.79%	9,189	28.75%	8,302	29.65%	7,495	30.26%	8,302	29.65%	7,495	30.26%	8,302	29.65%	7,495	30.26%
15-17 semester hours	1,955	4.75%	1,921	4.77%	1,687	4.58%	1,862	5.36%	1,716	5.37%	1,578	5.64%	1,389	5.61%	1,578	5.64%	1,389	5.61%	1,578	5.64%	1,389	5.61%
18 & over	177	0.43%	156	0.39%	170	0.46%	174	0.50%	206	0.64%	216	0.77%	158	0.64%	216	0.77%	158	0.64%	216	0.77%	158	0.64%
Total	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%	28,003	100.00%	24,769	100.00%	28,003	100.00%	24,769	100.00%
Average course load	8.8		8.6		8.8		9.2		8.7		8.8		8.9		8.8		8.6		8.0		8.6	
Tuition Status	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Texas Resident (in-District)	36,873	89.50%	36,285	90.08%	33,726	91.54%	32,002	92.13%	29,589	92.59%	25,846	92.30%	22,730	91.77%	18,578	81.84%	17,193	81.73%	17,129	81.41%	17,129	81.41%
Texas Resident (out-of-District)	3,093	7.51%	3,002	7.45%	2,279	6.19%	1,986	5.72%	1,673	5.23%	1,490	5.32%	1,430	5.77%	3,671	16.17%	3,516	16.71%	3,587	17.05%	3,587	17.05%
Non-Resident Tuition	1,234	3.00%	994	2.47%	837	2.27%	746	2.15%	696	2.18%	667	2.38%	609	2.46%	451	1.99%	328	1.56%	325	1.54%	325	1.54%
Total	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%	22,700	100.00%	21,037	100.00%	21,041	100.00%	21,041	100.00%

Source: NHMCCD OIE Credit Student Demographics by District by Term

North Harris Montgomery Community College District
 Student Profile
 Last Ten Fiscal Years
 (unaudited)

Gender	Fall 2006		Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001		Fall 2000		Fall 1999		Fall 1998		Fall 1997	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Female	24,791	60.17%	22,218	60.12%	22,489	61.04%	21,102	60.75%	19,323	60.46%	16,760	59.85%	14,704	59.36%	13,524	59.58%	12,669	60.22%	12,732	60.69%
Male	16,409	39.83%	16,063	39.88%	14,353	38.96%	13,632	39.25%	12,635	39.54%	11,243	40.15%	10,065	40.64%	9,176	40.42%	8,368	39.78%	8,247	39.31%
Total	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%	22,700	100.00%	21,037	100.00%	20,979	100.00%

Ethnic Origin	Fall 2006		Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001		Fall 2000		Fall 1999		Fall 1998		Fall 1997	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	21,496	52.17%	22,268	55.28%	21,128	57.35%	20,816	59.93%	19,642	61.46%	17,908	63.95%	16,290	65.77%	15,451	68.07%	14,825	70.47%	14,729	70.21%
Hispanic	9,103	22.09%	8,109	20.13%	7,033	19.09%	6,188	17.82%	5,329	16.68%	4,439	15.85%	3,626	14.64%	3,085	13.59%	2,726	12.96%	2,625	12.51%
African American	4,626	11.23%	4,572	11.35%	4,185	11.36%	3,843	11.06%	3,373	10.55%	2,945	10.52%	2,565	10.36%	2,323	10.23%	1,919	9.12%	1,937	9.23%
Asian	2,558	6.21%	2,422	6.01%	2,058	5.59%	1,900	5.47%	1,906	5.96%	1,528	5.46%	1,223	4.94%	1,149	5.06%	1,069	5.08%	1,053	5.02%
Foreign	847	2.06%	820	2.04%	733	1.99%	671	1.93%	645	2.02%	383	1.37%	298	1.20%	287	1.26%	169	0.80%	88	0.42%
Native American	136	0.33%	148	0.37%	158	0.43%	145	0.42%	131	0.41%	126	0.45%	94	0.38%	111	0.49%	92	0.44%	91	0.43%
Other	2,434	5.91%	1,942	4.82%	1,547	4.20%	1,171	3.37%	932	2.92%	674	2.41%	673	2.72%	294	1.30%	237	1.13%	456	2.17%
Total	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%	22,700	100.00%	21,037	100.00%	20,979	100.00%

Age	Fall 2006		Fall 2005		Fall 2004		Fall 2003		Fall 2002		Fall 2001		Fall 2000		Fall 1999		Fall 1998		Fall 1997	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 20	15,499	37.62%	14,598	36.24%	13,017	35.33%	12,226	35.20%	12,000	37.55%	10,310	36.82%	9,080	36.66%	5,453	24.02%	2,092	9.94%	2,092	9.97%
20-24	13,231	32.11%	13,075	32.46%	11,979	32.51%	10,979	31.61%	9,731	30.45%	8,579	30.64%	7,466	30.14%	8,717	38.40%	9,699	46.10%	9,641	45.96%
25-29	4,596	11.16%	4,643	11.53%	4,238	11.50%	3,916	11.27%	3,459	10.82%	2,967	10.60%	2,640	10.66%	2,876	12.67%	3,207	15.24%	3,207	15.29%
30-39	4,665	11.32%	4,604	11.43%	4,415	11.98%	4,213	12.13%	3,693	11.56%	3,357	11.99%	3,026	12.22%	3,052	13.44%	3,188	15.15%	3,188	15.20%
40-49	2,353	5.71%	2,469	6.13%	2,384	6.47%	2,477	7.13%	2,233	6.99%	2,084	7.44%	1,891	7.63%	1,961	8.64%	2,087	9.92%	2,087	9.95%
50 & over	856	2.08%	892	2.21%	809	2.20%	923	2.66%	842	2.63%	706	2.52%	666	2.69%	641	2.82%	764	3.63%	764	3.64%
Total	41,200	100.00%	40,281	100.00%	36,842	100.00%	34,734	100.00%	31,958	100.00%	28,003	100.00%	24,769	100.00%	22,700	100.00%	21,037	100.00%	20,979	100.00%

Average Age	24.1	24.5	24.6	24.9	24.7	24.9	25.0	24.5	25.7	26.2
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Source: NHMCCD OIE Credit Student Demographics by District by Term

North Harris Montgomery Community College District
Transfers to Senior Institutions
2004 Fall Students as of Fall 2005
(Includes only public senior colleges in Texas)
(unaudited)

	Transfer Student Count	Transfer Student Count	Transfer Student Count	Total of all NHMCCD Transfer Students	% of all NHMCCD Transfer Students
	Academic	Technical	Tech-Prep		
1 University of Houston	2,248	82	111	2,441	20.79%
2 Sam Houston State University	2,258	77	75	2,410	20.53%
3 Texas A&M University	1,714	43	23	1,780	15.16%
4 The University of Texas at Austin	1,072	21	17	1,110	9.45%
5 University of Houston - Downtown	933	49	70	1,052	8.96%
6 Texas State University	534	19	12	565	4.81%
7 Texas Tech University	362	8	8	378	3.22%
8 Stephen F. Austin State University	285	11	14	310	2.64%
9 Prairie View A&M University	253	22	32	307	2.61%
10 Texas Southern University	180	9	10	199	1.69%
11 The University of Texas at San Antonio	179	3	3	185	1.58%
12 University of North Texas	162	5	2	169	1.44%
13 Texas Woman's University	110	3	16	129	1.10%
14 Lamar University	89	2	3	94	0.80%
15 The University of Texas Health Science Center at Houston	72	6	11	89	0.76%
16 The University of Texas at Dallas	58	5	1	64	0.55%
17 The University of Texas at Arlington	52	2	3	57	0.49%
18 Texas A&M University at Galveston	54	1	1	56	0.48%
19 The University of Texas at Tyler	53	0	2	55	0.47%
20 The University of Texas Medical Branch at Galveston	38	1	3	42	0.36%
21 University of Houston at Clear Lake	26	5	1	32	0.27%
22 University of Houston at Victoria	26	4	1	31	0.26%
23 Texas A&M University at Corpus Christi	25	1	4	30	0.26%
24 Texas Tech University Health Sciences Center	23	0	2	25	0.21%
25 Midwestern State University	15	7	1	23	0.20%
26 Tarleton State University	19	1	1	21	0.18%
27 The University of Texas - Pan American	14	3	0	17	0.14%
28 West Texas A&M University	12	2	0	14	0.12%
29 The University of Texas Health Science Center at San Antonio	12	1	1	14	0.12%
30 Texas A&M University at Kingsville	8	0	0	8	0.07%
31 Texas A&M University at Commerce	6	0	0	6	0.05%
32 Sul Ross State University	6	0	0	6	0.05%
33 Angelo State University	4	1	1	6	0.05%
34 The University of Texas M.D. Anderson Cancer Center	2	3	0	5	0.04%
35 The University of Texas at El Paso	3	0	0	3	0.03%
36 The Texas A&M University System Health Science Center	3	0	0	3	0.03%
37 Texas A&M University at Texarkana	2	0	0	2	0.02%
38 The University of Texas Southwestern Medical Center at Dallas	2	0	0	2	0.02%
39 Texas A&M International University	1	0	0	1	0.01%
40 The University of Texas at Brownsville	0	0	0	0	0.00%
41 The University of Texas of the Permian Basin	0	0	0	0	0.00%
Totals	10,915	397	429	11,741	100.00%

Source:
Texas Higher Education Coordinating Board

North Harris Montgomery Community College District
Capital Asset Information
Fiscal Years 2002 to 2007
(unaudited)

	Fiscal Year					
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Academic buildings	30	30	30	29	25	20
Square footage (in thousands)	1,575	1,575	1,575	1,524	1,334	1,034
Libraries	7	7	7	7	6	2
Square footage (in thousands)	299	299	299	299	232	81
Number of Volumes (in thousands)	662,298	862,764	686,172	928,639	812,876	1,020,276
Administrative and support buildings	22	22	21	20	19	14
Square footage (in thousands)	507	505	503	500	456	276
Dormitories	-	-	-	-	-	-
Square footage (in thousands)	-	-	-	-	-	-
Number of Beds	-	-	-	-	-	-
Apartments	-	-	-	-	-	-
Square footage (in thousands)	-	-	-	-	-	-
Number of beds	-	-	-	-	-	-
Dining Facilities	-	-	-	-	-	-
Square footage (in thousands)	55,116	55,116	55,116	55,116	55,116	40,881
Average daily customers	3,907	n/a	n/a	n/a	n/a	n/a
Athletic Facilities	38	38	38	38	36	29
Square footage (in thousands)	112	112	112	112	87	78
Stadiums	-	-	-	-	-	-
Gymnasiums	-	-	-	-	-	-
Fitness Centers	6	6	6	6	4	3
Tennis Court	32	32	32	32	32	26
Plant facilities	6	6	6	6	6	5
Square footage (in thousands)	33	33	33	33	30	24
Transportation	-	-	-	-	-	-
Cars	16	16	16	16	15	14
Light Trucks/Vans	17	17	15	14	12	9
Buses	-	-	-	-	-	-

n/a - not available

SINGLE AUDIT SECTION



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

To the Board of Trustees
North Harris Montgomery Community College District

We have audited the financial statements of the North Harris Montgomery Community College District (the "District") as of and for the year ended August 31, 2007 and have issued our report thereon dated November 8, 2007. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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 that might be 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 District'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 on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, audit committee, management, 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.



Houston, Texas
November 8, 2007



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133* AND
*STATE OF TEXAS SINGLE AUDIT CIRCULAR***

To the Board of Trustees
North Harris Montgomery Community College District

Compliance

We have audited the compliance of North Harris Montgomery Community College District (the “District”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and *State of Texas Single Audit Circular* that are applicable to each of its major federal and state programs for the year ended August 31, 2007. The District’s major federal and state programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of the District’s management. Our responsibility is to express an opinion on the District’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 program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of District’s compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and programs for the year ended August 31, 2007.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered the District’s internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 District’s internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal or state program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal or state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

This report is intended solely for the information and use of the Board of Trustees, audit committee, management, 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.

Houston, Texas
November 8, 2007

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2007**

SECTION I:

SUMMARY OF AUDITORS' RESULTS

Financial Statements:

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a) Material weakness identified? | No |
| b) Reportable conditions identified that are not considered to be material weaknesses? | None Reported |
| c) Noncompliance material to financial statements noted? | No |

Federal and State Awards:

- | | |
|---|-------------|
| 1. Internal control over major programs: | |
| a) Material weakness identified? | No |
| b) Reportable condition identified that are not considered to be material weakness? | No |
| 2. Type of auditors' report issued on compliance for major programs. | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No |
| 4. Identification of major programs: | |

Federal - CFDA Number Name of Federal Program or Cluster

84.007	Federal Supplemental Educational Opportunity Grants
84.032	Federal Family Education Loan Program
84.033	Federal Work Study Program
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness
84.002A	Adult Education- State Grant Program

State – Contract Number Program Title

N/A	Texas Grant
N/A	TWC Skill Development

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

Federal:	\$649,477
State:	\$300,000

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

Federal	Yes
State	Yes

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2007**

SECTION 2:

FINDINGS-FINANCIAL STATEMENT AUDIT

None reported.

SECTION 3:

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

None reported.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2007**

Prior Year Findings:

There were no audit findings included in the August 31, 2006 Schedule of Findings and Questioned Costs relative to Federal and State of Texas Awards.