



*Changing Lives.
We Are Houston's Community College.*

**COMPREHENSIVE ANNUAL FINANCIAL
REPORT & SINGLE AUDIT REPORTS**

August 31, 2017 and 2016

Houston, Texas



HOUSTON COMMUNITY COLLEGE SYSTEM
TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/ Schedule/ Table</u>
INTRODUCTORY SECTION		
Organizational Data	2	
Organizational Chart	3	
Chancellor’s Letter	4	
Transmittal Letter	5	
2016 GFOA Certificate of Achievement for Excellence in Financial Reporting	15	
 FINANCIAL SECTION		
Report of Independent Certified Public Accountants	17	
Management’s Discussion and Analysis (Unaudited)	20	
Financial Statements		
Statements of Net Position	34	Exhibit 1
HCC Foundation – Statements of Financial Position	35	Exhibit 1A
Statements of Revenues, Expenses, and Changes in Net Position	36	Exhibit 2
2017 HCC Foundation – Statement of Activities	37	Exhibit 2A
2016 HCC Foundation – Statement of Activities	38	Exhibit 2B
Statements of Cash Flows	39	Exhibit 3
Notes to the Financial Statements		
Reporting Entity	41	Note 1
Summary of Significant Accounting Policies	41	Note 2
Authorized Investments	49	Note 3
Deposits and Investments	50	Note 4
Disaggregation of Receivables and Payables Balances	53	Note 5
Capital Assets	54	Note 6
Non-current Liabilities	56	Note 7
Bonds Payable	57	Note 8
Defeasance of Long-Term Debt	60	Note 9
Defeased Bonds Outstanding	61	Note 10
Notes Payable	61	Note 11
Operating Leases	63	Note 12
Leased Facilities	64	Note 13
Retirement Plans	64	Note 14
Deferred Compensation Program	69	Note 15

HOUSTON COMMUNITY COLLEGE SYSTEM
TABLE OF CONTENTS

Compensated Absences.....	70	Note 16
Funds Held in Trust by Others.....	70	Note 17
Commitments.....	70	Note 18
Contingencies.....	70	Note 19
Post-Retirement Health Care and Life Insurance Benefits.....	71	Note 20
Post-Employment Benefits Other Than Pensions.....	72	Note 21
Property Tax.....	72	Note 22
Component Units.....	73	Note 23
Subsequent Events.....	74	Note 24

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of Houston Community College System’s Share of Net Pension Liability.....	76
Schedule of Houston Community College System’s Contributions.....	77
Houston Community College System Notes to Required Supplementary Information.....	78

SUPPLEMENTAL SCHEDULES

Schedule of Operating Revenues.....	80	Schedule A
Schedule of Operating Expenses by Object.....	81	Schedule B
Schedule of Non-operating Revenues and Expenses.....	82	Schedule C
Schedule of Net Position by Source and Availability.....	83	Schedule D

STATISTICAL SECTION (UNAUDITED)

Statistical Section Narrative.....	85	
Net Position by Component.....	86	Table 1
Program Revenues by Source.....	87	Table 2
Program Expenses by Function.....	89	Table 3
Tuition and Fees.....	91	Table 4
Assessed Value and Taxable Assessed Value of Property.....	94	Table 5
State Appropriations per Full Time Student Equivalents and Contact Hours.....	95	Table 6
Principal Taxpayers (Taxable Value).....	96	Table 7
Property Tax Levies and Collections.....	98	Table 8
Ratios of Outstanding Debt.....	99	Table 9
Legal Debt Margin Information.....	100	Table 10
Pledged Revenue Coverage.....	101	Table 11
Demographic and Economic Statistics – Taxing District.....	102	Table 12

HOUSTON COMMUNITY COLLEGE SYSTEM
TABLE OF CONTENTS

Principal Employers.....	103	Table 13
Faculty, Staff and Administrators Statistics.....	104	Table 14
Annual Student Enrollment Trends by Residency Code.....	105	Table 15
Enrollment Details.....	106	Table 16
Student Profile.....	107	Table 17
Contact Hours.....	108	Table 18
Transfers to Senior Institutions.....	109	Table 19
Capital Asset Information.....	110	Table 20

SINGLE AUDIT REPORTS AND SCHEDULES OF EXPENDITURES
OF FEDERAL AND STATE OF TEXAS AWARDS

Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	112	
Report of Independent Certified Public Accountants on Compliance for each Major Federal and State Program and on Internal Control over Compliance Required by the Uniform Guidance and State of Texas Single Audit Circular.....	114	
Schedule of Expenditures of Federal Awards.....	117	Schedule E
Notes to Schedule of Expenditures of Federal Awards.....	120	
Schedule of Expenditures of State of Texas Awards.....	122	Schedule F
Notes to Schedule of Expenditures of State of Texas Awards.....	123	
Schedule of Findings and Questioned Costs.....	125	

INTRODUCTORY SECTION

HOUSTON COMMUNITY COLLEGE SYSTEM
ORGANIZATIONAL DATA
FOR THE YEAR ENDED AUGUST 31, 2017

<u>BOARD OF TRUSTEES</u>		<u>Term Expires December 31,</u>
Eva L. Loredo, <i>Chair</i>	District VIII, Houston, Texas	2021
Dr. Carolyn Evans-Shabazz, <i>Vice Chair</i>	District IV, Houston, Texas	2017
Dr. John P. Hansen, <i>Secretary</i>	District VI, Houston, Texas	2021
Zeph Capo	District I, Houston, Texas	2019
David Wilson	District II, Houston, Texas	2019
Dr. Adriana Tamez	District III, Houston, Texas	2021
Robert Glaser	District V, Houston, Texas	2017
Neeta Sane	District VII, Houston, Texas	2019
Christopher W. Oliver	District IX, Houston, Texas	2017

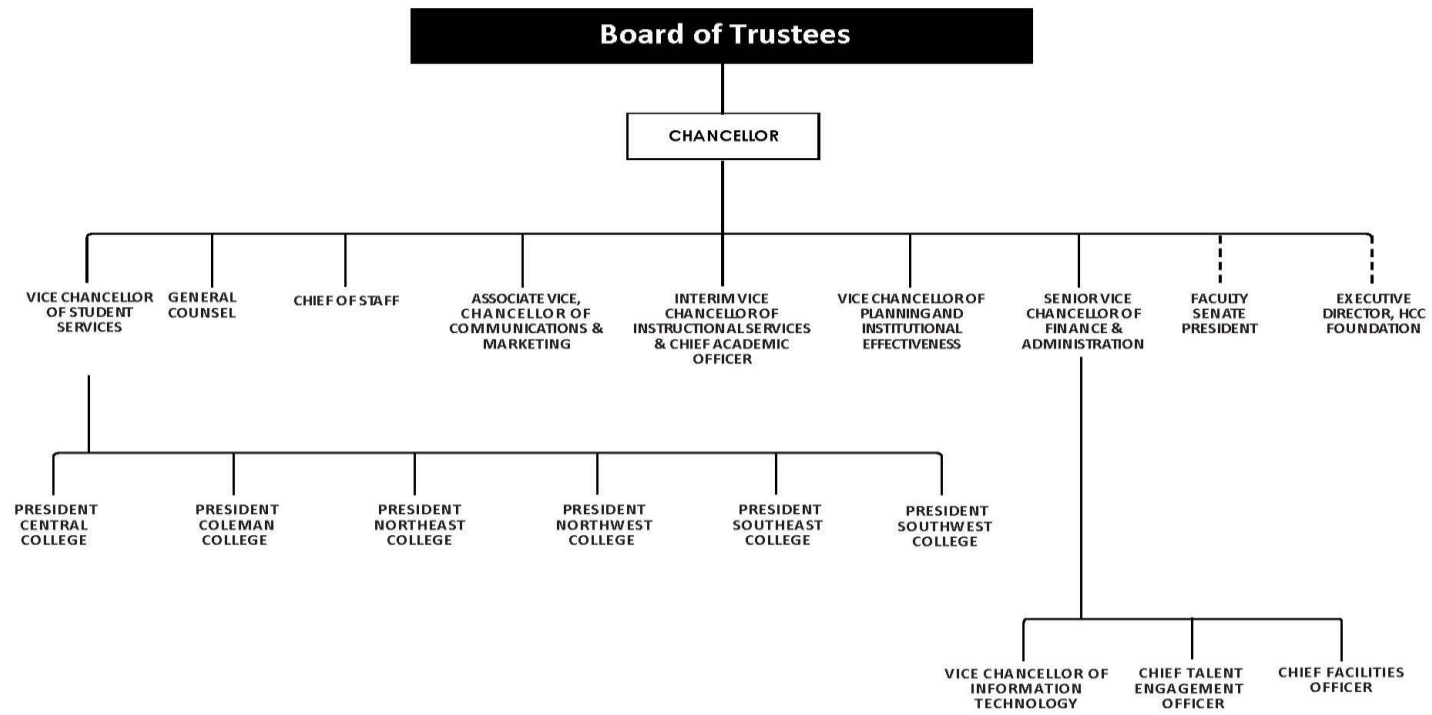
PRINCIPAL ADMINISTRATIVE OFFICERS

Cesar Maldonado, Ph.D., P.E.	Chancellor
Melissa N. Gonzalez, Ph.D.	Chief of Staff
Teri Zamora, MACC	Sr. Vice Chancellor, Finance & Administration and CFO
Norma Perez, Ed.D.	Interim Vice Chancellor, Instructional Services & Chief Academic Officer
William Carter, Ph.D.	Vice Chancellor, Information Technology
Athos Brewer, Ph.D.	Vice Chancellor, Student Services
Kurt Ewen, Ph.D.	Vice Chancellor, Planning & Institutional Effectiveness
Muddassir Siddiqi, Ed.D.	President, Central College
Phillip Nicotera, MD	President, Coleman College
Margaret Ford Fisher, Ed.D.	President, Northeast College
Zachary Hodges, Ed.D.	President, Northwest College
Irene Porcarello, Ed.D.	President, Southeast College
Madeline Burillo, Ed.D.	President, Southwest College
Janet May, M.A.	Chief Talent Engagement Officer
Marshall Heins, MBA	Chief Facilities Officer
E. Ashley Smith, J.D.	General Counsel
Carin Hutchins, MBA, CPA	Associate Vice Chancellor, Finance & Accounting
Linda Toyota, M.Ed.	Associate Vice Chancellor, Communications and Marketing
Mohamad Tlass, MBA	Faculty Senate President
Karen Schmidt, MBA	Executive Director, HCC Foundation



HOUSTON COMMUNITY COLLEGE

Organizational Chart





To the HCC Board of Trustees:

I am pleased to submit to the Houston Community College (HCC) Board of Trustees and the citizens of HCC's service area our Comprehensive Annual Financial Report for the fiscal year, September 1, 2016 through August 31, 2017.

The primary goal at HCC continues to be the enhancement of our students' lives and the communities we serve through academic and workforce education. While remaining mindful of fiscal realities, we have strived to improve our financial processes in order to better fulfill the administration's commitment to transforming HCC into a unified, powerful institution of choice for our community.

We have strengthened operations designed to ensure quality, innovation and education and to deliver initiatives focused on student success. As a result of our ongoing efforts, we are seeing an increase in student completions in both our academic and workforce programs.

Highlights for fiscal year 2017 include:

- Lowered tax rate to \$0.100263
- Held tuition to the same affordable and accessible levels
- Opened three, new state-of-the-art HCC locations: Missouri City, Acres Homes and Brays Oaks
- Established historic partnership with Apple, leading to the launch of the iOS Coding and Design School
- Earned national recognition for our HCC Financial Aid video series
- Launched one new Center of Excellence in Automotive Technology
- Continued to pay off debt in advance of due date

The flooding from Hurricane Harvey was devastating to many of our students, employees and the Houston community; however, HCC was able to provide support in many ways. For instance, the HCC Foundation provided a \$100,000 grant to HCC to meet the immediate and urgent needs of students impacted by the hurricane. HCC leaders formed eight task forces to provide a network of resources and support to students and employees.

HCC's fiscal practices support our commitment to provide high-quality, accessible and affordable education to all our students. The prudent organizational stewardship exhibited by our Board of Trustees and district leaders has allowed HCC to maintain a strong financial position while expanding necessary services and programs that contribute to the growth of our regional economy.

I extend my gratitude to the Board of Trustees for their thoughtful direction during this past fiscal year. Also, I want to take this time to recognize the dedicated HCC faculty and staff who, day after day, are making a difference in the lives of our students.

Respectfully,

A handwritten signature in black ink that reads "Cesar Maldonado".

Cesar Maldonado, Ph.D., P.E.
Chancellor
Houston Community College



December 14, 2017

Dear Honorable Chairman and Members of the Board of Trustees, Chancellor, and Citizens of Houston Community College:

Respectfully submitted for your review is the Comprehensive Annual Financial Report (CAFR) of Houston Community College (HCC) for the fiscal years ended August 31, 2017 and 2016. The purpose of this report is to provide detailed information about the financial condition and performance of the College to the Board of Trustees, taxpayers, Texas Higher Education Coordinating Board (THECB), grantor agencies, employees and other interested parties. Management assumes responsibility for the completeness and reliability of the information contained in this report based upon a comprehensive framework of internal control. The objective of internal control is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. The concept of reasonable assurance ensures that the costs of the controls do not exceed the benefits derived.

Comprehensive Annual Financial Report

HCC's CAFR is prepared by the HCC Division of Finance and Administration. The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) and comply with Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges as set forth by the THECB. The notes to the financial statements are provided in the financial section and are considered essential for fair and adequate disclosure of all information presented in this financial report. The notes include the summary of significant accounting policies, authorized investments and other necessary disclosures of important matters relating to the financial position of HCC. Notes are meant to supplement the information in the financial statements and should be read in conjunction with them.

Reporting Entity

HCC is considered a special purpose government engaged solely in a business-type activity. Accordingly, the financial statement presentation combines all fund groups into a single column and resembles the format of a corporate presentation as defined by GASB.



In accordance with the criteria established by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and 34* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14*, the Houston Community College Foundation (Foundation) and the Houston Community College System Public Facility Corporation (PFC) are reported as component units of the System using a discrete and blended presentation, respectively.

College Profile

As one of the largest community colleges in the nation, HCC has served the Greater Houston area for over four decades. We deliver instruction to nearly 71,000 students each semester in more than 250 associate degree and certificate programs. We strive to provide superior academic and technical programs, and our Centers of Excellence focus on being leaders in their disciplines.

Since opening in 1971, students have improved their lives through education and training obtained from HCC. An open-admission public institution, HCC awards associate degrees and certificates in academic studies and career and technology programs. HCC is committed to meeting the needs of its diverse communities, providing academic courses for transfer to four-year institutions, terminal degrees and certificates in more than 70 fields of work; as well as, continuing education and corporate training, lifelong-learning and enrichment programs, and adult education.

HCC was created under the governance of the Houston Independent School District (HISD) as the result of a public referendum on May 18, 1971. In August of that year, more than 5,700 students enrolled in workforce education courses held at the Houston Technical Institute (housed in what was then HISD's San Jacinto High School). In the following semester, academic transfer classes were added and taught at six HISD locations. By 1977, HCC had an enrollment of more than 28,000 students and was accredited by the Southern Association of Colleges and Schools (SACS). In 1989, HCC separated from HISD, establishing its own Board of Trustees and taxing authority. HCC restructured in 1991, creating five regional colleges, as well as the College Without Walls, and selected presidents for each. The president of HCC then became the System Chancellor. The Coleman College for Health Sciences was established and replaced the College Without Walls in 2004. Today, HCC serves more than 114,000 students annually within a service area of 631.3 square miles.

Governance Structure

HCC operates under the Constitution of the State of Texas and the Texas Education Code. The Board of Trustees is the official governing body of HCC. The Board of Trustees is composed of nine members who are elected from single-member districts and who serve without remuneration. The Board of Trustees is elected to staggered six-year terms and has final authority to determine and interpret the policies that govern HCC. As part of their duties, the

Board of Trustees maintains a full schedule of community services, public appearances, speaking engagements and legislative affairs on behalf of HCC. The Board of Trustees represents an impressive mix of individual talents and professional backgrounds enabling them to provide governance of the highest quality.

Regular meetings of the Board of Trustees are held on the third Thursday of each month at the System Administrative Building, 3100 Main Street, 2nd Floor Auditorium, Houston, Texas 77002, unless otherwise announced. HCC has a strong committee structure and those meetings are held the week before the regular meetings. Other meetings such as workshops and special meetings are held on an as-needed basis. Public notices of all meetings are posted at the Administrative Building and on the HCC website.

The Board of Trustees envisions HCC as the educational institution of choice for those who seek skilled training for the workforce, those who seek to upgrade their skills to enhance preparedness for economic opportunity, and those who seek lifelong, seamless educational opportunities to enhance their quality of life. The Board of Trustees views HCC as an integral part of the economic and educational life of the community and supports their view by establishing quality partnerships, being responsive to community needs and assisting HCC in providing these vital services.

Economic Conditions and Outlook

HCC is a diverse and complex multi-campus institution accredited by SACS to award associate degrees. With a service area population of 2.4 million, Houston is the fourth largest city in America and the largest city in Texas. The community is about one hour from the Texas Gulf Coast. HCC students are served by nearly 2,500 full and part-time faculty members. HCC enrolls more international students than any community college in the country.

The Service Delivery Area (SDA) of HCC includes the independent school districts of Houston, Katy, Spring Branch and Alief; Stafford Municipal District; and the portions of Fort Bend ISD located in the cities of Houston, Pearland, and Missouri City.

The area is economically, educationally and ethnically diverse. While the average household income is \$88,786, more than 23.6% of the households in the SDA have an income less than \$25,000. While 39.2% of the population has a college degree, 21.2% of the population has no high school degree or GED. The population's ethnicity is 41.1% Hispanic, 26.2% white, 22.6% African American and 10.2% other. There is a relatively large young population, with 25% under the age of 18 years old. These factors give HCC the potential of providing a large workforce pool for the SDA, the state and the nation's economic growth, and the energy and health care sectors in particular.

HCC has three main sources of revenue:

- Ad Valorem Taxes – Increased by \$13.1 million in fiscal year 2017 due to the taxable assessed value increasing by 7.9%. HCC lowered the total tax rate in fiscal year 2017 to \$0.100263 from \$0.101942 in fiscal year 2016.
- State Appropriations – Increased only slightly by \$316 thousand given this is the second year of the biennium.
- Tuition and Fees – Tuition and fees rates remained the same in fiscal year 2017 to maintain affordable and accessible education for our students. In addition, enrollments were comparable to fiscal year 2016.

Operating expenses increased \$16.9 million in fiscal year 2017 largely due to salary increases related to the compensation study and a 2% general salary increase.

Moody's affirmed an Aa1 rating for HCC's General Obligation bonds.

HCC is committed to equipping students with the appropriate academic, technical and soft skills to allow them to succeed in the workplace. A comprehensive approach is utilized, combining academic and technical resources, relevant student services, talent development organizations, and career building activities. By employing a comprehensive approach, HCC assures the vitality of its programs for today's academic and industrial demands and tomorrow's opportunities.

A large part of Houston Community College's mission is to service the business community's need for an educated workforce. Roughly 60% of today's jobs require some level of post-secondary education. Houston faces a jobs crisis not from the standpoint of a lack of opportunity, but from the shortage of candidates with the education and skill set required to fill the positions currently available. HCC will continue to work closely with the business community to ensure that a steady flow of educated citizens are ready to report for duty to keep Houston working.

The job crisis provides HCC the impetus it needs to transform itself for a changing world. By learning from our past and understanding our present, we will be able to develop achievable visions and roadmaps for change. We continue to be a vital piece of Houston's success, but with this role there is also a responsibility to always strive for greatness and to embrace change. In fact, HCC must lead change because the Houston of tomorrow will look and act very different than the Houston of today. Imagine HCC 2019 is the institution's answer for how the college will respond to the inevitability of change, while providing its own definition for the future and outlining its desired future state - one that is integral to the Houston of tomorrow.

Alignment with Texas Higher Education Coordinating Board's 60x30TX Plan

We have identified our four strategic goals and have defined objectives and initiatives within each goal to focus the institution's efforts. Collectively, these elements of the plan also align our completion goals with the Texas Higher Education Coordinating Board's 60x30TX Plan.

This alignment allows us to be responsive to the State's plan to ensure that 60% of all Texans ages 25-34 will achieve a postsecondary certificate or degree by the year 2030. Further, Imagine HCC 2019 aligns with the State's goals of balancing student debt with each graduate's earning potential.

K-16 Pathways

HCC is also committed to developing a K-16 pathway for students to better prepare future generations to be career ready. To do so, HCC will continue to collaborate with our ISD and 4-year partners to ensure that students are college ready upon entry into college, transfer ready upon entry to 4-year programs, and career ready upon entry into the workforce. To accomplish this, HCC will continue to partner with local ISDs in a model that has proven very successful. In addition, strategic, collaborative partnerships similar to existing partnerships with A&M and UT Tyler will continue to emerge to meet the needs of the industry.

Strategic Plan – Imagine HCC 2019

HCC continues to improve its outcomes and is among the top in the nation for preparing students for jobs. Community College Week ranks HCC second nationally among two-year institutions in the number of associate degrees produced in 2016.

Including associates degrees, certificates, core completers, and marketable skills achievers, HCC's total awards for 2016 were 13,437 compared to 9,754 during 2012. The focus on student retention and completion continues through a variety of initiatives outlined in the strategic plan – Imagine HCC 2019.

Imagination is critical to our future. It is not imagining what has been, rather what can be. What will be and what HCC will accomplish this year and in years to come, is up to every individual within the organization and every stakeholder actively working to promote this institution. Imagining a different level of success for our students, our college and ourselves is paramount.

In 2015, HCC underwent an extensive strategic planning effort to lay the groundwork for an ambitious plan to reimagine HCC four years into the future. The result was Imagine HCC 2019, a bold plan for transforming one of the nation's largest community college systems and improving the value it provides to students, faculty and staff, and the Houston community.

Imagine HCC 2019 is the blueprint by which all faculty and staff are addressing the changes the institution needs to make. As Houston continues to grow and position itself as one of the nation's premier cities, HCC must answer the call to lead in education and serve as the engine to power our community's workforce and fuel our capacity for innovation. Imagine HCC 2019 is our vision for the future of this institution and for education in this great city.

Imagine HCC 2019 is comprehensive and describes what the institution's focus will be, how we will be organized and why we act. Put another way, it is an articulation of our strategic plan, the transformation to our Centers of Excellence model and the "HCC Way".

Our Core Values, Core Behaviors and Leadership Behaviors serve as the “cultural core” of HCC and articulate the desired culture that HCC will promote and strengthen in the years to come. In short, this defines the “HCC Way” of doing things and the expectation the institution has set for all faculty, staff and administrators.

The model below provides a visual depiction for Imagine HCC 2019. The vision sits at the top, guiding our efforts, while our mission, core values and competencies sit at the foundation, defining the expectations we have for our culture. In the middle sits the core of our strategic plan, including our four strategic goals, which will be the framework we use to measure our success.

E.2.1 A Model for Success

This model provides a visual depiction for HCC 2019. The vision sits at the top, guiding our efforts, while our mission, core values, and competencies sit at the foundation, defining the expectations we have for our culture. In the middle sits the core of our strategic plan, including our four strategic goals, which will be the frameworks we use to measure our success.



Mission

Houston Community College is an open-admission, public institution of higher education offering a high-quality, affordable education for academic advancement, workforce training, career development and lifelong learning to prepare individuals in our diverse communities for life and work in a global and technological society.

Vision

Houston Community College will be a leader in providing high quality, innovative education leading to student success and completion of workforce and academic programs. We will be responsive to community needs and drive economic development in the communities we serve.

Core Values

Set and Maintain High Academic Standards	Student Commitment
Collaboration	Give the Community an Educated Workforce
Commitment to Student Success	Culture of Trust – Demonstrate Integrity and Ethics
Demonstrate Passion	Innovation
Accountability	Consistency Across the Institution

Behavioral Competencies

Core	Leadership
Delivering High Quality of Work	Acting as a Champion for Change
Accepting Responsibility	Thinking Entrepreneurially
Serving Our Stakeholders	Leveraging Opportunities
Supporting Organizational Goals	Setting a Strategic Vision
Driving Continuous Improvement	Attracting & Developing Talent
Acting with Integrity	Inspiring & Motivating Others
Thinking Critically	Acting Strategically
Managing Change – Adapting to Support Change	Demonstrating Beliefs & Principles
Communicating Effectively	Managing Resources

Strategic Goals

1. Student Success – Commitment to creating an environment in which students achieve their desired goals that lead to their success in both educational and occupational pursuits.
2. Organizational Stewardship – Actions that preserve and protect the use of our shared resources, transparency in decision-making and creation of processes that manage, allocate and monitor resources crucial to the college’s mission.
3. Performance Excellence – Integrated approaches that result in the delivery of ever improving value to customers and stakeholders.
4. Innovation – Leadership in the creation of new ideas, methods, processes, technologies or products to address the challenges and opportunities associated with that change.

These goals are the four distinct areas that will guide HCC’s strategic efforts and serve to reinforce the institution’s vision. Operationally, the goals provide further definition for what HCC’s vision describes and provides a place for each proposed objective and initiative to reside. These goals also offer a measure of accountability for leaders.

HCC’s management is in the early stages of developing the strategic plan for 2019 and beyond which will include the development of an ecosystem that supports innovation across the college system. The new strategic plan is anticipated to be complete in the latter part of fiscal year 2019.

Financial Information

HCC's management is responsible for establishing and maintaining internal controls. Management ensures each department has a clear understanding of its assignment; whether it is adequately staffed; protects the cash assets; functions effectively in carrying out the overall plan of the HCC's business; and maintains good records so that financial statements are in compliance with GAAP. The internal control structure provides reasonable protection from fraud and waste. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of cost and benefits requires estimates and judgments by management.

Single Audit

HCC receives federal and state financial assistance during the fiscal year, which results in HCC being responsible to ensure adequate internal control and compliance with laws, regulations, contracts and grant agreements related to those programs. Management periodically reviews the internal controls to ensure the adequacy of the controls. Additionally, during the federal and state single audit, the independent auditor tests the adequacy of internal controls and compliance with applicable laws, regulations, contracts and grant agreements for the major federal and state programs.

Budget Control

The Board of Trustees adopts an operating budget annually, providing authority to expend funds in accordance with state law, board policy and HCC approved procedures. Included in the annual budget are the activities of the Unrestricted, Restricted, Auxiliary, Technology, and Retirement of Debt Service funds. HCC has adopted the concept of Performance Based Budgeting. Performance Based Budgeting contains an integrated set of strategic goals with associated action plans, measures and targets, and priority funds dedicated to achieving them. The Performance Based Budget aligns the budget process to the strategies, goals and action plans of HCC, which centers on the outcome of student success. Each HCC department builds an action plan to support the goals and objectives so that our strategy is aligned at all levels.

The Office of Fiscal Planning and Budget monitors the overall budget activities. Internal controls have been implemented to ensure that expenses fall within the budget and purchasing guidelines. An encumbrance accounting system is utilized to help maintain budgetary control. An encumbrance is the name given to funds that have been reserved when a purchase order is issued.

Monthly financial and budget reports are submitted to the Board of Trustees to report on the status of all HCC funds and accounts. Annual financial reports are prepared in accordance with GAAP and relevant law. In addition, internal and external audits are periodically conducted to evaluate the financial operations of HCC. The management discussion and analysis references topics pertaining to HCC's major initiatives, future outlook and financial information.

Independent Audit

State statutes require an annual audit by independent certified public accountants. HCC's Board of Trustees engaged Grant Thornton LLP as the accounting firm to perform the annual financial audit. In addition to meeting the requirements set forth in State statutes, their audit was also designed to meet the requirements of the Uniform Guidance and Uniform Grant Management Standards (UGMS). The Single Audit financial reports consist of the Schedule of Expenditures of State of Texas Awards, Schedule of Expenditures of Federal Awards and the auditor's report on compliance and internal controls.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Houston Community College for its comprehensive annual financial report for the fiscal year ended August, 31, 2016. HCC has received this prestigious award over a ten-year period. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

HCC has also been selected as a recipient of the 2016 INSIGHT Into Diversity "Higher Education Excellence in Diversity" (HEED) Award. The HEED Award is the only national recognition honoring colleges and universities that exhibit outstanding efforts and success in the area of diversity and inclusion throughout their campuses. The HCC student population represents 155 nationalities.

For the second consecutive year, the HCC Procurement Department has been honored with a prestigious award from the National Procurement Institute (NPI), Inc. The NPI has named HCC a recipient of the 2017 Achievement of Excellence in Procurement Award.

Acknowledgements

We would like to thank the Board of Trustees for its guidance and direction. We would also like to acknowledge the Finance and Administration Division and all members of the staff for their support, hard work and dedication in preparing this CAFR. Finally, we would like to thank Grant Thornton LLP for their assistance with the audit.

Respectfully submitted,



Teri Zamora, MACC
Sr. Vice Chancellor, Finance and Administration



Carin Hutchins, MBA and CPA
Associate Vice Chancellor, Finance
and Accounting



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Houston Community College System
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2016

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Houston Community College System
Houston, TX

Grant Thornton LLP
700 Milam Street, Suite 300
Houston, TX 77002-2848

T 832.476.3600
F 713.655.8741
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

Report on the financial statements

We have audited the accompanying financial statements of Houston Community College System (the “System”), which comprise the statements of net position as of August 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the System’s financial statements as listed in the table of contents.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Houston Community College Foundation, which collectively represents 100% of the assets, net assets, and revenues of the aggregate discretely presented component unit of the System as of and for the years ended August 31, 2017 and 2016. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component unit, are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Houston Community College Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of August 31, 2017 and 2016, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter

As discussed in Note 2, the 2016 financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20 through 33, the Schedule of Houston Community College System Share of Net Pension Liability and Schedule of Houston Community College Contributions and related notes on pages 76 and 78, be presented to supplement the financial statements. Such information, although not a required part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules on pages 80 through 83 and the schedule of expenditures of federal awards and schedule of expenditures of State of Texas awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and *The State of Texas Single Audit Circular* on pages 117 through 124 are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other information

The introductory and statistical section on pages 2 through 15 and 85 through 110 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 14, 2017, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Grant Thornton LLP

Houston, Texas
December 14, 2017

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

INTRODUCTION

Management's discussion and analysis of the annual financial statements of the Houston Community College System ("HCC" or the "System") is designed to help readers understand some of the conditions and events contributing to the current financial position of HCC as well as to point out trends and changes in the results of operations. Please read it in conjunction with the Chancellor's letter, the transmittal letter, HCC's basic financial statements, and notes to the financial statements. Responsibility for the completeness and fairness of this information rests with HCC. For purposes of the summary and discussion, the terms "2017", "2016" and "2015" refer to fiscal years ended August 31, 2017, August 31, 2016, and August 31, 2015, respectively.

OVERVIEW OF FINANCIAL STATEMENTS

HCC is considered a special-purpose government engaged in business-type activities according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. The requirements of this Statement result in financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The resulting financial statement format focuses on HCC as a whole. The basic financial statements are designed to emulate the corporate presentation model whereby HCC's fiscal activities are consolidated into one column total. Comparative data from the prior year is shown in a separate column on the face of each of the statements. The financial position is presented as of August 31, 2017 and 2016 and consists of three primary statements: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows.

The Houston Community College Foundation (the "Foundation") is a non-profit organization which was established in 1976 with its sole purpose being to provide benefits such as scholarships and grants to HCC. The Foundation has been discretely presented in HCC's financial statements as a component unit by including its Statements of Financial Position and Activities in HCC's CAFR in accordance with GASB Statement No. 61. Since the financial statements of the Foundation are presented in a different format from HCC, the Foundation's financial statements are presented on separate pages from HCC's financial statements.

In fiscal year 2005, the Houston Community College System Public Facility Corporation (the "PFC") was formed for the sole purpose of assisting HCC in financing or acquiring public facilities. The PFC was incorporated on January 18, 2005 as a public non-profit corporation under the Public Facility Corporation Act, Chapter 303, Texas Local Government Code, as amended. Based on guidance included in GASB Statement No. 61, the PFC is reported as a blended component unit in the financial statements of the System.

Financial Highlights for Fiscal Year 2017

- Total assets decreased by \$3.7 million and total liabilities decreased by \$50.8 million due to normal principal payments and the early payment and refinancing of debt.
- The System's net position at August 31, 2017 was \$466.5 million, reflecting a \$52 million increase from the prior year.
- Operating revenues were \$114.1 million, an increase of \$239 thousand over the previous year, reflecting the consistent level of enrollments the last two years.
- Non-operating revenues increased \$12.8 million primarily related to an increase in property taxes due to increased property values and new properties added to the tax rolls.
- Operating expenses were \$406.7 million, an increase of \$16.9 million when compared to the prior year due to employees' salary increases from the compensation study and a 2% general salary increase.

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

Statements of Net Position

The Statements of Net Position represent the System's financial position at the end of the fiscal year and includes all assets, liabilities and deferred inflows and outflows of resources of the System. Net Position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and serves as a general indicator of financial stability.

From the data presented, readers of the financial statements are able to determine the assets available to continue operations of the System and how much the System owes vendors, investors and lending institutions.

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

In order to show the trends for the two years presented in the Statements of Net Position, a summary of three years of data for the fiscal years ended August 31, 2015 through 2017 is presented below.

Statements of Net Position

	2017	2016	2015	Change	
				2016 to 2017	2015 to 2016
ASSETS:					
Current Assets	\$ 240,527,026	\$ 226,568,759	\$ 189,609,236	\$ 13,958,267	\$ 36,959,523
Non-current Assets	90,363,897	217,642,922	379,628,703	(127,279,025)	(161,985,781)
Capital Assets	1,197,440,430	1,087,835,890	950,841,107	109,604,540	136,994,783
Total Assets	<u>1,528,331,353</u>	<u>1,532,047,571</u>	<u>1,520,079,046</u>	<u>(3,716,218)</u>	<u>11,968,525</u>
DEFERRED OUTFLOWS OF RESOURCES					
Advance Funding Valuation	9,252,957	7,936,830	8,743,822	1,316,127	(806,992)
Pension	27,833,120	30,600,608	11,299,015	(2,767,488)	19,301,593
Total Deferred Outflows of Resources	<u>37,086,077</u>	<u>38,537,438</u>	<u>20,042,837</u>	<u>(1,451,361)</u>	<u>18,494,601</u>
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,565,417,430</u>	<u>\$ 1,570,585,009</u>	<u>\$ 1,540,121,883</u>	<u>\$ (5,167,579)</u>	<u>\$ 30,463,126</u>
LIABILITIES:					
Current Liabilities	117,876,606	131,506,813	119,251,143	(13,630,207)	12,255,670
Non-current Liabilities	958,362,574	995,483,558	1,035,030,536	(37,120,984)	(39,546,978)
Total Liabilities	<u>1,076,239,180</u>	<u>1,126,990,371</u>	<u>1,154,281,679</u>	<u>(50,751,191)</u>	<u>(27,291,308)</u>
DEFERRED INFLOWS OF RESOURCES					
Advance Funding Valuation	2,618,052	722,950	795,245	1,895,102	(72,295)
Pension	20,098,163	28,410,749	20,626,539	(8,312,586)	7,784,210
Total Deferred Inflows of Resources	<u>22,716,215</u>	<u>29,133,699</u>	<u>21,421,784</u>	<u>(6,417,484)</u>	<u>7,711,915</u>
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,098,955,395</u>	<u>\$ 1,156,124,070</u>	<u>\$ 1,175,703,463</u>	<u>\$ (57,168,675)</u>	<u>\$ (19,579,393)</u>
NET POSITION:					
Net Investment in Capital Assets	374,110,855	318,343,549	290,770,960	55,767,306	27,572,589
Restricted-Expendable	18,554,933	14,035,601	13,290,548	4,519,332	745,053
Unrestricted	73,796,247	82,081,789	60,356,912	(8,285,542)	21,724,877
TOTAL NET POSITION	<u>\$ 466,462,035</u>	<u>\$ 414,460,939</u>	<u>\$ 364,418,420</u>	<u>\$ 52,001,096</u>	<u>\$ 50,042,519</u>

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

Assets

Fiscal Year 2017:

In comparing fiscal year 2017 to fiscal year 2016, overall assets decreased by \$3.7 million. Current assets increased by \$13.9 million to accommodate current spending on capital improvement projects (CIP). Non-current assets decreased by \$17.6 million. This was comprised of a decrease of \$127.3 million in restricted cash and long-term investments used to fund construction projects and an increase in capital assets of \$109.6 million.

Fiscal Year 2016:

In comparing fiscal year 2016 to fiscal year 2015, overall assets increased by \$11.9 million. Current assets increased by \$36.9 million to accommodate current spending on CIP. Non-current assets decreased by \$24.9 million. This was comprised of a decrease of \$161.9 million in restricted cash and long-term investments to fund construction projects and an increase in capital assets of \$137 million.

Deferred Outflows of Resources

Fiscal Year 2017:

Deferred outflows of resources decreased by \$1.5 million from fiscal year 2016 to fiscal year 2017 and was due to an increase of \$1.3 million related to the deferred loss on the refunding of the Revenue Bonds, PFC Bonds and Maintenance Tax Notes and a decrease of \$2.8 million related to the future pension liability expense.

Fiscal Year 2016:

Deferred outflows of resources increased by \$18.5 million from fiscal year 2015 to fiscal year 2016 due to the increase in future pension liability expense.

Liabilities

Fiscal Year 2017:

Overall liabilities decreased by \$50.7 million from fiscal year 2016 to fiscal year 2017. Current liabilities decreased by \$13.6 million which was primarily attributable to a decrease in accounts payable related to construction contracts due to the completion of several CIP projects. Non-current liabilities decreased by \$37.1 million due primarily to normal principal payments and the early payment and refinancing of debt.

Fiscal Year 2016:

Overall liabilities decreased by \$27.3 million from fiscal year 2015 to fiscal year 2016. Current liabilities increased by \$12.2 million which was primarily attributable to an increase in accounts payable related to CIP construction. Non-current liabilities decreased by \$39.5 million due primarily to principal payments on debt.

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

Deferred Inflows of Resources

Fiscal Year 2017:

Deferred inflows of resources decreased by \$6.4 million due to a decrease of \$8.3 million in the pension liability future expense and an increase in the deferred gain of \$1.9 million related to the refunding of the Limited Tax General Obligation Bonds.

Fiscal Year 2016:

Deferred inflows of resources increased by \$7.7 million due to an increase in pension liability future expense.

Net Position

Fiscal Year 2017:

Overall, net position for 2017 is \$466.5 million, which is a \$52 million increase from 2016. Current Unrestricted and Auxiliary Enterprises increased in fiscal year 2017 over fiscal year 2016 by \$7.1 million and \$2.6 million, respectively, reflecting HCC's positive financial outcome for the year. Unrestricted Plant - Unexpended decreased by \$18.0 million. \$9.0 million of the Sienna Plantation campus sales proceeds was utilized to construct the new Missouri City campus. In addition, technology fees of \$8.8 million were used to purchase/replace instructional, IT, and security technology and equipment. The net effect of these changes was a decrease of \$8.3 million in Unrestricted Net Position. Net investment in Capital Assets increased \$55.8 million due to the increase in capital project expenditures during the year and continuing reduction in capital debt. Restricted-Expendable increased by \$4.5 million primarily due to the capitalization of interest on construction projects.

Fiscal Year 2016:

Net position for 2016 was \$414.4 million, which was a \$50 million increase from 2015. Unrestricted Net Position increased by \$21.7 million due to an increase in Unrestricted Plant – Unexpended related to the deposit of proceeds from the sale of the Sienna Plantation Campus in the amount of \$10.5 million, the transfer of \$4.3 million from funds resulting from a buildup of savings from the work of the Budget Task Force which were set aside in restricted funds for future needs, and \$7.7 million of technology fees. In contrast, the combined total of Current Unrestricted and Auxiliary Enterprises increased only slightly by \$51,000. Net Investment in Capital Assets increased \$27.5 million primarily due to the increase in capital project expenditures during the year.

Net Position details are available in Schedule D.

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

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position present the operating results, as well as non-operating revenues and expenses. Of the three main sources of revenue — ad valorem taxes, state appropriations, and tuition and fees — only tuition and fees represents an exchange for services. Taxes and state appropriations represent non-exchange transactions and thus are considered non-operating revenues. This approach to presenting revenues and expenses is intended to summarize and simplify the user's analysis of the various services offered to students and the public. Depending on whether revenues or expenses are greater for the year, a net increase or net decrease in net position is created. The ending balances of net position on these statements agree with those shown on the Statements of Net Position in Exhibit 1.

A summarized comparison of the System's revenues, expenses and changes in net position for the years ended August 31, 2017, 2016, and 2015 is presented below.

Statements of Revenues, Expenses, and Changes in Net Position

	2017	2016*	2015*	Change	
				2016 to 2017	2015 to 2016
Operating Revenues	\$ 114,132,214	\$ 113,893,667	\$ 113,965,188	\$ 238,547	\$ (71,521)
Operating Expenses	404,212,671	387,406,319	378,277,580	16,806,352	9,128,739
Operating Loss	(290,080,457)	(273,512,652)	(264,312,392)	(16,567,805)	(9,200,260)
Non-operating Revenue, Net	342,081,553	323,555,171	331,275,367	18,526,382	(7,720,196)
Increase in Net Position	\$ 52,001,096	\$ 50,042,519	\$ 66,962,975	\$ 1,958,577	\$ (16,920,456)
Beginning Net Position	414,460,939	364,418,420	373,852,073	50,042,519	(9,433,653)
Cumulative Effect for Changes in Accounting Principle	-	-	(76,396,628)	-	76,396,628
Ending Net Position	<u>\$ 466,462,035</u>	<u>\$ 414,460,939</u>	<u>\$ 364,418,420</u>	<u>\$ 52,001,096</u>	<u>\$ 50,042,519</u>

*Restated, see Footnote 2

Revenues

As described above and in accordance with GAAP, promulgated by GASB, state appropriations and ad valorem tax revenues are reported as non-operating revenue. This results in reporting large operating losses which are significantly decreased after inclusion of these non-operating revenues that are intended to contribute to operations. State appropriations are restricted by law to be used only for the educational and general expenses, HCC's primary operations. Ad valorem tax revenues are broken into two types: those for maintenance and operations and those for debt service. The maintenance and operations portion is specifically designed to be utilized for operations, although a portion can be used for paying the debt service on revenue bonds. The debt service portion is restricted to pay the principal, interest, and other costs associated with tax backed bonds (General Obligation or GO bonds and maintenance tax notes). Interest revenue is obtained through pooled investments, a large portion of which is attributable to operations. Also federal financial aid is classified as non-operating revenue by GASB even though the portion that relates to tuition is required to be reported as a tuition discount against operations.

All revenues, both operating and non-operating, are presented below.

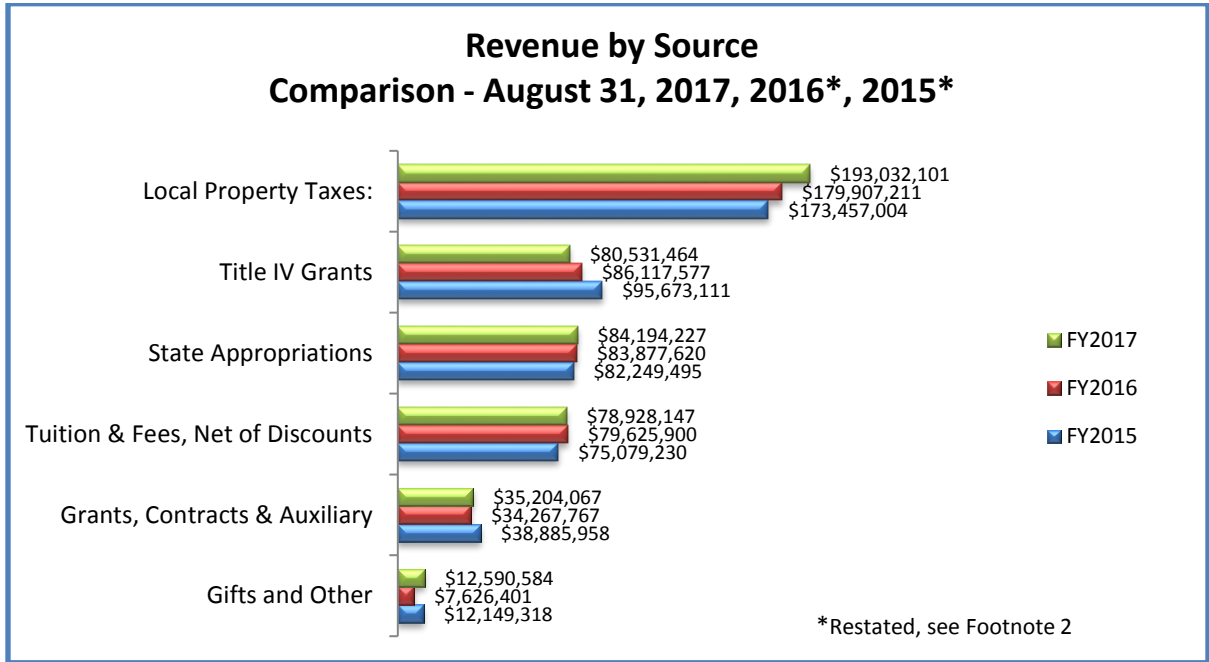
**HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

	<u>2017</u>	<u>2016*</u>	<u>2015*</u>	<u>Change</u>	
				<u>2016 to 2017</u>	<u>2015 to 2016</u>
<u>OPERATING REVENUES:</u>					
Tuition & Fees, Net of Discounts	\$ 78,928,147	\$ 79,625,900	\$ 75,079,230	\$ (697,753)	\$ 4,546,670
Grants, Contracts & Auxiliary:					
Federal	14,092,252	13,844,635	13,782,110	247,617	62,525
State	6,848,608	6,790,982	8,772,358	57,626	(1,981,376)
Local, Private & Non-governmental	2,162,697	3,491,066	2,786,499	(1,328,369)	704,567
Auxiliary	12,100,510	10,141,084	13,544,991	1,959,426	(3,403,907)
Total Grants, Contracts & Auxiliary	35,204,067	34,267,767	38,885,958	936,300	(4,618,191)
TOTAL OPERATING REVENUES	114,132,214	113,893,667	113,965,188	238,547	(71,521)
<u>NON-OPERATING REVENUES:</u>					
State Appropriations:					
Unrestricted	70,294,751	70,168,777	69,155,893	125,974	1,012,884
Restricted	13,899,476	13,708,843	13,093,602	190,633	615,241
Total State Appropriations	84,194,227	83,877,620	82,249,495	316,607	1,628,125
Local Property Taxes:					
M & O	145,108,181	133,580,908	125,073,172	11,527,273	8,507,736
Debt	47,923,920	46,326,303	48,383,832	1,597,617	(2,057,529)
Total Local Property Taxes	193,032,101	179,907,211	173,457,004	13,124,890	6,450,207
Title IV Grants	80,531,464	86,117,577	95,673,111	(5,586,113)	(9,555,534)
Gifts and Other:					
Gifts	1,875,561	2,025,562	1,260,854	(150,001)	764,708
Other	10,715,023	5,600,839	10,888,464	5,114,184	(5,287,625)
Total Gifts and Other	12,590,584	7,626,401	12,149,318	4,964,183	(4,522,917)
TOTAL NON-OPERATING REVENUES	370,348,376	357,528,809	363,528,928	12,819,567	(6,000,119)
TOTAL REVENUES	\$484,480,590	\$471,422,476	\$477,494,116	\$ 13,058,114	\$ (6,071,640)

*Restated, see Footnote 2

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

Revenue by Source



Fiscal Year 2017:

Overall, operating revenues increased by \$0.2 million or 0.2% in fiscal year 2017 as compared to fiscal year 2016 (Exhibit 2). Although enrollment remained flat, the System experienced a decrease of 0.9% or \$ 0.7 million in tuition and fees revenue due to an increase in Dual Credit and other waivers, which offset tuition for students. There was also an increase of 1.8% or \$0.2 million in federal grants and contracts and an increase of 0.9% or \$0.06 million in state grants and contracts. Non-governmental grants and contracts decreased by \$1.4 million or 45%. In fiscal year 2016, HCC received a grant from the George Foundation to help with construction costs related to the Missouri City Campus which did not reoccur in fiscal year 2017. An increase in facilities rental income caused the increase in auxiliary revenue of \$2 million or 19.3%.

Non-operating revenues increased by 3.6% or \$12.8 million over the previous year (Schedule C). The total tax base in the System's taxing district increased from 2016 to 2017 by approximately 8%, resulting in an increase in the Maintenance & Operation portion of ad valorem taxes of \$11.5 million and an increase in the Debt Service portion of ad valorem taxes in the amount of \$1.6 million. These increases were achieved even though there was a decrease in both Maintenance & Operation and Debt Service tax rates. Title IV funds decreased from \$86 million in fiscal year 2016 to \$81 million in fiscal year 2017 due to a decrease in Pell awards. There was an increase of \$805 thousand in investment income in fiscal year 2017 versus 2016 due to a general increase in interest rates of approximately .34%. Other non-operating revenues increased by \$4.3 million over the prior year due to the final close-out of the PFC.

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

Fiscal Year 2016:

Overall, operating revenues decreased by \$0.07 million or 0.06% in fiscal year 2016 as compared to fiscal year 2015 (Exhibit 2). The System experienced an increase of 6.1% or \$ 4.5 million in tuition and fee revenue as a result of an increase in enrollment. In addition, there was a slight increase of 0.5% or \$0.06 million in federal grants and contracts, and a decrease of 22.6% or \$2 million in state grants and contracts due to a decrease in funding of Texas Grant and TEOG from \$6.5 million in fiscal year 2015 to \$4.6 million in fiscal year 2016. Auxiliary revenues decreased \$3.4 million or 25.1% as a result of a decrease in bookstore commissions and international operations revenue, which was offset by an increase in facilities rental income.

Non-operating revenues decreased by 1.7% or \$6 million over the previous year (Schedule C). Increases in state appropriations of \$1.6 million and local property taxes of \$6.4 million were offset by decreases in Title IV Grant Revenue of \$9.6 million and gifts and other revenue of \$4.5 million. The total tax base in the System's taxing district increased from 2015 to 2016 by approximately 9.6%, resulting in an increase in the Maintenance & Operation portion of ad valorem taxes of \$8.5 million. A decrease in debt service needs resulted in a corresponding decrease in the Debt Service portion of ad valorem taxes in the amount of \$2 million. Title IV funds decreased from \$94 million in fiscal year 2015 to \$86 million in fiscal year 2016 due to a decrease in Pell awards. Other non-operating revenue decreased by \$4.1 million over the prior year due primarily to the defeasance of a portion of the System's 2006 Junior Lien Revenue Bonds and the outstanding bonds for the PFC Public Safety Institute and Alief projects.

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

Expenses

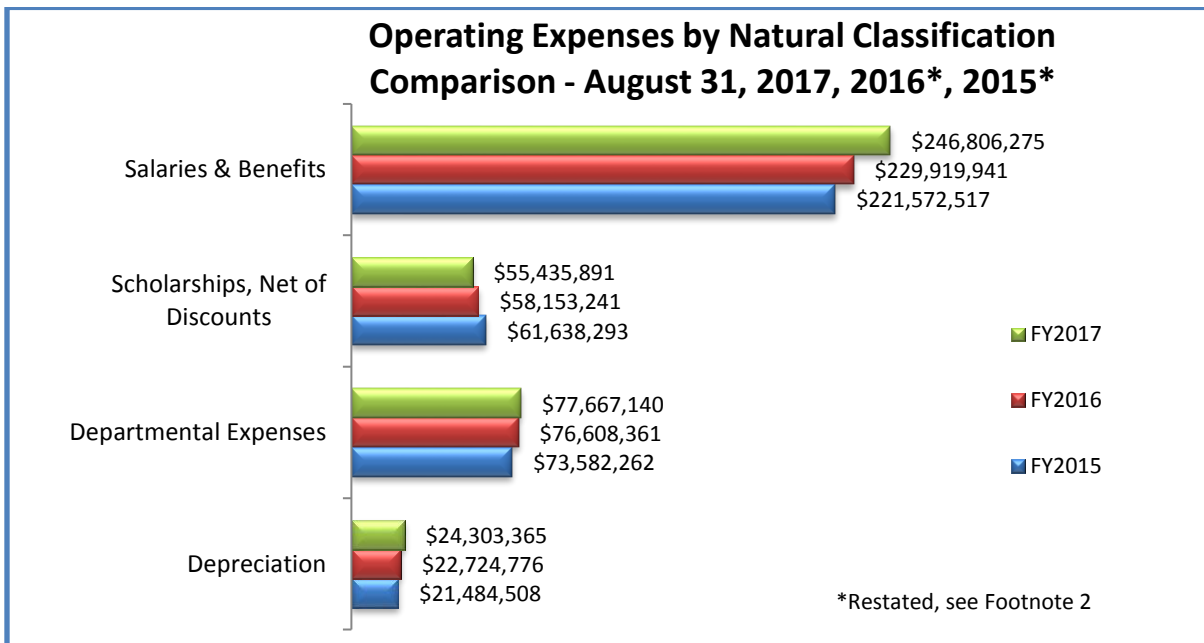
Total Operating Expenses were \$404.2 million in 2017 and \$387.4 million in 2016 for an increase of \$16.8 million due largely to employees' salary increases related to the implementation of year three recommendations from the compensation study and a 2% general salary increase.

Operating Expenses are presented in two formats: Natural Classification and Functional Classification. The Natural Classification is intended to show "what" the dollars were spent on and the Functional Classification shows "who" spent the dollars.

The schedules below provide a three-year historical record of the use of funds by natural and functional classification. The expenses reported include both restricted and unrestricted funds.

	Operating Expenses by Natural Classification					Change		
	2017	% of Total	2016*	% of Total	2015*	% of Total	2016 to 2017	2015 to 2016
Salaries & Benefits	\$246,806,275	61.1%	\$229,919,941	59.3%	\$ 221,572,517	58.6%	\$ 16,886,334	\$ 8,347,424
Scholarships, Net of Discounts	55,435,891	13.7%	58,153,241	15.0%	61,638,293	16.3%	(2,717,350)	(3,485,052)
Departmental Expenses	77,667,140	19.2%	76,608,361	19.8%	73,582,262	19.5%	1,058,779	3,026,099
Depreciation	24,303,365	6.0%	22,724,776	5.9%	21,484,508	5.7%	1,578,589	1,240,268
	<u>\$404,212,671</u>	100%	<u>\$387,406,319</u>	100%	<u>\$ 378,277,580</u>	100%	<u>\$ 16,806,352</u>	<u>\$ 9,128,739</u>

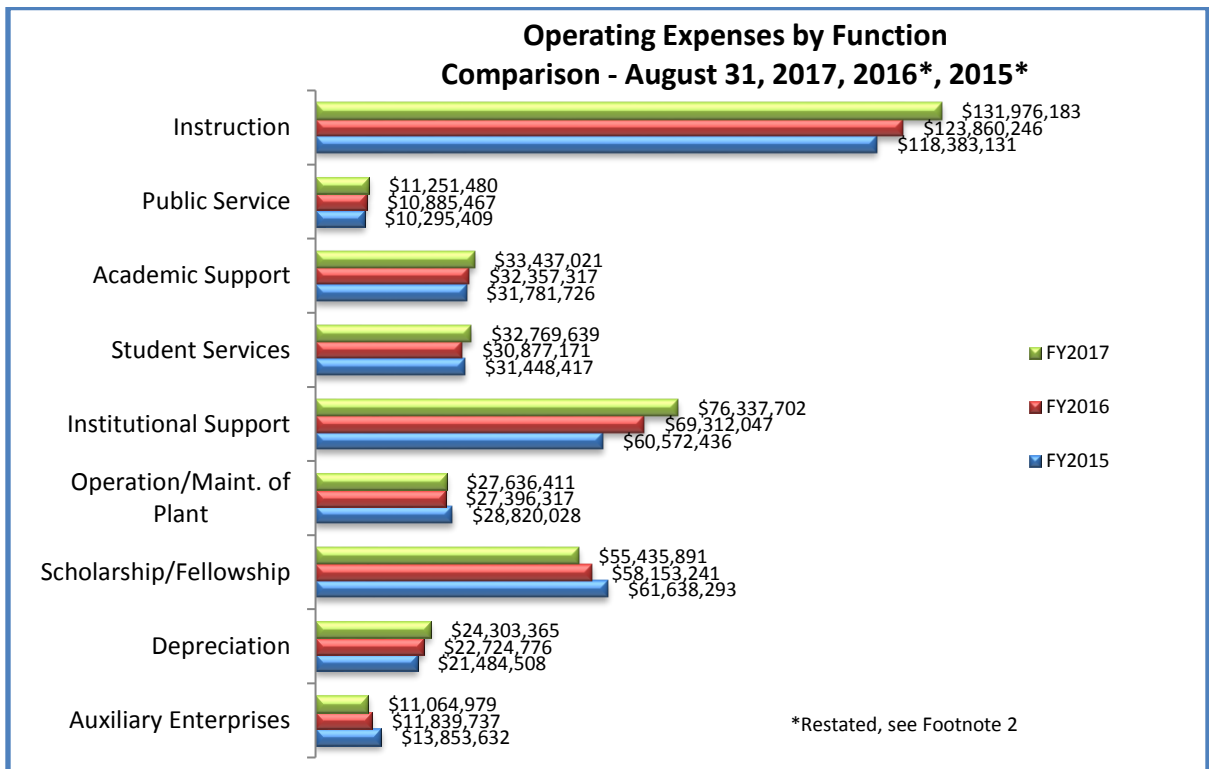
*Restated, see Footnote 2



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

	Operating Expenses by Functional Classification						Change	
	2017	% of Total	2016*	% of Total	2015*	% of Total	2016 to 2017	2015 to 2016
Instruction	131,976,183	32.7%	123,860,246	32.0%	118,383,131	31.3%	8,115,937	5,477,115
Public Service	11,251,480	2.8%	10,885,467	2.8%	10,295,409	2.7%	366,013	590,058
Academic Support	33,437,021	8.3%	32,357,317	8.4%	31,781,726	8.4%	1,079,704	575,591
Student Services	32,769,639	8.1%	30,877,171	8.0%	31,448,417	8.3%	1,892,468	(571,246)
Institutional Support	76,337,702	18.9%	69,312,047	17.9%	60,572,436	16.0%	7,025,655	8,739,611
Operation/Maint. of Plant	27,636,411	6.8%	27,396,317	7.1%	28,820,028	7.6%	240,094	(1,423,711)
Scholarship/Fellowship	55,435,891	13.7%	58,153,241	15.0%	61,638,293	16.3%	(2,717,350)	(3,485,052)
Depreciation	24,303,365	6.0%	22,724,776	5.9%	21,484,508	5.7%	1,578,589	1,240,268
Auxiliary Enterprises	11,064,979	2.7%	11,839,737	3.1%	13,853,632	3.7%	(774,758)	(2,013,895)
Total Expense	\$ 404,212,671	100%	\$ 387,406,319	100%	\$ 378,277,580	100%	\$ 16,806,352	\$ 9,128,739

*Restated, see Footnote 2



Fiscal Year 2017:

Operating expenses by functional classification increased in fiscal year 2017 by \$16.8 million or 4.3% compared to fiscal year 2016. The increases are primarily in the instructional and institutional support functional areas as a result of the continued initiatives begun in recent years that align with HCC's transformation activities. The major increases are related to salary and benefits, and the hiring of 12 new faculty members.

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

Fiscal Year 2016:

Operating expenses increased in fiscal year 2016 by \$9.1 million or 2.4% compared to fiscal year 2015. The increases are primarily in the instructional and institutional support functional areas as a result of continued initiatives that align with HCC's transformation activities. The major increases are related to salary and benefits and the redemption of the PFC Westgate Bonds Series 2005A.

The Foundation

As required by the reporting entity criteria in GASB Statement No. 61, HCC includes the Statements of Financial Position and Statements of Activities for the Foundation in its CAFR. For the fiscal year ended August 31, 2017, the Foundation's total assets were \$15.7 million, an amount that represents 1% of HCC's total assets for the same period. For the fiscal year ended August 31, 2016, the Foundation's total assets were \$14.7 million, which represents 1% of HCC's total assets for the same fiscal year. The income from the Foundation is partially used to fund scholarships and grants for the students of HCC. However, most of the Foundation's net assets are permanently restricted and therefore not available for HCC's direct use. Permanently restricted net assets of the Foundation were \$10.1 million and \$10 million for the fiscal years ended August 31, 2017 and 2016, respectively.

Statements of Cash Flows

The Statements of Cash Flows combines information from the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position to illustrate the effect of various actions of HCC on the availability and ultimate change in the amount of cash from one year to the next. The cash provided or used by operations, capital and non-capital financing, and investing activities combine to show the net change in cash and cash equivalents. The final portion of the Statements of Cash Flows reconciles the net income or loss from operations to the cash provided or used by operations.

For fiscal year 2017, net cash used in operating activities increased \$16.1 million due to increases in payments to suppliers and employees which were offset by decreases in scholarships and receipts from students. Net cash provided by non-capital financing activities increased \$7.8 million due primarily to an increase in receipts from ad valorem taxes which was offset by a decrease in receipts from Title IV funding. Net cash used in capital financing activities decreased \$15.7 million due to a decrease in the purchase of capital assets compared to fiscal year 2016 and the refinancing of debt in fiscal year 2017. Net cash provided by investing activities decreased \$124 million because the System is near the end of the 2013 CIP Bond program and more of the proceeds from sales and maturities of investments are available to reinvest.

The Cash Flow Statement for FY 2016 has been restated in accordance with the FY 2016 *Budget Requirements and Annual Financial Reporting Requirements for Texas Public Community Colleges (AFR)*. See footnote 2 of the financial statements for additional information regarding this restatement.

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

Capital Assets and Debt Administration

Changes in net capital assets are the result of acquisitions, improvements, disposals and changes in accumulated depreciation. In accordance with GASB Statements No. 34 and 35, the System does not record the cost of capital assets as an expense at the time of acquisition or completion of the asset, but rather shows the expense systematically over the expected life of the asset as depreciation expense. The amount shown in the accounting records for the value of the asset will decrease each year until the asset is fully depreciated or removed from service. As a result, the amount of capital assets shown in the Statements of Net Position may decrease from one year to another, even though new assets have been acquired during the year. Capital assets subject to depreciation include improvements to land (such as parking lots and signage), buildings and other real estate improvements, library books and furniture and equipment. Land is not depreciated.

Bond Funded Capital Improvement Program (in thousands)

Included below is a summary of the status of the 14 bond funded capital projects, inception through August 31, 2017. Some of these projects were completed in fiscal years 2016 and 2017 and are now being depreciated.

<u>Campus Name</u>	<u>Scope of Work</u>	<u>Sq. Ft.</u>	<u>Budget</u>	<u>Paid Expenditures thru 8/31/17</u>	<u>Committed</u>	<u>Balance</u>	<u>Completion Date or Anticipated Completion</u>
Central Campus	Culinary Bldg.	32,121	\$ 29,030	\$ 16,035	\$ 306	\$ 12,689	July-Sept. 2018
West Loop Campus	Parking Garage & Multi-Use Facility	3,000	23,580	23,097	45	438	April 2016
Felix Fraga Campus	New STEM Bldg.	36,432	15,900	11,303	2,652	1,945	January 2018
Eastside Campus	Workforce & Student Ctr.	44,448	31,150	29,398	1,038	714	May 2017
Coleman Campus	New Healthcare Facility	250,889	107,771	86,206	12,929	8,636	January 2018
Alief-Hayes Campus	Bldg. & Campus Improvements	92,738	13,329	13,307	21	1	January 2016
Brays Oak Campus	New Workforce Bldg.	28,268	11,825	11,154	374	297	December 2016
Stafford Campus	New Workforce Bldg.	57,424	24,080	22,843	40	1,197	September 2016
Alief-Hayes Campus	West Houston Institute	111,862	45,550	40,768	3,124	1,658	September 2017
Missouri City Campus	New CETH Bldg.	69,340	32,364	27,740	2,822	1,802	June 2017
Central South Campus	New Workforce Bldg.	64,959	24,850	21,968	1,535	1,347	October 2017
Acres Homes Campus	New Academic Bldg.	25,120	13,620	12,746	659	215	October 2017
Northline Campus	Instructional/Multi-Use Bldg. & Parking Garage	51,506	26,745	23,183	2,494	1,068	December 2017
North Forest Campus	New Workforce Bldg. & Renovations	46,306	46,850	25,482	8,859	12,509	August 2018
	Grand Total	914,413	\$ 446,644	\$ 365,230	\$ 36,898	\$ 44,516	

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

Capital Assets (Net of Depreciation)

	2017	2016*	2015*	Change	
				2016 to 2017	2015 to 2016
Capital Assets:					
Land	\$ 155,501,834	\$ 155,501,834	\$158,917,409	\$ -	\$ (3,415,575)
Construction in Progress	233,891,653	218,170,628	126,849,663	15,721,025	91,320,965
Buildings	672,517,059	589,907,023	548,667,150	82,610,036	41,239,873
Other Real Estate Improvements	95,583,959	91,174,948	86,389,216	4,409,011	4,785,732
Library Books	3,231,749	3,342,379	3,487,888	(110,630)	(145,509)
Furniture, Machinery, Vehicles and Other Equipment	29,981,435	24,638,349	19,922,238	5,343,086	4,716,111
Telecommunications and Peripheral Equipment	6,732,741	5,100,729	6,607,543	1,632,012	(1,506,814)
Total Capital Assets, Net	<u>\$ 1,197,440,430</u>	<u>\$1,087,835,890</u>	<u>\$950,841,107</u>	<u>\$ 109,604,540</u>	<u>\$136,994,783</u>

*Restated, see Footnote 2

Fiscal Year 2017:

There was a significant increase in net capital assets of approximately \$109.6 million from fiscal year 2016 to fiscal year 2017 as additional progress was made on the CIP projects funded with proceeds from the 2013 bond program. Several projects were completed during the year accounting for the \$92.4 million net increase in buildings, real estate improvements, and equipment (net of accumulated depreciation).

Fiscal Year 2016:

There was a significant increase in net capital assets of approximately \$136.9 million from fiscal year 2015 to fiscal year 2016. This increase was due primarily to a \$91.3 million increase in construction in progress related to projects funded with proceeds from the 2013 bond program. Three of these projects were completed during the year which was a primary factor in the \$50.7 million increase in buildings, real estate improvements and equipment (net of accumulated depreciation). There also was a \$3.4 million decrease in land from the sale of the Sienna Plantation property.

See Footnote 2 and 6 of the financial statements for additional information regarding the restatement and capital asset activity, respectively.

Outstanding Debt

	2017	2016	2015	Change	
				2016 to 2017	2015 to 2016
Outstanding Debt:					
Notes Payable	\$ 109,188,863	\$ 152,611,764	\$ 162,127,985	\$ (43,422,901)	\$ (9,516,221)
Revenue Bonds	240,546,862	215,271,644	232,296,438	25,275,218	(17,024,794)
PFC Lease Revenue Bonds	-	46,078,640	56,506,229	(46,078,640)	(10,427,589)
General Obligation Bonds	524,978,521	540,213,663	552,429,370	(15,235,142)	(12,215,707)
Maintenance Tax Bonds	34,717,506	-	-	34,717,506	-
Total Outstanding Debt	<u>\$ 909,431,752</u>	<u>\$ 954,175,711</u>	<u>\$ 1,003,360,022</u>	<u>\$ (44,739,959)</u>	<u>\$ (49,184,311)</u>

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

Fiscal Year 2017:

There was a \$44.7 million decrease in outstanding debt in fiscal year 2017. In addition to normal principal payments and amortization of note and bond premiums, the System refinanced some of its long-term debt by issuing combined fee revenue refunding bonds, maintenance tax refunding bonds and limited tax refunding bonds. The proceeds of these bonds were used to defease the PFC Lease Revenue Bonds (\$45.2 million), Maintenance Tax Notes (\$33.3 million), Limited Tax General Obligation Bonds (\$20.0 million) and Student Fee Revenue Bonds (\$11.6 million). These refinancings will reduce the System's debt service over the next 21 years and generate an economic gain of approximately \$19.5 million.

Fiscal Year 2016:

The \$49.2 million decrease in outstanding debt resulted from normal principal payments and amortizations of note and bond premiums.

See footnotes 7 through 11 of the financial statements for additional information regarding outstanding debt activity.

FUTURE OUTLOOK

State Appropriations

The level of state appropriations Texas community colleges historically received enabled the low tuition rates community colleges provide. Over time the State has decreased appropriations and benefits coverage and changed the revenue mix. Tuition and fees revenue from students and tax revenue from local property owners now comprise approximately 56% of the primary revenue streams used for operations. In the past, the State paid a significant portion of health benefits and all of the retirement contribution matches and provided an allocation adequate to cover instruction costs and growth. The Texas Legislature has now taken a different approach for community college appropriations. In 2014, it reduced the State's portion of retirement and health benefit coverage to 50% of eligible employees' retirement and health benefit costs. In the long term, without the State's full support, Texas community colleges may be forced to adjust the level of services to students and possibly significantly raise tuition and fees and ad valorem tax rates.

Ad Valorem Taxes

The ad valorem tax rate for calendar year 2017 (fiscal year 2018) remains the same as calendar year 2016 (fiscal year 2017) at \$0.100263. The debt service tax rate of \$0.023611 of assessed valuation is lower than last year's rate (\$0.024986) as the principal and interest payments for fiscal year 2018 are lower than the amounts due in fiscal year 2017. In contrast, the M & O tax rate for fiscal year 2018 (\$0.076652 per \$100 of assessed valuation) is slightly higher than the fiscal year 2017 M & O rate (\$0.075277). These adopted rates are in line with the Board's policy to minimize the tax burden on its constituents.

HCC's outlook for the foreseeable future continues to be positive as a result of its strategic leadership, fiscal management and stable local economy.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide the System's citizens, taxpayers, students, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Sr. Vice Chancellor of Finance and Administration's office at 3100 Main, Houston, Texas 77002. Additional information can also be found on HCC's Financial Transparency page at the following link: <http://www.hccs.edu/about-hcc/transparency/>.

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF NET POSITION
AUGUST 31, 2017 AND 2016

Exhibit 1

ASSETS	2017	2016
CURRENT ASSETS:		
Cash and Cash Equivalents (Note 4)	\$ 56,948,509	\$ 92,484,429
Accounts Receivable and Other Receivable, Net (Note 5)	29,535,958	31,436,399
Prepaid Charges	5,574,161	7,373,856
Restricted Short - Investments (Note 4)	49,986,230	70,022,515
Other Short - Term Investments (Note 4)	98,482,168	25,251,560
Total Current Assets	240,527,026	226,568,759
NON-CURRENT ASSETS:		
Restricted Cash and Cash Equivalents (Note 4)	67,075,456	121,496,272
Other Long - Term Investments (Note 4)	17,153,910	30,966,351
Restricted Long - Term Investments (Note 4)	6,134,531	65,180,299
Capital Assets, Net (Note 6)	1,197,440,430	1,087,835,890
Total Non-current Assets	1,287,804,327	1,305,478,812
TOTAL ASSETS	1,528,331,353	1,532,047,571
DEFERRED OUTFLOWS OF RESOURCES		
Pension	27,833,120	30,600,608
Advance Funding Valuation	9,252,957	7,936,830
Total Deferred Outflows of Resources	37,086,077	38,537,438
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable (Note 5)	17,132,772	16,092,590
Accrued Liabilities	17,963,522	26,568,653
Compensated Absences (Note 16)	3,473,298	2,919,816
Funds Held for Others	898,637	890,680
Unearned Revenues	41,873,377	48,156,775
Notes Payable - Current Portion (Note 7 and 11)	8,870,000	9,143,299
Bonds Payable - Current Portion (Note 7 and 8)	27,665,000	27,735,000
Total Current Liabilities	117,876,606	131,506,813
NON-CURRENT LIABILITIES:		
Deposits	440	440
Net Pension Liability (Note 7 and 14)	85,465,382	78,185,706
Notes Payable (Note 7 and 11)	100,318,863	143,468,465
Bonds Payable (Note 7 and 8)	772,577,889	773,828,947
Total Non-current Liabilities	958,362,574	995,483,558
TOTAL LIABILITIES	1,076,239,180	1,126,990,371
DEFERRED INFLOWS OF RESOURCES		
Pension	20,098,163	28,410,749
Advance Funding Valuation	2,618,052	722,950
Total Deferred Inflows of Resources	22,716,215	29,133,699
NET POSITION		
Net Investment in Capital Assets	374,110,855	318,343,549
Restricted for		
Expendable		
Loans	509,964	208,895
Debt Service	18,044,969	13,826,706
Unrestricted	73,796,247	82,081,789
TOTAL NET POSITION	\$ 466,462,035	\$ 414,460,939

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

Houston Community College Foundation Statements of Financial Position

<i>August 31,</i>	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 410,200	\$ 754,423
Contributions receivable	127,500	1,097,500
Investments, at fair value	4,968,696	3,933,283
Total current assets	5,506,396	5,785,206
Noncurrent assets		
Contributions receivable	100,000	-
Investments, at fair value, restricted for endowments	10,066,530	8,943,385
Total noncurrent assets	10,166,530	8,943,385
Total assets	\$ 15,672,926	\$ 14,728,591
Liabilities		
Current liabilities		
Due to related party	\$ 96,277	\$ 370,805
Total current liabilities	96,277	370,805
Commitments and contingencies		
Net assets		
Unrestricted	579,745	480,902
Temporarily restricted	4,920,687	3,896,374
Permanently restricted	10,076,217	9,980,510
Total net assets	15,576,649	14,357,786
Total liabilities and net assets	\$ 15,672,926	\$ 14,728,591

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

Exhibit 2

	2017	Restated 2016
OPERATING REVENUES:		
Tuition and Fees, Net of Discounts	\$ 78,928,147	\$ 79,625,900
Federal Grants and Contracts	14,092,252	13,844,635
State Grants and Contracts	6,848,608	6,790,982
Local Grants and Contracts	148,327	157,041
Non-Governmental Grants and Contracts	1,680,496	3,060,584
Sales and Services of Educational Activities	333,874	273,441
Auxiliary Enterprises	12,100,510	10,141,084
Total Operating Revenues (Schedule A)	114,132,214	113,893,667
OPERATING EXPENSES:		
Instruction	131,976,183	123,860,246
Public Service	11,251,480	10,885,467
Academic Support	33,437,021	32,357,317
Student Services	32,769,639	30,877,171
Institutional Support	76,337,702	69,312,047
Operations and Maintenance	27,636,411	27,396,317
Scholarships and Fellowships	55,435,891	58,153,241
Auxiliary Enterprises	11,064,979	11,839,737
Depreciation	24,303,365	22,724,776
Total Operating Expenses (Schedule B)	404,212,671	387,406,319
OPERATING LOSS	(290,080,457)	(273,512,652)
NON-OPERATING REVENUES (EXPENSES):		
State Appropriations	84,194,227	83,877,620
Maintenance Ad Valorem Taxes	145,108,181	133,580,908
Debt Service Ad Valorem Taxes	47,923,920	46,326,303
Gifts	1,875,561	2,025,562
Investment Income, Net	3,557,445	2,752,692
Interest on Capital Related Debt	(17,991,413)	(19,535,342)
Title IV Grants	80,531,464	86,117,577
Loss on Sale of Capital Assets	-	(5,517,511)
Other Non-operating Revenues	7,157,578	2,848,147
Other Non-operating Expenses	(10,275,410)	(8,920,785)
Net Non-operating Revenues (Schedule C)	342,081,553	323,555,171
Increase In Net Position	52,001,096	50,042,519
Net Position, Beginning of Year	414,460,939	364,418,420
Net Position, End of Year	\$ 466,462,035	\$ 414,460,939

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

Houston Community College Foundation Statement of Activities

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
For the year ended August 31,				
Support and income				
Contributions and donations	\$ 239,238	\$ 2,971,600	\$ 95,707	\$ 3,306,545
In-kind revenue	1,024,490	-	-	1,024,490
Interest and dividend income	108,605	227,660	-	336,265
Realized and unrealized gains				
on investments	-	210,511	-	210,511
Vending and other income	210,000	-	-	210,000
Net assets released from restrictions	2,385,458	(2,385,458)	-	-
Total support and income	3,967,791	1,024,313	95,707	5,087,811
Program services				
Scholarships	1,430,721	-	-	1,430,721
Grant distributions	950,196	-	-	950,196
Student service distributions	126,000	-	-	126,000
Other program services	320,686	-	-	320,686
Total program services	2,827,603	-	-	2,827,603
Support services				
Fundraising	493,252	-	-	493,252
Administration	548,093	-	-	548,093
Total support services	1,041,345	-	-	1,041,345
Total program and support services	3,868,948	-	-	3,868,948
Increase in net assets	98,843	1,024,313	95,707	1,218,863
Net assets, beginning of year	480,902	3,896,374	9,980,510	14,357,786
Net assets, end of year	\$ 579,745	\$ 4,920,687	\$ 10,076,217	\$ 15,576,649

Houston Community College Foundation Statement of Activities

<i>For the year ended August 31,</i>	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and income				
Contributions and donations	\$ 159,854	\$ 2,276,884	\$ 290,132	\$ 2,726,870
In-kind revenue	1,007,231	-	-	1,007,231
Interest and dividend income	-	299,642	-	299,642
Realized and unrealized losses on investments	-	(18,102)	-	(18,102)
Vending and other income	211,298	-	-	211,298
Net assets released from restrictions	2,800,093	(2,800,093)	-	-
Total support and income	4,178,476	(241,669)	290,132	4,226,939
Program services				
Scholarships	1,758,051	-	-	1,758,051
Grant distributions	903,307	-	-	903,307
Student service distributions	126,000	-	-	126,000
Total program services	2,787,358	-	-	2,787,358
Support services				
Fundraising	201,788	-	-	201,788
Administration	1,331,096	-	-	1,331,096
Total support services	1,532,884	-	-	1,532,884
Total program and support services	4,320,242	-	-	4,320,242
Loss on receivable write-off	-	1,250,000	-	1,250,000
Decrease (increase) in net assets	(141,766)	(1,491,669)	290,132	(1,343,303)
Net assets, beginning of year	622,668	5,388,043	9,690,378	15,701,089
Net assets, end of year	\$ 480,902	\$ 3,896,374	\$ 9,980,510	\$ 14,357,786

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

Exhibit 3

	2017	Restated 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	\$ 89,275,669	\$ 91,113,056
Receipts from grants and contracts	21,267,123	21,580,199
Payments to suppliers for goods and services	(75,803,119)	(70,987,496)
Payments to or on behalf of employees	(242,388,751)	(230,073,093)
Payments for scholarships and fellowships	(54,571,881)	(57,864,342)
Other Non-operating revenue	1,247,916	1,348,925
Net cash used in operating activities	(260,973,043)	(244,882,751)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from ad valorem taxes	191,999,389	178,003,628
Receipts from state allocations	84,194,227	83,877,620
Receipts from private gifts	1,875,561	2,025,562
Received Federal Direct Student Loans (SA: Federal note 4)	81,363,642	77,814,345
Disbursement of Federal Direct Student Loans (SA: Federal note 4)	(81,363,642)	(77,814,345)
Receipts from Title IV	80,531,464	86,117,577
Other receipts	241,304	978,677
Net cash provided by non-capital financing activities	358,841,945	351,003,064
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Receipts from the issuance of capital debt	118,867,071	-
Bond issue cost paid on new capital debt issue	(905,106)	-
Proceeds from sale of capital assets (Land)	-	10,519,795
Purchase of capital assets	(129,238,315)	(148,203,086)
Proceeds from non-operating capital revenues	(4,602,169)	-
Payments of capital related expenses	(4,229,609)	(4,562,936)
Payments on capital debt and leases - principal	(151,573,299)	(43,198,299)
Payments on capital debt and leases - interest and fees	(39,365,543)	(41,338,648)
Net cash used in capital financing activities	(211,046,970)	(226,783,174)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	100,536,519	163,584,637
Interest on investments	3,557,445	3,515,104
Purchase of investments	(80,872,632)	(19,873,941)
Net cash provided by investing activities	23,221,332	147,225,800
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(89,956,736)	26,562,939
CASH AND CASH EQUIVALENTS - BEG OF YEAR (EXHIBIT 1)	213,980,701	187,417,762
CASH AND CASH EQUIVALENTS - END OF YEAR (EXHIBIT 1)	\$ 124,023,965	\$ 213,980,701

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

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

Exhibit 3

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED
IN OPERATING ACTIVITIES**

	<u>2017</u>	<u>Restated 2016</u>
Operating loss	\$ (290,080,457)	\$ (273,512,652)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	24,303,365	22,724,776
Bad debt expense	1,108,175	981,656
Changes in assets and liabilities:		
Accounts receivables and other receivables	686,512	8,950,764
Prepaid charges	1,799,695	(2,714,610)
Accounts payables and accruals	1,942,209	7,838,590
Deferred outflows	2,767,488	(19,301,593)
Deferred inflows	(8,312,586)	7,784,210
Unearned revenues	(3,028,020)	(8,802,252)
Compensated absences	553,482	393,733
Net pension liability	7,279,676	10,757,334
Funds held for others	7,418	17,293
	<u>29,107,414</u>	<u>28,629,901</u>
Total adjustments		
Net cash used in operating activities	<u>(260,973,043)</u>	<u>(244,882,751)</u>

Schedule of non-cash investing, capital and financing activities:

Payments made directly by state for benefits	13,899,477	13,708,843
Increase in fair value of investments	29,237	18,230
Amortization of premium on bonds	6,800,425	5,453,423
Amortization of deferred charges on bonds refunding	802,460	806,992
Net non-cash investing, capital and financing activities	<u>\$ 21,531,599</u>	<u>\$ 19,987,488</u>

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY

Houston Community College System (“HCC” or the “System”) was established on May 8, 1971, in accordance with the laws of the State of Texas, and serves the educational needs of its service area as outlined in Chapter 130 of the Texas Education Code. The service area includes the Houston Independent School District, Alief Independent School District, Katy Independent School District, Spring Branch Independent School District, Stafford Municipal School District, and the portions of Fort Bend Independent School District located in the cities of Houston, Pearland and Missouri City. Those portions of the service area located in the Katy and Spring Branch Independent School Districts lie outside of the taxing authority of HCC. The System is a comprehensive public two-year institution offering academic, general, occupational, development, and continuing adult education programs through a network of locations.

HCC is considered to be a special purpose, primary government involved in business-type activities as defined by the Governmental Accounting Standards Board (GASB). While the System receives funding from local, state and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

GASB gives guidance in determining whether certain organizations related to the System should be reported as component units based on the nature and significance of their relationship with the primary government. Using the criteria established by Governmental Accounting Standards Board (“GASB”) Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*, and GASB No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14*, the System’s management has determined that the Houston Community College Foundation (the “Foundation”) and the Houston Community College System Public Facility Corporation (“PFC”) should be reported as component units of the System using a discrete and blended presentation, respectively. Note 23 to the financial statements describes the Foundation and PFC and their financial statement presentation in more detail.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

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

Basis of Accounting

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

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

Tuition Discounting

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Budgetary Data

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

Cash and Cash Equivalents

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

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are permitted only to report deferred outflows of resources in circumstances specifically authorized by the GASB. The System has deferred charges for pension and advanced funding valuation.

Investments

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

Prepaid Charges

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. The System reports depreciation under a single line-item, as would be done by an entity reporting as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets and is not allocated to the functional expenditure categories. The threshold for capitalization of assets is \$5,000. Renovations of \$100,000 to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred. The following estimated useful lives are used for depreciable assets:

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

Interest on Capital Related Debt

Interest expense on capital related debt totaled \$32,086,098 and \$36,746,728 for fiscal years 2017 and 2016, respectively. Of these amounts, \$14,094,686 and \$17,211,387 was capitalized to construction in progress for fiscal years 2017 and 2016, respectively, in accordance with provisions of GASB Statement No. 62.

Pensions

The System participates in the Teacher Retirement System of Texas (TRS) pension plan, a multiple-employer cost-sharing-defined benefit pension plan with a special funding situation. The fiduciary net position of TRS has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so is not recognized as an inflow of resources (revenue) until that time. Governments are permitted only to report deferred inflows of resources in circumstances specifically authorized by the GASB. The System has deferred inflows of resources for pension and advanced funding valuation.

Unearned Revenues

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

The System is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable Organizations, etc.* The System had no unrelated business income tax liability for the years ended August 31, 2017 and 2016.

Estimates

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

Operating and Non-operating Revenues and Expenses

The System presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB. Operating revenues and expenses generally result from providing services in connection with the System's principal ongoing operations. The principal operating revenues are tuition and related fees and contracts and grants. The major non-operating revenues are allocations from the State, property tax collections and Title IV financial aid funds. Property taxes are recognized as revenues in the year for which they are levied. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. The bookstore and vending machine operations are owned and managed by third parties.

Adoption of New Accounting Standards

Effective with fiscal year 2017, the System implemented GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No.68 and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 impacted the required supplemental information schedule related to pension.

The GASB statements listed below were reviewed, but found not to be applicable to the System at this time.

GASB Statement No. 77, *Tax Abatement Disclosure*.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No 14*.

Effective with fiscal year 2016, the System implemented the following:

GASB Statement No 72, *Fair Value Measurement and Application*.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Pending Pronouncements

In June 2016, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. This Statement is effective for fiscal years beginning after June 15, 2017.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance when a government is a beneficiary of the agreement. The Statement requires a government that receives resources pursuant to an irrevocable split-interest agreement to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires governments to recognize revenue when resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* – This statement Standardizes requirements on the recognition and measurement for asset retirement obligations, other than landfills, to reduce inconsistency in financial reporting and enhance comparability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this Statement are effective for periods beginning after June 15, 2017.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

The System has not yet completed the process of evaluating the impact of GASB Statements nos. 75, 81, 83, 84, 85, 86 and 87 on its financial statements.

Prior Year Restatements

The Cash Flow Statement for FY 2016 has been restated in accordance with the FY 2016 *Budget Requirements and Annual Financial Reporting Requirements for Texas Public Community Colleges (AFR)*. In utilizing the FY 2016 AFR, there were several reclassifications among categories as well as other errors and omissions. In addition, Other Receipts was added as a new line item in the Cash Flows from Non-capital Financing Activities section and transactions related to the Public Facility Corporation were eliminated. As a result of restating the FY 2016 Statement of Cash Flow, the Schedule of Operating Revenues (Schedule A), Schedule of Non-operating Revenues and Expenses (Schedule C) and Statement of Revenues, Expenses and Changes in Net Position (Exhibit 2) were also restated.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The following adjustments were made to the August 31, 2016 Statement of Cash Flows:

	As Originally Reported August 31, 2016	Adjustments	As Restated August 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from students and other customers	\$ 81,221,479	\$ 9,891,577	\$ 91,113,056
Receipts from grants and contracts	22,618,033	(1,037,834)	21,580,199
Payments to suppliers for goods and services	(75,991,377)	5,003,881	(70,987,496)
Payments to or on behalf of employees	(230,420,761)	347,668	(230,073,093)
Payments for scholarships and fellowships	(58,037,094)	172,752	(57,864,342)
Other Non-operating Revenue	1,350,610	(1,685)	1,348,925
Net cash used in operating activities	<u>(259,259,110)</u>	<u>14,376,359</u>	<u>(244,882,751)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Receipts from ad valorem taxes	178,753,952	(750,324)	178,003,628
Receipts from state allocations	83,877,620	-	83,877,620
Receipts from private gifts	2,025,562	-	2,025,562
Received Federal Direct Student Loans (SA: Federal note 3)	77,814,345	-	77,814,345
Disbursement of Federal Direct Student Loans (SA: Federal note 3)	(77,814,345)	-	(77,814,345)
Receipts from Title IV	87,558,798	(1,441,221)	86,117,577
Other receipts	-	978,677	978,677
Receipts from Nursing	1,124,128	(1,124,128)	-
Net cash provided by non-capital financing activities	<u>353,340,061</u>	<u>(2,336,995)</u>	<u>351,003,064</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Receipts from the issuance of capital debt	-	-	-
Bond issue cost paid on new capital debt issue	-	-	-
Proceeds from sale of capital assets (Land)	10,519,795	-	10,519,795
Purchase of capital asset	(135,035,686)	(13,167,400)	(148,203,086)
Payments of capital related expenses	(4,723,893)	160,957	(4,562,936)
Payments on capital debt and leases - principal	(43,198,299)	-	(43,198,299)
Payments on capital debt and leases - interest and fees	(41,338,299)	(349)	(41,338,648)
Net cash used in capital financing activities	<u>(213,776,382)</u>	<u>(13,006,793)</u>	<u>(226,783,174)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	162,617,208	967,429	163,584,637
Interest on investments	3,515,104	-	3,515,104
Purchase of investments	(19,873,941)	-	(19,873,941)
Net cash provided by investing activities	<u>146,258,370</u>	<u>967,428</u>	<u>147,225,800</u>
INCREASE IN CASH AND CASH EQUIVALENTS	26,562,939	-	26,562,939
CASH AND RESTRICTED CASH EQUIVALENTS - END OF YEAR (EXHIBIT 1)	<u>187,417,762</u>	<u>-</u>	<u>187,417,762</u>
CASH AND RESTRICTED CASH EQUIVALENTS - END OF YEAR (EXHIBIT 1)	<u>\$ 213,980,701</u>	<u>\$ -</u>	<u>\$ 213,980,701</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

	As Originally Reported August 31, 2016	Adjustments	As Restated August 31, 2016
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss	\$ (276,397,385)	\$ 2,884,733	\$ (273,512,652)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense	22,724,776	-	22,724,776
Deferred outflows/inflows resources	10,782,586	(10,782,586)	-
Bad debt expense	2,049,712	(1,068,056)	981,656
Changes in assets and liabilities:			-
Accounts receivables and other receivables	(9,997,735)	18,948,499	8,950,764
Prepaid charges	2,714,607	(5,429,217)	(2,714,610)
Accounts payables and accruals	(19,245,938)	27,084,528	7,838,590
Deferred outflows	-	(19,301,593)	(19,301,593)
Deferred inflows	-	7,784,210	7,784,210
Unearned revenues	8,170,658	(16,972,910)	(8,802,252)
Compensated Absences	-	393,733	393,733
Net Pension Liability	-	10,757,334	10,757,334
Funds held for others	(60,392)	77,685	17,293
Total adjustments	17,138,275	11,491,627	28,629,901
Net cash used in operating activities	\$ (259,259,110)	\$ 14,376,360	\$ (244,882,751)

Schedule of non-cash investing, capital and financing activities:

Payments made directly by state for benefits	13,708,843	-	13,708,843
Increase in fair value of investments	18,230	-	18,230
Amortization of premium on bonds	5,453,423	-	5,453,423
Amortization of deferred charges on bonds refunding	806,992	-	806,992
Net non-cash investing, capital and financing activities	\$ 19,987,488	\$ -	\$ 19,987,488

The statement of revenues, expenses and changes in net position (Exhibit 2) has been restated for fiscal year 2016 to appropriately present property tax expenses of \$2,472,068 as non-operating versus operating expenses. This is consistent with the presentation of the property tax revenues which are considered non-operating revenues. Furthermore, Nursing Shortage Reduction revenue of \$412,665 was restated as operating revenue versus non-operating revenue. These restatements are also reflected in the Schedule of Operating Revenues (Schedule A), Schedule of Operating Expenses (Schedule B) and the Schedule of Non-operating Revenues and Expenses (Schedule C).

	As Originally Reported August 31, 2016	Adjustments	As Restated August 31, 2016
OTHER OPERATING REVENUES:			
State Grants and Contracts	\$ 6,378,317	\$ 412,665	\$ 6,790,982
Total Operating Revenues (Schedule A)	\$ 113,481,002	\$ 412,665	\$ 113,893,667
OPERATING EXPENSES:			
Institutional Support	\$ 71,784,115	\$ (2,472,068)	\$ 69,312,047
Total Operating Expenses (Schedule B)	\$ 389,878,387	\$ (2,472,068)	\$ 387,406,319
OPERATING LOSS	\$ (276,397,385)	\$ 2,884,733	\$ (273,512,652)
NON-OPERATING REVENUES (EXPENSES):			
Other Non-operating Expenses	\$ (6,448,717)	\$ (2,472,068)	\$ (8,920,785)
Nursing Shortage Reduction	\$ 412,665	\$ (412,665)	\$ -
Net Non-operating Revenues (Schedule C)	\$ 326,439,904	\$ (2,884,733)	\$ 323,555,171

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In Note 6, Capital Assets, the beginning balances of the Land and Building categories for fiscal years 2016 and 2015 have been restated to appropriately reflect the portion of the purchase of the Conn’s West Loop property in February 2015 that represented the value of the land (\$1.63 million).

	<u>As Originally Reported August 31, 2016</u>	<u>Adjustments</u>	<u>As Restated August 31, 2016</u>
Not Depreciated:			
Land	\$ 153,867,859	\$ 1,633,975	\$ 155,501,834
Depreciable Capital Assets:			
Building	\$ 695,881,574	\$ (1,633,975)	\$ 694,247,599
Total Building and Other Real Estate Improvements	\$ 812,505,094	\$ (1,633,975)	\$ 810,871,119
Net Depreciable Capital Assets	\$ 715,797,402	\$ (1,633,975)	\$ 714,163,428

	<u>As Originally Reported August 31, 2015</u>	<u>Adjustments</u>	<u>As Restated August 31, 2015</u>
Not Depreciated:			
Land	\$ 157,283,434	\$ 1,633,975	\$ 158,917,409
Depreciable Capital Assets:			
Building	\$ 646,042,903	\$ (1,633,975)	\$ 644,408,928
Total Building and Other Real Estate Improvements	\$ 753,050,645	\$ (1,633,975)	\$ 751,416,670
Net Depreciable Capital Assets	\$ 666,708,011	\$ (1,633,975)	\$ 665,074,036

NOTE 3 – AUTHORIZED INVESTMENTS

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS

The carrying amount (book balance) of the System’s demand deposits with financial institutions as of August 31, 2017 and 2016 was \$11,588,672 and \$6,330,120, respectively, and bank balances equaled \$14,262,352 and \$17,499,232, respectively. Of the bank balance for FY 2017, \$250,000 is covered by FDIC and \$14,012,352 was covered by collateral pledged in the System’s name. Of the bank balance for fiscal year 2016, \$250,000 was covered by FDIC and \$17,249,232 was covered by collateral pledged in the System’s name. For both fiscal years, the collateral was held in an account of an independent third party agent.

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

	<u>2017</u>	<u>2016</u>
Bank Deposits:		
Demand Deposits	\$ 11,588,672	\$ 6,330,120
Cash and Cash Equivalents:		
Petty Cash on Hand	49,992	50,057
Cash at Bank	1,651,025	8,489,279
Money Market Funds	22,146,333	30,913,829
High Yield Savings	3,590	854,897
TexPool	60,027,375	150,648,395
Lone Star	28,556,978	16,694,124
	<u>112,435,293</u>	<u>207,650,581</u>
Total Cash and Deposits	124,023,965	213,980,701
Restricted Cash and Cash Equivalents	<u>(67,075,456)</u>	<u>(121,496,272)</u>
Cash and Cash Equivalents (Exhibit 1)	<u>\$ 56,948,509</u>	<u>\$ 92,484,429</u>

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

<u>Type of Security</u>	<u>Fair Value at August 31,</u>	
	<u>2017</u>	<u>2016</u>
Fannie Mae ARM pool	\$ 64,284	\$ 89,821
U.S. Government Securities - Treasuries	15,005,061	17,996,041
U.S. Government Securities - Agency	96,437,494	83,084,863
Certificates of Deposit	60,250,000	90,250,000
Total Investments	<u>171,756,839</u>	<u>191,420,725</u>
Total Cash and Deposits	<u>124,023,965</u>	<u>213,980,701</u>
Total Deposits and Investments	<u>\$ 295,780,804</u>	<u>\$ 405,401,426</u>
Cash and Cash Equivalents (Exhibit 1)	56,948,509	92,484,429
Restricted Cash and Cash Equivalents (Exhibit 1)	67,075,456	121,496,272
Restricted Long - Term Investment (Exhibit 1)	6,134,531	65,180,299
Restricted Short - Term Investment (Exhibit 1)	49,986,230	70,022,515
Other Short - Term Investments (Exhibit 1)	98,482,168	25,251,560
Other Long - Term Investments (Exhibit 1)	17,153,910	30,966,351
Total Deposits and Investments	<u>\$ 295,780,804</u>	<u>\$ 405,401,426</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

As of August 31, 2017 Houston Community College System had the following investments and maturities:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity(Years)</u>
Fannie Mae ARM pool	\$ 64,284	16.46
U.S. Government Securities - Treasuries	15,005,061	0.24
U.S. Government Securities - Agency	96,437,494	0.63
Investment Pools	88,584,353	0.00
Certificates of Deposit	60,250,000	0.57
Cash and Money Market Funds	35,439,612	0.00
Total Fair Value	<u>\$ 295,780,804</u>	
Portfolio weighted average maturity		0.35

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

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

The credit quality (ratings) and concentration of credit exposure of securities in excess of 5% of total investments as of August 31, 2017 is as follows:

	<u>Credit Rating</u>	<u>Credit Exposure</u>
Freddie Mac (Federal Home Loan Mortgage Corporation)	AAA	11%
FHLB (Federal Home Bank)	AAA	7%
FFCB (Federal Farm Credit Bank)	AAA	10%

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

The Lone Star Investment Pool (Lone Star) is a public funds investment pool established in accordance with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 225, Texas Government Code. Lone Star operates in a manner consistent with the Securities and Exchange Commission’s rule 2a7of the Investment Company Act of 1940. 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 uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in Lone Star is the same as the value in Lone Star shares.

Fair Value of Investments

HCC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

As required by GASB Statement No. 72, *Fair Value Measurement and Application*, the following table presents the financial instruments carried on the statements of financial position by caption and by level of inputs within the valuation hierarchy as of August 31, 2017 and 2016.

<u>Description</u>	Assets at fair value as of August 31, 2017			
	Level 1	Level 2	Level 3	FY 2017
Fannie Mae ARM pool	\$ -	\$ 64,284	\$ -	\$ 64,284
U.S. Government Securities - Treasuries	-	15,005,061	-	15,005,061
U.S. Government Securities - Agency	-	96,437,494	-	96,437,494
Total	\$ -	\$ 111,506,839	\$ -	\$ 111,506,839 *

<u>Description</u>	Assets at fair value as of August 31, 2016			
	Level 1	Level 2	Level 3	FY 2016
Fannie Mae ARM pool	\$ -	\$ 89,821	\$ -	\$ 89,821
U.S. Government Securities - Treasuries	-	17,996,041	-	17,996,041
U.S. Government Securities - Agency	-	83,084,863	-	83,084,863
Total	\$ -	\$ 101,170,725	\$ -	\$ 101,170,725 *

* This amount excludes investments in local government pools which are recorded at amortized cost. These investments total \$88,584,353 and \$ 167,342,519 as of August 31, 2017 and August 31, 2016 respectively.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables at August 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Accounts Receivable	\$ 1,544,369	\$ 1,430,766
Grants Receivable		
Federal Grants	2,002,807	1,472,756
State Grants	636,062	401,847
Local Grants	114,778	183,644
Private Grants	17,560	81,983
Other Receivables	3,221,522	2,737,457
Student Receivables	35,110,849	36,226,141
Taxes Receivable	<u>7,237,540</u>	<u>7,548,014</u>
Total Receivables	49,885,487	50,082,608
Less Allowance for Doubtful Accounts		
Accounts Receivable	(154,866)	(287,236)
Student Receivables	(15,962,767)	(13,922,357)
Taxes Receivable	<u>(4,231,896)</u>	<u>(4,436,616)</u>
Total Allowance for Doubtful Accounts	\$ (20,349,529)	\$ (18,646,209)
Total Receivables, Net of Allowances	<u><u>29,535,958</u></u>	<u><u>31,436,399</u></u>

Payables

Payables at August 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Vendor Payables	1,495,488	\$ 3,682,689
Salaries & Benefits Payable	2,577,581	448,117
Student Payables	3,666,092	4,070,797
Retainage Payable	7,619,263	6,168,499
Other Payables	<u>1,774,348</u>	<u>1,722,488</u>
Total Accounts Payables	\$ <u><u>17,132,772</u></u>	\$ <u><u>16,092,590</u></u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2017 was as follows:

	Restated* Balance August 31, 2016	Increases	Decreases/ Transfers	Balance August 31, 2017
Not depreciated:				
Land	\$ 155,501,834	\$ -	\$ -	\$ 155,501,834
Construction in Progress	218,170,628	121,272,568	(105,551,543)	233,891,653
Subtotal	373,672,462	121,272,568	(105,551,543)	389,393,487
Depreciable Capital Assets:				
Buildings	694,247,599	94,201,796	-	788,449,395
Other Real Estate Improvements	116,623,520	9,690,736	-	126,314,256
Total Building and Other Real Estate Improvements	810,871,119	103,892,532	-	914,763,651
Library Books	18,279,071	313,809	(55,520)	18,537,360
Furniture, Machinery, Vehicles and Other Equipment	87,393,830	11,195,329	(1,470,786)	97,118,373
Telecommunications and Peripheral Equipment	37,196,197	3,040,868	(77,518)	40,159,547
Subtotal	953,740,217	118,442,538	(1,603,824)	1,070,578,931
Accumulated depreciation:				
Buildings	104,340,576	11,591,760	-	115,932,336
Other Real Estate Improvements	25,448,572	5,281,725	-	30,730,297
Total Building and Other Real Estate Improvements	129,789,148	16,873,485	-	146,662,633
Library Books	14,936,692	424,439	(55,520)	15,305,611
Furniture, Machinery, Vehicles and Other Equipment	62,755,481	5,596,585	(1,215,128)	67,136,938
Telecommunications and Peripheral Equipment	32,095,468	1,408,856	(77,518)	33,426,806
Subtotal	239,576,789	24,303,365	(1,348,166)	262,531,988
Net Depreciable Capital Assets	714,163,428	94,139,173	(255,658)	808,046,943
Net Capital Assets	<u>\$ 1,087,835,890</u>	<u>\$ 215,411,741</u>	<u>\$ (105,807,201)</u>	<u>\$ 1,197,440,430</u>

* See Footnote 2 of the Financial Statements for information regarding these restatements.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS - CONTINUED

Capital asset activity for the year ended August 31, 2016 was as follows:

	Restated* Balance August 31, 2015	Increases	Decreases/ Transfers	Restated* Balance August 31, 2016
Not depreciated:				
Land	\$ 158,917,409	\$ 356,119	\$ (3,771,694)	\$ 155,501,834
Construction in Progress	126,849,663	157,094,409	(65,773,444)	218,170,628
Subtotal	285,767,072	157,450,528	(69,545,138)	373,672,462
Depreciable Capital Assets:				
Buildings	644,408,928	60,201,159	(10,362,488)	694,247,599
Other Real Estate Improvements	107,007,742	14,220,723	(4,604,945)	116,623,520
Total Building and Other Real Estate Improvements	751,416,670	74,421,882	(14,967,433)	810,871,119
Library Books	18,052,385	329,919	(103,233)	18,279,071
Furniture, Machinery, Vehicles and Other Equipment	78,062,976	9,366,959	(36,105)	87,393,830
Telecommunications and Peripheral Equipment	37,196,197	-	-	37,196,197
Subtotal	884,728,228	84,118,760	(15,106,771)	953,740,217
Accumulated depreciation:				
Buildings	95,741,778	11,261,640	(2,662,842)	104,340,576
Other Real Estate Improvements	20,618,526	4,830,046	-	25,448,572
Total Building and Other Real Estate Improvements	116,360,304	16,091,686	(2,662,842)	129,789,148
Library Books	14,564,497	475,428	(103,233)	14,936,692
Furniture, Machinery, Vehicles and Other Equipment	58,140,738	4,650,848	(36,105)	62,755,481
Telecommunications and Peripheral Equipment	30,588,654	1,506,814	-	32,095,468
Subtotal	219,654,193	22,724,776	(2,802,180)	239,576,789
Net Depreciable Capital Assets	665,074,035	61,393,984	(12,304,591)	714,163,428
Net Capital Assets	\$ 950,841,107	\$ 218,844,512	\$ (81,849,729)	\$ 1,087,835,890

* See Footnote 2 of the Financial Statements for information regarding these restatements.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – NON-CURRENT LIABILITIES

Non-current liability activity for the years ended August 31, 2017 and 2016 was as follows:

	Balance as of September 1, 2016	Additions	Reductions	Balance as of August 31, 2017	Current Portion	Noncurrent Portion
Long-Term Notes Payable	\$ 152,611,764	\$ 2,395,310	\$ (45,818,211)	\$ 109,188,863	\$ 8,870,000	\$ 100,318,863
Bonds:						
Revenue Bonds	215,271,644	60,419,216	(35,143,998)	240,546,862	17,630,000	222,916,862
PFC Lease Revenue	46,078,640	-	(46,078,640)	-	-	-
General Obligation Bonds	540,213,663	20,647,337	(35,882,479)	524,978,521	10,035,000	514,943,521
Maintenance Tax Bonds	-	35,405,208	(687,702)	34,717,506	-	34,717,506
Total Bonds	<u>801,563,947</u>	<u>116,471,761</u>	<u>(117,792,819)</u>	<u>800,242,889</u>	<u>27,665,000</u>	<u>772,577,889</u>
Deposits	440	-	-	440	-	440
Net Pension Liability	<u>78,185,706</u>	<u>7,279,676</u>	<u>-</u>	<u>85,465,382</u>	<u>-</u>	<u>85,465,382</u>
Total Noncurrent Liabilities	<u>\$ 1,032,361,857</u>	<u>\$ 126,146,747</u>	<u>\$ (163,611,030)</u>	<u>\$ 994,897,574</u>	<u>\$ 36,535,000</u>	<u>\$ 958,362,574</u>
	Balance as of September 1, 2015	Additions	Reductions	Balance as of August 31, 2016	Current Portion	Noncurrent Portion
Long-Term Notes Payable	\$ 162,127,985	\$ -	(9,516,221)	\$ 152,611,764	\$ 9,143,299	\$ 143,468,465
Bonds:						
Revenue Bonds	232,296,438	-	(17,024,794)	215,271,644	15,480,000	199,791,644
PFC Lease Revenue	56,506,229	-	(10,427,589)	46,078,640	2,110,000	43,968,640
General Obligation Bonds	552,429,370	-	(12,215,707)	540,213,663	10,145,000	530,068,663
Total Bonds	<u>841,232,037</u>	<u>-</u>	<u>(39,668,090)</u>	<u>801,563,947</u>	<u>27,735,000</u>	<u>773,828,947</u>
Deposits	440	-	-	440	-	440
Net Pension Liability	<u>67,428,372</u>	<u>10,757,334</u>	<u>-</u>	<u>78,185,706</u>	<u>-</u>	<u>78,185,706</u>
Total Noncurrent Liabilities	<u>\$ 1,070,788,834</u>	<u>\$ 10,757,334</u>	<u>\$ (49,184,311)</u>	<u>\$ 1,032,361,857</u>	<u>\$ 36,878,299</u>	<u>\$ 995,483,558</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE

Student Fee Revenue Bonds:

The System issued several Student Fee Revenue Bonds as Senior Lien Bonds or Junior Lien Bonds during the fiscal years 2006 through 2016 with interest rates ranging from .31% to 5.25% and maturities ranging from 2007 through 2031. Debt service requirements are payable solely from and secured by a first lien on certain pledged revenues which include general fees, out-of-district fees and any other revenues or receipts of the System which may, in the future, be pledged to the payment of the bonds. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indenture. All authorized bonds have been issued. The System has never defaulted on any bond or interest payment.

Public Facility Corporation Lease Revenue Bonds:

2007 Issuance

The Houston Community College System Public Facility Corporation (the “PFC”) issued \$58,885,000 in Lease Revenue Bonds, Series 2007 on February 1, 2007 with interest rates ranging from 4.00% to 5.62%. The Bonds were issued at a premium of \$3,094,498. Bond maturities range from April 15, 2009 through April 15, 2031. Bonds maturing on or after April 15, 2018 are subject to redemption on April 15, 2017 or any date thereafter, prior to their scheduled maturities. Bonds maturing in the years 2020, 2022, 2027 and 2031 are subject to mandatory redemption prior to maturity on various dates. Proceeds of the Bonds were used to construct a four-story 112,000 square foot building for the System’s Northline Mall Campus. These Bonds were defeased on September 21, 2016 with the issuance of the Combined Fee Revenue Refunding Bonds, Series 2016. See Note 9.

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

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

Under terms of the defeasance noted above, the System exercised its Option to Purchase the Northline Mall Campus on April 15, 2017. The System and the PFC are in the process of releasing all liens and transferring title of all property to the System.

Limited Tax Bonds:

The System issued \$109,490,000 in Limited Tax Refunding Bonds, Series 2011 (“Series 2011 Bonds”) on October 12, 2011 with interest rates ranging from 4.00% to 5.00%. The Bonds were issued at a premium of \$16,767,575. Bond maturities range from February 15, 2014 through February 15, 2028. Bonds maturing on or after February 15, 2022 are subject to redemption prior to their scheduled maturities on February 15, 2021. The Series 2011 Bonds are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Series 2011 Bonds were used to partially refund \$112,195,000 of outstanding Limited Tax Bonds, Series 2003 (“Series 2003 Bonds”) with interest rates ranging from 5.00% to 5.25%. The optional redemption date of the Series 2003 Bonds was February 14, 2013. Additionally, the Series 2011 Bonds were used to totally refund \$4,955,000 of outstanding Limited Tax Building and Refunding Bonds, Series 2005 (“Series 2005 Bonds”) with interest rates of 5.00%. The optional redemption date of the Series 2005 Bonds was November 14, 2011.

The System issued \$398,775,000 in Limited Tax General Obligation Bonds, Series 2013 (“Series 2013 Bonds”) on March 19, 2013 with interest rates ranging from 3.0% to 5.0%. The Bonds were issued at a premium of \$55,392,571. Bond maturities range from February 15, 2015 through February 15, 2043. Bonds maturing on or after February 15, 2024, except those maturing in 2027, 2036 and 2037 are subject to redemption prior to their scheduled maturities on February 15, 2023.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

Bonds maturing on February 15, 2027 were called and redeemed on August 24, 2015. Bonds maturing on February 15, 2036 are subject to redemption on February 15, 2020. Bonds maturing on February 15, 2037 are subject to redemption on February 15, 2017. The Series 2013 Bonds are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Series 2013 Bonds will be used for the construction, maintenance and equipment of school buildings in the System and the purchase of necessary sites therefore, and to pay the costs of issuance related to the Bonds. The Bonds maturing in 2037 totaling \$20,000,000 were defeased on September 21, 2016 with the issuance of the Limited Tax Refunding Bonds, Series 2016. See Note 9.

The System issued \$19,455,000 in Limited Tax Refunding Bonds, Series 2016 (“Series 2016 Bonds”) on September 21, 2016 with interest rates ranging from 3.00% to 4.00%. The Bonds were issued at a premium of \$1,192,336 and mature on February 15, 2037. Bonds maturing on February 15, 2037 are subject to redemption prior to their scheduled maturities on February 15, 2026. The Series 2016 Bonds are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Series 2016 Bonds were used to partially refund \$20,000,000 of outstanding Limited Tax General Obligation Bonds, Series 2013 (“Series 2013 Bonds”) with an interest rate of 5.00%. The optional redemption date of the Series 2013 Bonds was February 14, 2017. See Note 9.

Maintenance Tax Bonds:

The System issued \$28,870,000 in Maintenance Tax Refunding Bonds, Series 2016 on September 21, 2016 with an interest rate of 5.0%. The Bonds were issued at a premium of \$6,535,208 and mature on April 15, 2028. Bonds maturing on February 15, 2027 are subject to redemption prior to their scheduled maturities on February 15, 2026. The Series 2016 Bonds are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Bonds were used to partially refund \$33,275,000 in Maintenance Tax Notes, Series 2008 with interest rates ranging from 4.00% to 5.00% with an optional redemption date of February 15, 2018.

Date Series Issued	Par Value	Maturity Date	Interest Rate	Outstanding Balances at August 31, 2017	Outstanding Balances at August 31, 2016
Student Fee Revenue Bonds:					
2006	72,815,000	04/15/2007 - 2028	4.000% - 5.000%	\$ 15,460,000	\$ 17,890,000
2008	54,540,000	04/15/2009 - 2030	4.000% - 5.250%	26,995,000	40,915,000
2010	27,250,000	04/15/2012 - 2031	3.000% - 5.250%	21,460,000	22,525,000
2011	33,940,000	04/15/2012 - 2025	4.000% - 5.250%	17,245,000	20,405,000
2014A	9,210,000	04/15/2015 - 2026	2.000% - 3.250%	7,205,000	7,885,000
2014B	30,900,000	04/15/2015 - 2026	.31% - 4.070%	17,945,000	24,130,000
2015	68,865,000	04/15/2016 - 2031	2.000% - 5.000%	64,310,000	66,325,000
2016	50,345,000	04/15/2017 - 2031	3.000% - 5.000%	47,650,000	-
PFC Lease Revenue Bonds (Blended Component Unit):					
2007	58,885,000	04/15/2009 - 2031	4.000% - 5.625%	-	45,160,000
Limited Tax Bonds:					
2011	109,490,000	02/15/14 - 2028	4.000% - 5.000%	85,105,000	91,255,000
2013	398,775,000	02/15/15 - 2043	3.000% - 5.000%	365,570,000	389,565,000
2016	19,455,000	2/15/2037	3.000% - 4.000%	19,455,000	-
Maintenance Tax Bonds:					
2016	28,870,000	02/15/19 - 2028	5.000%	28,870,000	-
Total Principal Payable				717,270,000	726,055,000
Unamortized Premium and Discount, Net				82,972,889	75,508,947
Total Bonds Payable				\$ 800,242,889	\$ 801,563,947

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

Debt service requirements to maturities as of August 31, 2017 are summarized as follows:

Year ending August 31,	Student Fee Revenue Bonds			Maintenance Tax Bonds			Limited Tax Bonds			Total Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 17,630,000	\$ 10,113,836	\$ 27,743,836	\$ -	\$ 1,443,500	\$ 1,443,500	\$ 10,035,000	\$ 21,985,094	\$ 32,020,094	\$ 27,665,000	\$ 33,542,430	\$ 61,207,430
2019	18,215,000	9,465,814	27,680,814	2,285,000	1,386,375	3,671,375	11,355,000	21,468,244	32,823,244	31,855,000	32,320,433	64,175,433
2020	19,555,000	8,736,283	28,291,283	2,400,000	1,269,250	3,669,250	11,310,000	20,922,519	32,232,519	33,265,000	30,928,052	64,193,052
2021	21,215,000	7,790,711	29,005,711	2,520,000	1,146,250	3,666,250	12,685,000	20,343,544	33,028,544	36,420,000	29,280,505	65,700,505
2022	18,050,000	6,750,196	24,800,196	2,650,000	1,017,000	3,667,000	14,175,000	19,672,044	33,847,044	34,875,000	27,439,240	62,314,240
2023 - 2027	75,085,000	21,903,394	96,988,394	15,435,000	2,900,625	18,335,625	63,050,000	88,466,594	151,516,594	153,570,000	113,270,613	266,840,613
2028 - 2032	48,520,000	5,198,950	53,718,950	3,580,000	89,500	3,669,500	99,545,000	70,266,641	169,811,641	151,645,000	75,555,091	227,200,091
2033 - 2037	-	-	-	-	-	-	118,040,000	42,590,775	160,630,775	118,040,000	42,590,775	160,630,775
2038 - 2042	-	-	-	-	-	-	107,415,000	17,156,625	124,571,625	107,415,000	17,156,625	124,571,625
2043	-	-	-	-	-	-	22,520,000	507,000	23,027,000	22,520,000	507,000	23,027,000
	<u>\$ 218,270,000</u>	<u>\$ 69,959,185</u>	<u>\$ 288,229,185</u>	<u>\$ 28,870,000</u>	<u>\$ 9,252,500</u>	<u>\$ 38,122,500</u>	<u>\$ 470,130,000</u>	<u>\$ 323,379,078</u>	<u>\$ 793,509,078</u>	<u>\$ 717,270,000</u>	<u>\$ 402,590,763</u>	<u>\$ 1,119,860,763</u>

Debt service requirements to maturities as of August 31, 2016 are summarized as follows:

Year ending August 31,	Student Fee Revenue Bonds			PFC Lease Revenue Bonds			Limited Tax Bonds			Total Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 15,480,000	\$ 9,033,665	\$ 24,513,665	\$ 2,110,000	\$ 2,213,675	\$ 4,323,675	\$ 10,145,000	\$ 22,758,244	\$ 32,903,244	\$ 27,735,000	\$ 34,005,584	\$ 61,740,584
2018	15,700,000	8,509,721	24,209,721	2,215,000	2,108,175	4,323,175	10,035,000	22,285,394	32,320,394	27,950,000	32,903,290	60,853,290
2019	16,265,000	7,938,899	24,203,899	2,325,000	1,997,425	4,322,425	11,355,000	21,768,544	33,123,544	29,945,000	31,704,868	61,649,868
2020	17,545,000	7,277,243	24,822,243	2,440,000	1,881,175	4,321,175	11,310,000	21,222,819	32,532,819	31,295,000	30,381,237	61,676,237
2021	19,100,000	6,430,009	25,530,009	2,565,000	1,759,175	4,324,175	12,685,000	20,643,844	33,328,844	34,350,000	28,833,028	63,183,028
2022 - 2026	67,655,000	20,634,152	88,289,152	14,785,000	6,829,475	21,614,475	67,120,000	93,207,344	160,327,344	149,560,000	120,670,971	270,230,971
2027 - 2031	48,330,000	6,188,535	54,518,535	18,720,000	2,899,250	21,619,250	85,030,000	76,019,734	161,049,734	152,080,000	85,107,519	237,187,519
2032 - 2036	-	-	-	-	-	-	120,275,000	49,913,625	170,188,625	120,275,000	49,913,625	170,188,625
2037 - 2041	-	-	-	-	-	-	108,820,000	22,170,500	130,990,500	108,820,000	22,170,500	130,990,500
2042 - 2043	-	-	-	-	-	-	44,045,000	2,003,125	46,048,125	44,045,000	2,003,125	46,048,125
	<u>\$ 200,075,000</u>	<u>\$ 66,012,225</u>	<u>\$ 266,087,225</u>	<u>\$ 45,160,000</u>	<u>\$ 19,688,350</u>	<u>\$ 64,848,350</u>	<u>\$ 480,820,000</u>	<u>\$ 351,993,172</u>	<u>\$ 832,813,172</u>	<u>\$ 726,055,000</u>	<u>\$ 437,693,747</u>	<u>\$ 1,163,748,747</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – DEFEASANCE OF LONG-TERM DEBT

The System issued \$50,345,000 in Combined Fee Revenue Refunding Bonds, Series 2016 on September 21, 2016. The Bonds were used to: (1) partially refund \$11,645,000 in Senior Lien Student Fee Revenue Bonds, Series 2008 with interest rates ranging from 4.00% to 5.00% and an optional redemption date of April 15, 2018; and (2) refund \$45,160,000 in Public Facility Corporation Lease Revenue Bonds, Series 2007 with interest rates ranging from 4.50% to 5.0% and an optional redemption date of April 15, 2017, which the System exercised.

Proceeds of \$59,921,963 of the Combined Fee Revenue Refunding Bonds, Series 2016 were placed in an irrevocable trust with an escrow agent and were used to redeem the PFC Lease Revenue Bonds, Series 2007 on April 15, 2017 and will be used to redeem the Senior Lien Student Fee Revenue Bonds, Series 2008 on April 15, 2018. The liabilities for these refunded bonds and the securities held by the escrow agent have been excluded from the Statement of Net Position.

The advance refunding had the following results:

- \$11,034,837 in future cash flow savings resulting from a decrease in the aggregate debt service payments over the next fifteen years.
- Economic gain of \$9,705,504 which is the difference between the present values of the old and new debt service payments.
- Advance funding valuation of \$1,571,122 was created, which is the difference between the reacquisition price of \$59,921,963 and the carrying amount of the refunded bonds of \$58,350,841. The valuation is deferred and amortized as a component of interest expense over the term of the defeased bonds.

The System issued \$28,870,000 in Maintenance Tax Refunding Bonds, Series 2016 on September 21, 2016. The bonds were used to partially refund \$33,275,000 in Maintenance Tax Notes, Series 2008 with interest rates ranging from 4.00% to 5.00% and an optional redemption date of February 15, 2018.

Proceeds of \$35,144,775 of the Maintenance Tax Refunding Bonds, Series 2016 were placed in an irrevocable trust with an escrow agent and will be used to redeem the Maintenance Tax Notes, Series 2008 on February 15, 2018. The liabilities for these refunded notes and the securities held by the escrow agent have been excluded from the Statement of Net Position.

The advance refunding had the following results:

- \$5,292,622 in future cash flow savings resulting from a decrease in the aggregate debt service payments over the next twelve years.
- Economic gain of \$4,791,754, which is the difference between the present values of the old and new debt service payments.
- Advance funding valuation of \$716,442 was created, which is the difference between the reacquisition price of \$35,144,775 and the carrying amount of the refunded bonds of \$34,428,333. The valuation is deferred and amortized as a component of interest expense over the term of the defeased Notes.

The System issued \$19,455,000 in Limited Tax Refunding Bonds, Series 2016 on September 21, 2016. The Bonds were used to partially refund \$20,000,000 in Limited Tax General Obligation Bonds, Series 2013 with interest rates of 5.00% and an optional redemption date of February 15, 2017, which the System exercised.

Proceeds of \$20,468,675 of the Limited Tax Refunding Bonds, Series 2016 were placed in an irrevocable trust with an escrow agent and were used to redeem the Limited Tax General Obligation Bonds, Series 2013 on February 15, 2017. The liabilities for these refunded notes and the securities held by the escrow agent have been excluded from the Statement of Net Position.

The advance refunding had the following results:

- \$6,771,120 in future cash flow savings resulting from a decrease in the aggregate debt service payments over the next twenty-one years.
- Economic gain of \$5,010,338, which is the difference between the present values of the old and new debt service payments.
- Advance funding valuation of \$2,064,079 was created, which is the difference between the reacquisition price of \$20,468,675 and the carrying amount of the refunded bonds of \$22,532,753. The valuation is deferred and amortized as a component of interest expense over the term of the defeased Bonds.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – DEFEASED BONDS OUTSTANDING

The defeased bonds and notes outstanding at August 31, 2017 and 2016 were as follows:

Note Issue	Year Refunded	Par Value Outstanding	
		August 31, 2017	August 31, 2016
Senior Lien Revenue Bonds, Series 2008	2017	\$11,645,000	\$0
Maintenance Tax Notes, Series 2008	2017	33,275,000	-
		\$44,920,000	\$0

NOTE 11 – NOTES PAYABLE

2011 Issuance

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

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

2010 Issuance

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

2009 Issuance

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

2008 Issuance

The System issued \$54,975,000 in Maintenance Tax Notes, Series 2008 (“Notes”) on March 1, 2008 with interest rates ranging from 3.00% to 5.00%. The Notes were issued at a premium of \$1,937,320. Note maturities range from February 15, 2009 through February 15, 2028. Notes maturing on or after February 15, 2019 are subject to redemption prior to their scheduled maturities on February 15, 2018. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes were used for the renovation of and the purchase of equipment for existing facilities, and to pay the costs of issuance related to the Notes. See Note 9 for discussion of partial refunding of these Notes on September 21, 2016.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – NOTES PAYABLE - CONTINUED

2006 Issuance

The System issued \$12,000,000 in Maintenance Tax Notes, Series 2006 (“Notes”) on February 1, 2006 with interest rates ranging from 3.00% to 4.50%. The Notes were issued at a discount of \$88,756. Note maturities range from February 15, 2007 through February 15, 2026. Notes maturing on or after February 15, 2007 are subject to redemption prior to their scheduled maturities on February 15, 2016. Notes totaling \$1,700,000 were called and redeemed on September 30, 2016. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes were used for the construction of a central utility plant on the Central campus, and to pay the costs of issuance related to the Notes.

Key Government Finance

The System entered into an agreement on January 30, 2015 for \$2,019,896 with Key Government Finance, Inc. to finance the purchase of software maintenance contracts. The note is payable in annual installments of \$673,299 over three years and is non-interest bearing. The final payment was made on April 30, 2017.

LoanSTAR Program

The System entered into a revolving loan agreement on March 22, 2016 for \$5,229,822 with the Texas Comptroller of Public Accounts through its State Energy Conservation Office. The purpose of the loan is to finance energy efficiency projects. Upon completion of the energy projects a final repayment schedule will be determined by the State. The loan is to be repaid over 9.2 years with an annual interest rate of 1%. As of August 31, 2017 the balance outstanding was \$2,395,310.

The System entered into a revolving loan agreement on December 7, 2016 for \$7,056,096 with the Texas Comptroller of Public Accounts through its State Energy Conservation Office. The purpose of the loan is to finance energy efficiency projects. Upon completion of the energy projects a final repayment schedule will be determined by the State. The loan is to be repaid over 10 years with an annual interest rate of 1%. As of August 31, 2017 there was no outstanding balance, since there have been no loan draws.

Maturities of notes payable at August 31, 2017 were as follows:

Year ending August 31	Central Utility Plant	Capital Improvements	Total
2018	\$ 888,566	\$ 14,277,426	\$ 15,165,992
2019	887,681	10,085,731	10,973,412
2020	890,244	10,074,081	10,964,325
2021	886,238	10,080,713	10,966,951
2022	890,500	10,070,650	10,961,150
2023 - 2027	1,776,797	50,222,520	51,999,317
2028 - 2031	-	27,362,418	27,362,418
Total Payments	\$6,220,026	\$132,173,539	\$138,393,565
Less Amounts Representing Interest	(1,290,295)	(27,914,407)	(29,204,702)
Total Notes Payable	<u>\$ 4,929,731</u>	<u>\$104,259,132</u>	<u>\$ 109,188,863</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – NOTES PAYABLE - CONTINUED

Maturities of notes payable at August 31, 2016 were as follows:

Year ending August 31	Central Utility Plant	Capital Improvements	Total
2017	\$888,050	\$14,931,256	\$15,819,306
2018	888,566	14,277,426	15,165,992
2019	887,681	14,259,095	15,146,776
2020	890,244	14,246,045	15,136,289
2021	886,238	14,251,776	15,138,014
2022 - 2026	4,444,697	69,947,219	74,391,916
2027 - 2031	-	44,515,013	44,515,013
Total Payments	8,885,475	186,427,830	195,313,305
Less Amounts Representing Interest	(1,658,617)	(41,042,925)	(42,701,542)
Total Notes Payable	<u>\$7,226,858</u>	<u>\$145,384,905</u>	<u>\$152,611,764</u>

NOTE 12 – OPERATING LEASES

The System leases certain educational facilities, offices and other equipment. Future minimum rental payments under non-cancelable operating leases having remaining terms in excess of one year as of August 31, 2017 for each of the next two years and in the aggregate are as follows:

Year ending August 31	Amount
2018	\$1,095,276
2019	260,849
Total	<u>\$1,356,125</u>

Rent expense totaled approximately \$1.3 million for the years ended August 31, 2017 and 2016.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – LEASED FACILITIES

The System leases office space to other entities under operating leases. Minimum lease payments due to the System under these operating leases as of August 31, 2017 are as follows:

Year Ending August 31,	Amount
2018	\$ 7,588,760
2019	7,505,309
2020	2,896,705
2021	1,002,683
2022	1,006,538
Thereafter	4,311,524
Total	\$ 24,311,519

The System received approximately \$8.5 million and \$6.8 million in rental income for the years ended August 31, 2017 and 2016.

NOTE 14 - RETIREMENT PLANS

The State of Texas has joint contributory retirement plans for almost all its employees. One of the primary plans in which the system participates is administered by the Teacher Retirement System of Texas.

Teacher Retirement System of Texas

Plan Description. The System contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan that has a special funding situation. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension’s Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System’s fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to; TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member’s age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member’s age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic cost of living adjustments (COLA). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

Contributions. Contribution requirements are not actuarially determined but are established and amended by Article 16, section 67 of the Texas Constitution. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the systems during the fiscal year. (2) Texas Government Code section 821.006 prohibits benefits improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if that amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates

	<u>2017</u>	<u>2016</u>
Member	7.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
FY 2016 District or Member Contributions		\$7,185,918
FY 2016 State of Texas On-behalf Contributions		\$974,384
FY 2016 System or College Contributions		\$6,832,860

The System's contributions to the TRS pension plan in 2017 were \$7,099,251 as reported in the Schedule of System Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for 2017 were \$1,054,000.

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers.

Public junior college or junior college districts are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.
- In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Amortization Period	30 Years
Asset Valuation Method	Market
Actuarial Assumptions:	
Single Discount Rate	8.00%
Long-term Expected Investment Rate of Return*	8.00%
Municipal Bond Rate*	N/A*
Inflation	2.5%
Payroll Growth Rate	2.5%
Salary increases including inflation	3.5% to 9.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

**If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016 (i.e. the weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.*

Actuarial methods and assumptions were updated based on a study of actual experience for the four year period ending August 31, 2014, and adopted on September 24, 2015, by the TRS Board of Trustees, who have sole authority to determine the actuarial assumptions used for the plan. There were no changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
US	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

*The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric means returns.

Source: Teacher Retirement System of Texas 2016 Comprehensive Annual Financial Report

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Houston Community College System proportionate share of the net pension liability:	\$132,271,621	\$85,465,382	\$45,764,229

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2017, the Houston Community College System reported a liability of \$85,465,382 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the Houston Community College System. The amount recognized by the Houston Community College System as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Houston Community College System were as follows:

Houston Community College System Proportionate share of the collective net pension liability	\$85,465,382
State's proportionate share that is associated with Houston Community College System	<u>\$11,565,790</u>
Total	<u>\$97,031,172</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 thru August 31, 2016.

At measurement date of August 31, 2016, the employer's proportion of the collective net pension liability was 0.002261676237, which was an increase of 0.002211843 from its proportion measured as of August 31, 2015.

For the year ended August 31, 2017, the Houston Community College System recognized pension expense of \$1,200,253 and revenue of \$1,200,253 for support provided by the State.

At August 31, 2017, the Houston Community College System reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,340,081	\$ 2,551,947
Changes in actuarial assumptions	2,604,831	2,368,987
Net difference between projected and actual investment earnings	16,469,296	9,232,264
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	319,661	5,944,965
Contributions paid to TRS subsequent to the measurement date	7,099,251	-
Total	<u>\$ 27,833,120</u>	<u>\$ 20,098,163</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31:	Pension Expense Amount
2017	\$ (486,570)
2018	\$ (486,570)
2019	\$ 4,129,561
2020	\$ (841,177)
2021	\$ (1,818,694)
Thereafter	\$ 139,158

Optional Retirement Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.6% and 6.65%, respectively. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

Retirement Expense

The retirement expense to the State for the System was \$2,544,280 and \$3,306,195 for the fiscal years ended August 31, 2017 and 2016 respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the System.

The total payroll for all System employees was \$203,693,378 and \$191,844,964 for fiscal years 2017 and 2016, respectively. The total payroll of employees covered by the Teacher Retirement System was \$131,555,086 and \$119,277,740 and the total payroll of employees covered by the Optional Retirement Program was \$40,116,391 and \$39,550,238 for fiscal years 2017 and 2016, respectively

NOTE 15 - DEFERRED COMPENSATION PROGRAM

The System's employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. Both a 403(b) plan and a 457 plan are available. The plan is funded by employee contributions such that the employer is not liable for the diminution in value or loss of all or part of the participating employees' deferred amounts or investment income due to market conditions or the failure, insolvency or bankruptcy of a qualified vendor. The total number of employees participating in the program at August 31, 2017 and 2016 were 633 and 623, respectively.

During fiscal years ended August 31, 2017 and August 31, 2016, employee contributions amounting to \$4,350,610 and \$4,085,606 were invested in the plan respectively.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 – COMPENSATED ABSENCES

Full-time employees earn personal leave at the rate of 12 hours for every month of service in the System up to a maximum of 680 hours. Each pay period 4 sick leave hours and 2 catastrophic leave hours will be accrued. Leave hours are not available for use until accrued. After the 680 hour maximum is reached, the full-time employee will accrue catastrophic leave of 12 hours per month up to a maximum of 1,000 hours. Earned personal or catastrophic leave unused by employees is not under any circumstances compensated by the System. Earned personal or catastrophic days may be used by employees for sick leave.

Employees earn up to 160 vacation hours depending on the number of years employed with the System. Up to 80 earned vacation hours may be carried forward by employees from one fiscal year to another, but must be utilized before the end of August of the following year or be lost. An employee is compensated for any earned but unused vacation hours upon termination of employment with the System. Accrued compensable absences of \$3,473,298 and \$2,919,816 for earned but unused vacation hours in accordance with the vacation earning and carry-forward policy of the System has been included in the financial statements for the years ended August 31, 2017 and 2016, respectively.

NOTE 17 – FUNDS HELD IN TRUST BY OTHERS

The balances of funds held in trust by others on behalf of the Public Facility Corporation are reflected in the financial statements as restricted long-term investments. At August 31, 2017 there were no funds and at August 31, 2016 there were three funds for the benefit of the Public Facility Corporation. These trust assets represent bond proceeds to be utilized for construction purposes. The assets of these funds are reported by the trustee at values totaling \$-0- and \$630,858 at August 31, 2017 and August 31, 2016, respectively.

NOTE 18 – COMMITMENTS

The System has entered into contracts for the planning and construction of new facilities, as well as the renovation and repair of existing campuses. Commitments remaining under such contracts were \$42,635,833 at August 31, 2017. The System has also entered into contracts for technology capital projects, with commitments of \$1,514,695 remaining at August 31, 2017. Proceeds from the sales of various bonds and notes will fund the purchase and construction of new facilities and the technology projects.

NOTE 19 – CONTINGENCIES

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 – HEALTH CARE AND LIFE INSURANCE BENEFITS

The State provides certain health care and life insurance benefits for active employees. These and similar benefits for active employees are provided through a self-funded State plan which is administered by an insurance company. The premiums are based on benefits paid during the previous year. The table below depicts the cost of providing health care benefits to the System’s retired and active employees, and the amount appropriated to the System from the State of Texas. Payments of these benefits by the State were recognized as restricted state appropriations with an equal amount recognized as restricted benefits expenses. These payments do not flow through the System’s cash accounts.

State/Employer Contribution for Health Care Insurance
(includes basic life insurance rate)

HealthSelect of Texas Plan	2017 State/Employer Contribution
Member Only	\$ 617.30
Member & Spouse	1,324.66
Member & Child (ren)	1,090.90
Member & Family	1,798.26

HealthSelect of Texas Plan	2016 State/Employer Contribution
Member Only	\$ 576.54
Member & Spouse	906.78
Member & Child (ren)	797.66
Member & Family	1,127.90

Cost of Providing Health Care Insurance	2017	2016
Number of Retirees	634	600
Cost of Health Benefits for Retirees	\$ 4,666,598	\$ 4,226,413
Number of Active Full Time Employees	2,487	2,530
Cost of Health Benefits for Active Full Time Employees	\$ 21,144,749	\$ 19,221,875
State Appropriation for Health Insurance	\$ 11,355,196	\$ 10,596,777
System’s Expense for Health Insurance	\$ 14,456,151	\$ 12,851,511

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS board of trustees sets the employer contribution rate based on the implicit rate subsidy which is actuarially determined in accordance with the parameters of GASB Statement No. 45.

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

Beginning September 1, 2013, SB 1812 limited the state's contribution to 50 percent of eligible employees for community colleges.

The System's contributions to SRHP for the years ended August 31, 2017 and 2016 were \$2,333,299 and \$2,069,314 respectively, which equaled the required contributions each year.

NOTE 22 – PROPERTY TAX

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

At August 31:	2017	2016
Assessed valuation of the System	\$ 238,048,215,381	\$ 221,458,121,257
Less: Exemptions	(44,312,008,221)	(42,287,303,553)
Net Assessed Valuation of the System	\$ 193,736,207,160	\$ 179,170,817,704

Taxes levied for the years ended August 31, 2017 and 2016, based on the certified rolls, as reported by the taxing authorities amounted to \$194,245,733 and \$182,650,315, respectively, which includes any penalty and interest assessed if applicable.

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 – PROPERTY TAX CONTINUED

The authorized and assessed tax rate for the System was as follows:

	August 31, 2017			August 31, 2016		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Authorized rate per \$100 valuation	0.50	0.50	1.00	0.50	0.50	1.00
Assessed rate per \$100 valuation	0.075277	0.024986	0.100263	0.075631	0.026311	0.101942

Tax collections for the year ended August 31, 2017 and 2016 were as follows:

	2017	2016
Current Taxes Collected	\$ 192,672,263	\$ 179,069,265
Delinquent Taxes Collected	2,339,574	(99,094)
Penalties and Interest Collected	1,637,554	1,587,072
Total	\$ 196,649,391	\$ 180,557,243

For the years ended August 31, 2017 and 2016 tax collections represent 99% and 98% of the tax levy, respectively. Taxes assessed are recorded in the System’s financial statements net of the related allowance for uncollectable taxes, based upon the System’s expected collection experience. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

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

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

NOTE 23 – COMPONENT UNIT

The Houston Community College Foundation (the “Foundation”) – A Discretely Presented Component Unit

The Foundation was organized in the State of Texas on May 13, 1976 to function as a legally separate, non-profit foundation and it is controlled by a separate board of trustees. The System does not appoint any of the Foundation’s board members nor does it fund or is it obligated to pay debt related to the Foundation. The Foundation’s purpose is (1) to maintain, develop, increase and extend the facilities and services of the System; (2) to provide broad educational opportunities to the System’s students, staff, faculty and the residents of the geographical area that the System serves; (3) to solicit and receive by gift, grant, devise, or otherwise, property, both real and personal, and to manage and administer the same, and (4) to make contributions, grants, gifts and transfers of property to or for the benefit of the System, or to or for the benefit of other tax exempt organizations identified and associated with the System.

Using the criteria established by Governmental Accounting Standards Board (“GASB”) Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*, and GASB No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14*, the System’s management has

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 –COMPONENT UNITS - CONTINUED

determined that the Foundation should be reported as a discrete component unit of the System because of the nature and significance of its relationship with the System. The Foundation raises and holds economic resources for the direct benefit of the System. Accordingly, the Foundation's financial statements are included in the System's comprehensive annual financial report as a discretely presented component unit as Exhibit 1A – Statements of Financial Position - Foundation and Exhibit 2A and 2B – Statements of Activities – Foundation for the fiscal years ended August 31, 2017 and 2016.

For complete financial information about the Foundation, please contact the Foundation at: Houston Community College Foundation, 3100 Main, Suite 12B12, Houston, TX 77002 or visit their website at:
<https://www.hccsfoundation.org/page.aspx?pid=767>.

The Houston Community College System Public Facility Corporation (“PFC”) – A Blended Component Unit

The PFC was incorporated on January 18, 2005. The PFC is a legally separate non-profit public facility corporation and instrumentality formed by the System pursuant to the Public Facility Corporation Act and a resolution of the Board of Trustees of the System. The PFC Board of Directors is comprised of the nine members of the System's Board of Trustees. The PFC was formed for the purpose of financing or providing for the acquisition, construction, rehabilitation, renovation, repair and equipment of public facilities for the benefit of the System. In accordance with the GASB Statements outlined above, the PFC is included in the System's financial reporting entity as a blended component unit because of the nature of its relationship to the System and the entities share the same Board members. Complete financial information for the PFC may be obtained from the System's Finance and Administration division.

NOTE 24 –SUBSEQUENT EVENTS

On November 15, 2017 the System made early calls and paid-off \$3,120,000 of the Junior Lien Student Fee Revenue and Refunding Bonds, Series 2006.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF HCC'S SHARE OF NET PENSION LIABILITY
FOR THE LAST THREE FISCAL YEARS**

Fiscal Year Ending August 31*,	2017	2016	2015
HCC's proportionate share of collective net pension liability(%)	0.0022616762%	0.002211843%	0.002524331%
HCC's proportionate share of collective net pension liability(\$)	\$ 85,465,382	\$ 78,185,706	\$ 67,428,372
State's proportionate share of net pension liability associated with HCC	11,565,790	9,346,029	10,129,723
Total	<u>\$ 97,031,172</u>	<u>\$ 87,531,735</u>	<u>\$ 77,558,095</u>
HCC's covered payroll	\$ 131,555,086	\$ 119,277,740	\$ 111,062,958
HCC's share of collective net pension liability as a percentage of covered payroll	64.97%	65.55%	60.71%
Plan fiduciary net position as a percentage of total pension liability	78.00%	78.43%	83.25%

*The amounts presented above are as of the measurement date of the collective net pension liability.

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying Notes to Required Supplementary Information.

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF HCC'S CONTRIBUTIONS
FOR THE LAST THREE FISCAL YEARS**

Fiscal Year Ending August 31*,	2017	2016	2015
Legally required contributions	\$ 7,099,251	\$ 6,832,860	\$ 5,873,294
Actual contributions	7,099,251	6,832,860	5,873,294
Contributions deficiency (excess)	\$ -	\$ -	\$ -
HCC's covered payroll amount	\$ 131,555,086	\$ 119,277,740	\$ 111,062,958
Contributions as a percentage of covered payroll	5.40%	5.73%	5.29%

* The amounts presented above are as of HCC's respective fiscal year-end.

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying Notes to Required Supplementary Information.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2017

Changes to Actuarial Assumptions since prior Actuarial Valuation

There were no changes of assumptions for the year ended August 31, 2017.

Other Changes to Assumptions

Other changes to actuarial, economic, mortality and demographic assumptions were deemed to have an insignificant impact on the measurement of the pension liability. Additional actuarial assumption changes are described in TRS's Comprehensive Annual Financial Report for the year ended August 31, 2016, which can be accessed at https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf.

SUPPLEMENTAL SCHEDULES

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED AUGUST 31, 2017
With Memorandum Totals for the Year Ended AUGUST 31, 2016

Schedule A

			Total	Auxiliary	August 31, 2017	Restated
	Unrestricted	Restricted	Educational Activities	Enterprises	Total	August 31, 2016 Total
Tuition:						
State Funded Courses:						
In-District Resident Tuition	\$19,852,573	\$ -	\$ 19,852,573	\$ -	\$ 19,852,573	\$ 20,108,930
Out-of-District Resident Tuition	23,511,034	-	23,511,034	-	23,511,034	23,366,440
State Funded Continuing Education:	7,669,777	-	7,669,777	-	7,669,777	6,835,839
TPEG (Credit)	1,458,363	-	1,458,363	-	1,458,363	1,954,903
TPEG (Non-Credit)	282,018	-	282,018	-	282,018	345,453
Non-Resident Tuition	17,274,921	-	17,274,921	-	17,274,921	16,827,323
Non-State Funded Continuing Education	1,999,577	-	1,999,577	-	1,999,577	2,721,048
Total Tuition	<u>72,048,263</u>	<u>-</u>	<u>72,048,263</u>	<u>-</u>	<u>72,048,263</u>	<u>72,159,936</u>
Fees:						
Installment Plan Fees	1,098,963	-	1,098,963	-	1,098,963	1,070,785
General Fees	33,979,684	-	33,979,684	-	33,979,684	34,302,596
Laboratory Fees	4,561,998	-	4,561,998	-	4,561,998	4,504,783
Other Fees	10,849,602	-	10,849,602	-	10,849,602	11,028,158
Student Service Fees	2,281,787	294,765	2,576,552	1,935,144	4,511,696	4,754,835
Total Fees	<u>52,772,034</u>	<u>294,765</u>	<u>53,066,799</u>	<u>1,935,144</u>	<u>55,001,943</u>	<u>55,661,157</u>
Scholarship Allowances and Discounts:						
Remissions and Exemptions-State	(9,681,866)	-	(9,681,866)	-	(9,681,866)	(6,762,316)
Remissions and Exemptions-Local	(2,132,855)	-	(2,132,855)	-	(2,132,855)	(1,651,498)
Title IV Federal Grants	(28,426,297)	-	(28,426,297)	-	(28,426,297)	(31,237,906)
Other Federal Grants	(2,559,454)	-	(2,559,454)	-	(2,559,454)	(2,666,133)
TPEG Awards	(1,125,162)	-	(1,125,162)	-	(1,125,162)	(1,549,923)
Other State Grants	(2,735,886)	-	(2,735,886)	-	(2,735,886)	(2,534,272)
Other Local Grants	(1,460,539)	-	(1,460,539)	-	(1,460,539)	(1,793,145)
Total Scholarship Allowances and Discounts	<u>(48,122,059)</u>	<u>-</u>	<u>(48,122,059)</u>	<u>-</u>	<u>(48,122,059)</u>	<u>(48,195,193)</u>
Total Net Tuition and Fees	<u>76,698,238</u>	<u>294,765</u>	<u>76,993,003</u>	<u>1,935,144</u>	<u>78,928,147</u>	<u>79,625,900</u>
Other Operating Revenues:						
Federal Grants and Contracts	-	14,092,252	14,092,252	-	14,092,252	13,844,635
State Grants and Contracts	-	6,848,608	6,848,608	-	6,848,608	6,790,982
Local Grants and Contracts	-	148,327	148,327	-	148,327	157,041
Non-Governmental Grants and Contracts	-	1,680,496	1,680,496	-	1,680,496	3,060,584
Sales and Services	281,959	50,670	332,629	1,245	333,874	273,441
Total Other Operating Revenues	<u>281,959</u>	<u>22,820,353</u>	<u>23,102,312</u>	<u>1,245</u>	<u>23,103,557</u>	<u>24,126,683</u>
Auxiliary Enterprises:						
Bookstore	-	-	-	2,796,712	2,796,712	1,915,983
Long-Term Parking	-	-	-	572,527	572,527	573,207
Rental of Facilities	-	-	-	8,184,474	8,184,474	7,070,652
Restaurant	-	-	-	420,797	420,797	455,242
Vending and Other Commissions	-	-	-	126,000	126,000	126,000
Total Auxiliary Enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,100,510</u>	<u>12,100,510</u>	<u>10,141,084</u>
Total Operating Revenues	<u>\$76,980,197</u>	<u>\$23,115,118</u>	<u>\$100,095,315</u>	<u>\$14,036,899</u>	<u>\$ 114,132,214</u>	<u>\$ 113,893,667</u>

See Report of Independent Certified Public Accountants

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF OPERATING EXPENSES BY OBJECT
FOR THE YEAR ENDED AUGUST 31, 2017
With Memorandum Totals for the Year Ended AUGUST 31, 2016

Schedule B

	Operating Expenses				2017 Total	Restated 2016 Total
	Salaries and Wages	Benefits		Other Expenses		
		State	Local			
Unrestricted Educational Activities						
Instruction	\$ 105,173,681	\$ -	\$ 14,954,323	\$ 3,376,017	\$ 123,504,021	\$ 115,009,197
Public Service	707,519	-	100,600	478,832	1,286,951	1,668,111
Academic Support	21,175,523	-	2,536,512	7,742,764	31,454,799	29,833,088
Student Services	23,040,480	-	3,082,982	2,627,912	28,751,374	26,555,636
Institutional Support	42,183,381	-	6,665,369	24,087,781	72,936,531	65,973,217
Operation and Maintenance of Plant	2,431,143	-	345,677	24,859,591	27,636,411	27,396,317
Total Unrestricted Educational Activities	<u>194,711,727</u>	<u>-</u>	<u>27,685,463</u>	<u>63,172,897</u>	<u>285,570,087</u>	<u>266,435,566</u>
Restricted Educational Activities						
Instruction	371,930	7,630,818	68,928	400,486	8,472,162	8,851,048
Public Service	4,167,065	-	595,037	5,202,427	9,964,529	9,217,356
Academic Support	428,012	1,294,319	75,396	184,495	1,982,222	2,524,229
Student Services	1,922,725	1,573,169	96,386	425,985	4,018,265	4,321,535
Institutional Support	-	3,401,171	-	-	3,401,171	3,338,831
Scholarship and Fellowship	-	-	-	55,435,891	55,435,891	58,153,241
Total Restricted Educational Activities	<u>6,889,732</u>	<u>13,899,477</u>	<u>835,747</u>	<u>61,649,284</u>	<u>83,274,240</u>	<u>86,406,240</u>
Total Educational Activities	201,601,459	13,899,477	28,521,210	124,822,181	368,844,327	352,841,806
Auxiliary Enterprises	2,091,919	-	692,210	8,280,850	11,064,979	11,839,737
Depreciation - Buildings	-	-	-	16,873,485	16,873,485	16,091,686
Depreciation - Equipment	-	-	-	7,005,441	7,005,441	6,157,662
Depreciation - Library Books	-	-	-	424,439	424,439	475,428
Total Operating Expenses	<u>\$ 203,693,378</u>	<u>\$ 13,899,477</u>	<u>\$ 29,213,420</u>	<u>\$ 157,406,396</u>	<u>\$ 404,212,671</u>	<u>\$ 387,406,319</u>
				(Exhibit 2)	(Exhibit 2)	

See Report of Independent Certified Public Accountants

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2017
With Memorandum Totals for the Year Ended AUGUST 31, 2016

Schedule C

	Unrestricted	Restricted	Auxiliary Enterprises	Total 2017	Restated Total 2016
NON-OPERATING REVENUES:					
State Appropriations:					
Educational and General State Support	\$ 70,276,780	\$ -	\$ -	\$ 70,276,780	\$ 70,162,218
State Group Insurance	-	11,355,196	-	11,355,196	10,596,777
State Retirement Matching	-	2,544,280	-	2,544,280	3,112,066
Other State Appropriations	17,971	-	-	17,971	6,559
Total State Appropriations	70,294,751	13,899,476	-	84,194,227	83,877,620
Maintenance Ad Valorem Taxes	145,108,181	-	-	145,108,181	133,580,908
Debt Service Ad Valorem Taxes	-	47,923,920	-	47,923,920	46,326,303
Gifts	-	1,875,561	-	1,875,561	2,025,562
Investment Income, Net	3,557,445	-	-	3,557,445	2,752,692
Title IV Grants	-	80,531,464	-	80,531,464	86,117,577
Other Non-operating Revenue	7,157,578	-	-	7,157,578	2,848,147
Total Non-operating Revenues	226,117,955	144,230,421	-	370,348,376	357,528,809
NON-OPERATING EXPENSES:					
Interest on Capital-Related Debt	(17,991,413)	-	-	(17,991,413)	(19,535,342)
Loss on Sale of Capital Assets	-	-	-	-	(5,517,511)
Other Non-operating Expenses	(10,275,410)	-	-	(10,275,410)	(8,920,785)
Total Non-operating Expenses	(28,266,823)	-	-	(28,266,823)	(33,973,638)
NET NON-OPERATING REVENUES	\$ 197,851,132	\$ 144,230,421	\$ -	\$ 342,081,553	\$ 323,555,171
				(Exhibit 2)	(Exhibit 2)

See Report of Independent Certified Public Accountants

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY
FOR THE YEAR ENDED AUGUST 31, 2017
With Memorandum Totals for the Year Ended AUGUST 31, 2016

Schedule D

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 53,936,037	\$ -	\$ -	\$ -	\$ 53,936,037	\$ 53,936,037	\$ -
Auxiliary enterprises	10,511,114	-	-	-	10,511,114	10,511,114	-
Restricted	-	-	-	-	-	-	-
Loan	-	509,964	-	-	509,964	-	509,964
Endowment:							
Plant:							
Unexpended	9,349,096	-	-	-	9,349,096	9,349,096	-
Debt Service	-	18,044,969	-	-	18,044,969	-	18,044,969
Investment in Plant	-	-	-	374,110,855	374,110,855	-	374,110,855
Total Net Position August 31, 2017	73,796,247	18,554,933	-	374,110,855	466,462,035 (Exhibit 1)	73,796,247	392,665,788
Total Net Position August 31, 2016	82,081,789	14,035,601	-	318,343,549	414,460,939 (Exhibit 1)	82,081,789	332,379,150
Net Increase in Net Position	<u>\$ (8,285,542)</u>	<u>\$ 4,519,332</u>	<u>\$ -</u>	<u>\$ 55,767,306</u>	<u>\$ 52,001,096</u> (Exhibit 1)	<u>\$ (8,285,542)</u>	<u>\$ 60,286,638</u>

See Report of Independent Certified Public Accountants

**STATISTICAL SECTION
(Unaudited)**

HOUSTON COMMUNITY COLLEGE SYSTEM STATISTICAL SECTION NARRATIVE

Statistical Section

This section of HCC'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 HCC's overall financial health.

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Economic & Demographic Information

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

Operating Information

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

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

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

Table 1

	For the Year Ended August 31,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net Investment in Capital Assets	\$ 374,111	\$ 318,344	\$ 290,771	\$ 244,073	\$ 230,706	\$ 234,825	\$ 207,977	\$ 197,013	\$ 197,253	\$ 190,084
Restricted - Expendable	18,555	14,035	13,290	14,804	1,216	488	488	449	449	449
Unrestricted	<u>73,796</u>	<u>82,082</u>	<u>60,357</u>	<u>114,975</u>	<u>107,142</u>	<u>87,004</u>	<u>73,959</u>	<u>70,083</u>	<u>62,731</u>	<u>62,334</u>
Total Primary Government, Net Position	<u>\$ 466,462</u>	<u>\$ 414,461</u>	<u>\$ 364,418</u>	<u>\$ 373,852</u>	<u>\$ 339,063</u>	<u>\$ 322,317</u>	<u>\$ 282,424</u>	<u>\$ 267,545</u>	<u>\$ 260,433</u>	<u>\$ 252,867</u>
Net Increase/(Decrease) in Net Position	<u>\$ 52,001</u>	<u>\$ 50,043</u>	<u>\$ (9,434)</u>	<u>\$ 34,789</u>	<u>\$ 16,746</u>	<u>\$ 39,893</u>	<u>\$ 14,879</u>	<u>\$ 7,112</u>	<u>\$ 7,566</u>	<u>\$ 22,567</u>

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

Table 2

	For the Year Ended August 31,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
OPERATING REVENUES:										
Tuition and Fees, Net of Discounts	\$ 78,928,147	\$ 79,625,900	\$ 75,079,230	\$ 70,689,034	\$ 71,433,953	\$ 71,415,957	\$ 67,907,897	\$ 65,655,752	\$ 64,689,510	\$ 58,939,437
Federal Grants and Contracts	14,092,252	13,844,635	13,782,110	14,019,776	14,702,419	16,848,269	16,064,089	16,243,394	12,480,512	13,001,562
State Grants and Contracts	6,848,608	6,790,982	9,250,630	5,714,975	6,267,894	5,166,289	6,600,375	5,230,511	3,715,657	3,022,241
Local Grants and Contracts	148,327	157,041	162,920	116,899	81,407	95,226	275,085	79,055	77,955	81,761
Non-governmental Grants and Contracts	1,680,496	3,060,584	2,446,357	2,441,076	2,413,531	2,497,892	1,283,150	1,286,822	854,759	467,151
Sales and Services of Educational Activities	333,874	273,441	177,222	189,043	193,328	329,382	369,530	315,835	261,861	203,207
Auxiliary Enterprises	12,100,510	10,141,084	13,544,991	16,420,059	16,092,899	16,096,494	14,535,914	10,493,233	8,709,724	7,937,176
Total Operating Revenues	114,132,214	113,893,667	114,443,461	109,590,862	111,185,431	112,449,510	107,036,040	99,304,602	90,789,978	83,652,535
NON-OPERATING REVENUES:										
State Appropriations	84,194,227	83,877,620	82,249,495	81,675,719	82,105,228	81,839,826	84,838,315	84,665,409	81,677,836	80,863,825
Ad Valorem Taxes	193,032,101	179,907,211	173,457,004	143,389,744	129,256,277	123,638,019	115,820,065	119,273,809	107,746,487	97,214,316
Gifts	1,875,561	2,025,562	1,260,854	1,436,292	1,591,888	2,053,638	1,573,601	1,555,967	1,115,895	964,033
Investment Income	3,557,445	2,752,692	2,950,156	3,704,351	(140,747)	789,917	566,945	900,323	4,213,587	11,160,656
Disaster Relief Grants	-	-	-	-	-	-	-	1,415,592	1,525,611	-
Title IV (Pell)	80,531,464	86,117,577	95,673,111	94,092,798	94,423,841	102,023,662	96,171,936	75,639,561	41,239,311	31,591,860
Other Non-operating Revenues	7,157,578	2,848,147	7,460,036	1,672,149	6,446,858	9,341,129	6,153,631	3,455,364	2,241,061	7,768,434
Total Non-operating Revenues	370,348,376	357,528,809	363,050,656	325,971,053	313,683,345	319,686,191	305,124,493	286,906,025	239,759,788	229,563,124
TOTAL REVENUES	\$ 484,480,590	\$ 471,422,476	\$ 477,494,118	\$ 435,561,915	\$ 424,868,776	\$ 432,135,701	\$ 412,160,533	\$ 386,210,626	\$ 330,549,766	\$ 313,215,659

Note: Nursing Shortage Reduction revenue was classified as operating revenue versus non-operating revenue in FY 2017. All prior periods have been adjusted to reflect this change.

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

Table 2

	(percentage of total) For the Year Ended August 31,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
OPERATING REVENUES:										
Tuition and Fees, Net of Discounts	16.29%	16.89%	15.72%	16.23%	16.81%	16.53%	16.48%	17.00%	19.57%	18.82%
Federal Grants and Contracts	2.91%	2.94%	2.89%	3.22%	3.46%	3.90%	3.90%	4.21%	3.78%	4.15%
State Grants and Contracts	1.41%	1.44%	1.94%	1.31%	1.48%	1.20%	1.60%	1.35%	1.12%	0.96%
Local Grants and Contracts	0.03%	0.03%	0.03%	0.03%	0.02%	0.02%	0.07%	0.02%	0.02%	0.03%
Non-governmental Grants and Contracts	0.35%	0.65%	0.51%	0.56%	0.57%	0.58%	0.31%	0.33%	0.26%	0.15%
Sales and Services of Educational Activities	0.07%	0.06%	0.04%	0.04%	0.05%	0.08%	0.09%	0.08%	0.08%	0.06%
Other Operating Revenues	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Auxiliary Enterprises	2.50%	2.15%	2.84%	3.77%	3.79%	3.72%	3.53%	2.72%	2.63%	2.53%
Total Operating Revenues	23.56%	24.16%	23.97%	25.16%	26.17%	26.02%	25.97%	25.71%	27.47%	26.71%
NON-OPERATING REVENUES:										
State Appropriations	17.38%	17.79%	17.23%	18.75%	19.32%	18.94%	20.58%	21.92%	24.71%	25.82%
Ad Valorem Taxes	39.84%	38.16%	36.33%	32.92%	30.42%	28.61%	28.10%	30.88%	32.60%	31.04%
Gifts	0.39%	0.43%	0.26%	0.33%	0.37%	0.48%	0.38%	0.40%	0.34%	0.31%
Investment Income	0.73%	0.58%	0.62%	0.85%	-0.03%	0.18%	0.14%	0.23%	1.27%	3.56%
Disaster Relief Grants	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.37%	0.46%	0.00%
Title IV (Pell)	16.62%	18.27%	20.04%	21.60%	22.22%	23.61%	23.33%	19.59%	12.48%	10.09%
Other Non-operating Revenues	1.48%	0.60%	1.56%	0.38%	1.52%	2.16%	1.49%	0.89%	0.68%	2.48%
Total Non-operating Revenues	76.44%	75.84%	76.03%	74.84%	73.83%	73.98%	74.03%	74.29%	72.53%	73.29%
TOTAL REVENUES	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Note: Nursing Shortage Reduction revenue was classified as operating revenue versus non-operating revenue in FY 2017. All prior periods have been adjusted to reflect this change.

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

Table 3

	For the Year Ended August 31,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
OPERATING EXPENSES:										
Instruction	\$ 131,976,183	\$ 123,860,246	\$ 118,383,131	\$ 112,628,406	\$ 111,931,030	\$ 100,319,497	\$ 112,617,877	\$ 113,319,505	\$ 105,158,760	\$ 96,006,367
Public Service	11,251,480	10,885,467	10,295,409	10,628,104	11,638,013	11,868,925	11,766,675	11,477,787	9,988,399	9,868,651
Academic Support	33,437,021	32,357,317	31,781,726	26,699,201	25,060,153	22,771,173	19,616,391	23,449,473	20,632,551	19,645,603
Student Services	32,769,639	30,877,171	31,448,417	29,244,604	29,165,865	24,906,487	31,901,438	30,902,922	27,473,142	25,822,223
Institutional Support	76,337,702	69,312,047	60,572,436	60,301,482	54,332,112	56,815,639	53,657,535	51,402,656	45,744,528	42,472,192
Operation and Maintenance of Plant	27,636,411	27,396,317	28,820,028	35,885,631	31,438,811	27,969,778	28,350,817	35,937,690	32,628,588	26,917,292
Scholarships and Fellowships	55,435,891	58,153,241	61,638,293	58,733,940	57,092,409	61,504,372	65,346,087	49,920,320	24,796,647	18,201,589
Auxiliary Enterprises	11,064,979	11,839,737	13,853,632	17,233,929	18,760,757	15,736,795	14,607,330	9,740,078	8,718,772	6,698,807
Depreciation	24,303,365	22,724,776	21,484,508	19,743,511	19,492,034	18,848,802	17,067,466	14,832,747	11,098,086	10,096,713
Total Operating Expenses	404,212,671	387,406,319	378,277,580	371,098,809	358,911,184	340,741,468	354,931,616	340,983,178	286,239,473	255,729,437
NON-OPERATING EXPENSES:										
Interest on Capital Related Debt	17,991,413	19,535,342	24,312,876	16,346,638	36,827,644	28,498,392	29,424,886	25,379,834	25,375,863	20,640,888
Loss on Sale of Fixed Assets	-	5,517,511	-	-	-	-	-	-	-	-
Hurricane Ike Expense, Net	-	-	-	-	12,431	626,194	284,103	561,861	297,616	-
Other Non-operating Expenses	10,275,410	8,920,785	7,940,686	13,327,637	12,371,070	22,377,547	12,639,933	12,174,272	11,070,525	9,656,111
Total Non-operating Expenses	28,266,823	33,973,638	32,253,562	29,674,275	49,211,145	51,502,133	42,348,922	38,115,967	36,744,004	30,296,999
Total Expenses	\$ 432,479,494	\$ 421,379,957	\$ 410,531,142	\$ 400,773,084	\$ 408,122,329	\$ 392,243,601	\$ 397,280,538	\$ 379,099,145	\$ 322,983,477	\$ 286,026,436

Note: Property tax expense was classified as non-operating expense versus operating expense in FY 2017. All prior periods have been adjusted to reflect this change.

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

Table 3

	(percentage of total)									
	For the Year Ended August 31,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
OPERATING EXPENSES:										
Instruction	30.52%	29.39%	28.84%	28.10%	27.43%	25.58%	28.35%	29.89%	32.56%	33.57%
Public Service	2.60%	2.58%	2.51%	2.65%	2.85%	3.03%	2.96%	3.03%	3.09%	3.45%
Academic Support	7.73%	7.68%	7.74%	6.66%	6.14%	5.81%	4.94%	6.19%	6.39%	6.87%
Student Services	7.58%	7.33%	7.66%	7.30%	7.15%	6.35%	8.03%	8.15%	8.51%	9.03%
Institutional Support	17.65%	16.45%	14.75%	15.05%	13.31%	14.48%	13.51%	13.56%	14.16%	14.85%
Operation and Maintenance of Plant	6.39%	6.50%	7.02%	8.95%	7.70%	7.13%	7.14%	9.48%	10.10%	9.41%
Scholarships and Fellowships	12.82%	13.80%	15.01%	14.66%	13.99%	15.68%	16.45%	13.17%	7.68%	6.36%
Auxiliary Enterprises	2.56%	2.81%	3.37%	4.30%	4.60%	4.01%	3.68%	2.57%	2.70%	2.34%
Depreciation	5.62%	5.39%	5.23%	4.93%	4.78%	4.81%	4.30%	3.91%	3.44%	3.53%
Total Operating Expenses	93.46%	91.94%	92.14%	92.60%	87.94%	86.87%	89.34%	89.95%	88.62%	89.41%
NON-OPERATING EXPENSES:										
Interest on Capital Related Debt	4.16%	4.64%	5.92%	4.08%	9.02%	7.27%	7.41%	6.69%	7.86%	7.22%
Loss on Sale of Fixed Assets	0.00%	1.31%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hurricane Ike Expense, Net	0.00%	0.00%	0.00%	0.00%	0.00%	0.16%	0.07%	0.15%	0.09%	0.00%
Other Non-operating Expenses	2.38%	2.12%	1.93%	3.33%	3.03%	5.71%	3.18%	3.21%	3.43%	3.38%
Total Non-operating Expenses	6.54%	8.06%	7.86%	7.40%	12.06%	13.13%	10.66%	10.05%	11.38%	10.59%
Total Expenses	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Note: Property tax expense was classified as non-operating expense versus operating expense in FY 2017. All prior periods have been adjusted to reflect this change.

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

Table 4

Academic Year	Semester	SEMESTER CREDIT HOUR (SCH)							Increase from Prior Year-Fall
		IN-DISTRICT							
		Tuition	General Fee	Technology Fee	Student Activity Services Fee	Recreation Fee	Cost for 12 SCH		
2016-2017	Fall	\$ 372	\$ 306	\$ 120.00	\$ 12	\$ 6	\$ 816.00	0.0%	
2015-2016	Fall	372	306	120.00	12	6	816.00	0.1%	
2014-2015	Fall	372	306	118.80	12	6	814.80	0.0%	
2013-2014	Fall	372	306	118.80	12	6	814.80	0.1%	
2012-2013	Fall	372	306	117.60	12	6	813.60	0.1%	
2011-2012	Fall	372	306	116.40	12	6	812.40	18.6%	
2010-2011	Summer	372	306	115.20	12	6	811.20	n/a	
2010-2011	Fall	300	264	103.20	12	6	685.20	0.2%	
2009-2010	Fall	300	264	102.00	12	6	684.00	1.8%	
2008-2009	Spring	300	264	96.00	12	6	678.00	n/a	
2008-2009	Fall	300	264	96.00	12	---	672.00	2.3%	
2007-2008	Fall	300	264	81.00	12	---	657.00	2.8%	

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

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

Table 4

Academic Year	Semester	SEMESTER CREDIT HOUR (SCH)						Cost for 12 SCH	Increase from Prior Year-Fall
		OUT-OF-DISTRICT							
		Tuition	General Fee/Out-of-District General Fee	Technology Fee	Student Activity Services Fee	Recreation Fee			
2016-2017	Fall	\$ 1,140	\$ 402	\$ 120.00	\$ 12	\$ 6	\$ 1,680.00	0.0%	
2015-2016	Fall	1,140	402	120.00	12	6	1,680.00	0.1%	
2014-2015	Fall	1,140	402	118.80	12	6	1,678.80	0.0%	
2013-2014	Fall	1,140	402	118.80	12	6	1,678.80	0.1%	
2012-2013	Fall	1,140	402	117.60	12	6	1,677.60	0.1%	
2011-2012	Fall	1,140	402	116.40	12	6	1,676.40	18.3%	
2010-2011	Summer	1,080	402	115.20	12	6	1,615.20	n/a	
2010-2011	Fall	972	324	103.20	12	6	1,417.20	6.4%	
2009-2010	Fall	948	264	102.00	12	6	1,332.00	0.9%	
2008-2009	Spring	948	264	96.00	12	6	1,326.00	n/a	
2008-2009	Fall	948	264	96.00	12	---	1,320.00	1.1%	
2007-2008	Fall	948	264	81.00	12	---	1,305.00	1.4%	

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

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

Table 4

Academic Year	Semester	SEMESTER CREDIT HOUR (SCH)							Increase from Prior Year-Fall
		OUT OF STATE/INTERNATIONAL							
		Tuition	General Fee/Out-of-State General Fee	Technology Fee	Student Activity Services Fee	Recreation Fee	Cost for 12 SCH		
2016-2017	Fall	\$ 1,140	\$ 600	\$ 120.00	\$ 12	\$ 6	\$ 1,878.00	0.0%	
2015-2016	Fall	1,140	600	120.00	12	6	1,878.00	0.1%	
2014-2015	Fall	1,140	600	118.80	12	6	1,876.80	0.0%	
2013-2014	Fall	1,140	600	118.80	12	6	1,876.80	0.1%	
2012-2013	Fall	1,140	600	117.60	12	6	1,875.60	0.1%	
2011-2012	Fall	1,140	600	116.40	12	6	1,874.40	10.7%	
2010-2011	Summer	1,080	600	115.20	12	6	1,813.20	n/a	
2010-2011	Fall	972	600	103.20	12	6	1,693.20	7.7%	
2009-2010	Fall	912	540	102.00	12	6	1,572.00	0.8%	
2008-2009	Spring	912	540	96.00	12	6	1,566.00	n/a	
2008-2009	Fall	912	540	96.00	12	---	1,560.00	1.0%	
2007-2008	Fall	912	540	81.00	12	---	1,545.00	1.2%	

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

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

Table 5

Fiscal Year	Assessed Valuation of Property	Less: Exemptions & Abatements	Taxable Assessed Value (TAV)	Ratio of Taxable Assessed Value to Assessed Value	Maintenance & Operations	Debt Service	Total Direct Rate (a)
2017	\$ 238,048,215,381	\$ 44,312,008,221	\$ 193,736,207,160	81.39%	\$ 0.075277	\$ 0.024986	\$ 0.100263
2016	221,458,121,257	42,287,303,553	179,170,817,704	80.91%	0.075631	0.026311	0.101942
2015	198,955,482,183	36,077,649,997	162,877,832,186	81.87%	0.077055	0.029835	0.106890
2014	180,734,029,067	34,213,942,090	146,520,086,977	81.07%	0.077055	0.020118	0.097173
2013	145,875,030,461	12,890,703,534	132,984,326,927	91.16%	0.079673	0.017500	0.097173
2012	159,141,889,758	31,729,564,366	127,412,325,392	80.06%	0.083399	0.013823	0.097222
2011	157,165,651,239	31,190,173,147	125,975,478,092	80.15%	0.074901	0.017319	0.092220
2010	158,860,572,423	28,430,763,993	130,429,808,430	82.10%	0.077839	0.014381	0.092220
2009	141,650,283,263	24,628,568,950	117,021,714,313	82.61%	0.077504	0.014926	0.092430
2008	128,541,398,956	23,751,022,792	104,790,376,164	81.52%	0.077505	0.014926	0.092433

Source: Local Appraisal Districts

Notes: Property is assessed at full market value.

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

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

Table 6

Fiscal Year	State Appropriation (Unrestricted)	FTSE*	State Appropriation per FTSE
2016-2017	\$ 70,294,751	47,997	\$ 1,465
2015-2016	70,168,777	48,826	1,437
2014-2015	69,155,893	50,596	1,367
2013-2014	69,202,364	49,448	1,400
2012-2013	70,014,003	49,824	1,405
2011-2012	70,232,038	52,032	1,350
2010-2011	65,957,104	53,418	1,235
2009-2010	65,791,457	50,445	1,304
2008-2009	63,627,432	43,835	1,452
2007-2008	63,627,433	39,602	1,607

Fiscal Year	State Appropriation (Unrestricted)	Academic Contract Hours	Voc/Tech Contract Hours	CEU Contract Hours	Total Funded Contract Hours	State Appropriation per Contact Hour
2016-2017	\$ 70,294,751	15,443,656	5,298,512	2,296,406	23,038,574	\$ 3.05
2015-2016	70,168,777	15,527,528	5,762,048	2,146,857	23,436,433	2.99
2014-2015	69,155,893	15,873,248	6,122,448	2,290,228	24,285,924	2.85
2013-2014	69,202,364	15,931,744	5,822,268	1,980,830	23,734,842	2.92
2012-2013	70,014,003	16,237,296	5,744,810	1,933,271	23,915,377	2.93
2011-2012	70,232,038	17,354,256	5,822,072	1,798,940	24,975,268	2.81
2010-2011	65,957,104	17,802,080	5,924,078	1,914,445	25,640,603	2.57
2009-2010	65,791,457	16,652,752	5,680,164	1,880,857	24,213,773	2.72
2008-2009	63,627,432	14,345,992	4,883,890	1,810,761	21,040,643	3.02
2007-2008	63,627,433	12,739,232	4,422,336	1,847,195	19,008,763	3.35

* One FTSE is equal to 480 annual contact hours [30 semester credit hours (Fall 12 SCH + Spring 12 SCH + Summer 6 SCH) x 16 contact hours per SCH = 480 annual contact hours]. Total annual FTSE is equal to total funded contact hours divided by annual contact hours per student (480). HCC has high number of students who enroll in Continue Education courses. As a result, state funded CEU contact hour are included in this FTSE in order to provide a more accurate "State Appropriation per FTSE."

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

Table 7

Taxpayer	Industry	Taxable Assessed Value (TAV) by Tax Year									
		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Centerpoint Energy Inc	Utility	\$ 1,644,000,381	\$ 1,626,152,344	\$ 1,418,862,516	\$ 1,362,799,831	\$ 1,382,750,044	\$ 1,153,697,187	\$ 1,119,456,415	\$ 1,122,000,954	\$ 1,155,200,888	\$ 1,039,824,086
Crescent Real Estate	Real Estate	737,834,871	986,583,880	792,215,117	917,216,307	831,337,622	716,169,026	1,129,509,857	1,027,978,140	1,136,315,715	1,378,543,156
Cullen Allen Holdings Lp	Real Estate	-	-	-	-	-	-	-	632,088,821	679,738,613	740,183,451
Hines Interests Ltd Ptnrsp	Real Estate	-	-	-	-	-	1,163,749,277	967,638,791	855,622,627	649,533,262	962,302,817
AT&T Mobility LLC	Utility	-	-	-	-	-	318,206,364	446,070,581	499,096,180	573,892,778	584,854,404
Tpg 2101 Citywest 1 & 2 Lp	Real Estate	-	-	-	-	-	-	497,060,529	469,096,180	520,865,513	576,224,151
Chevron Chemical Co	Oil & Gas	1,141,470,547	1,179,883,292	1,084,645,391	1,066,441,442	982,653,385	724,298,902	627,685,117	469,387,624	460,639,861	478,700,396
Anheuser Busch Inc	Brewery	-	-	-	-	-	357,792,263	366,424,086	404,399,350	421,420,837	451,539,258
Houston Refining	Oil & Gas	-	-	-	-	-	-	-	-	407,442,917	-
Valero Energy Corp	Oil & Gas	721,980,186	591,345,920	-	418,086,374	426,028,458	363,437,432	-	-	374,025,572	386,831,716
Teachers Insurance	Insurance	-	-	-	-	-	-	-	-	-	578,530,234
Shell Oil Co	Oil & Gas	-	-	492,784,337	-	-	334,605,330	331,875,591	-	-	-
HG Galleria I II III LP	Real Estate	679,040,894	687,114,648	508,214,845	475,503,575	385,054,953	363,274,752	319,442,735	315,388,094	-	-
Exxon Mobil Corp	Oil & Gas	-	-	-	-	-	317,979,103	305,020,231	305,281,064	-	-
1000 Louisiana LP	Real Estate	516,382,503	551,072,650	499,000,000	504,063,645	426,551,193	-	-	-	-	-
Texas Tower LTD	Real Estate	501,098,531	547,808,760	-	562,735,621	409,839,382	-	-	-	-	-
Four Oaks Place Operating	Real Estate	-	-	-	464,133,747	401,202,733	-	-	-	-	-
BG HOLDCO LLC	Real Estate	-	-	-	444,102,836	398,000,000	-	-	-	-	-
BUSYCON Properties LLC	Real Estate	512,787,835	-	505,450,307	536,989,676	453,269,103	-	-	-	-	-
Cousins Greenway & POC	Real Estate	715,139,095	1,188,888,678	1,115,262,076	-	-	-	-	-	-	-
One, Two & Three Allen Center CO LLC	Real Estate	857,457,136	924,339,870	866,158,501	-	-	-	-	-	-	-
Southwestern Bell & ATT Mobility	Utility	-	553,335,269	476,957,952	-	-	-	-	-	-	-
Totals		\$ 8,027,191,979	\$ 8,836,525,311	\$ 7,759,551,042	\$ 6,752,073,054	\$ 6,096,686,873	\$ 5,813,209,636	\$ 6,110,183,933	\$ 6,100,339,034	\$ 6,379,075,956	\$ 7,177,533,669
Total Taxable Assessed Value		\$ 193,736,207,160	\$ 179,170,817,704	\$ 162,877,832,186	\$ 146,520,086,977	\$ 132,984,326,927	\$ 127,412,325,392	\$ 125,975,478,092	\$ 130,429,808,430	\$ 117,021,714,313	\$ 104,790,367,164

Source: Local County Appraisal District

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

Table 7

Taxpayer	Industry	% of Taxable Assessed Value (TAV) by Tax Year									
		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Centerpoint Energy Inc	Utility	0.85%	0.91%	0.87%	0.93%	1.04%	0.91%	0.89%	0.86%	0.99%	0.99%
Crescent Real Estate	Real Estate	0.38%	0.55%	0.49%	0.63%	0.63%	0.56%	0.90%	0.79%	0.97%	1.32%
Cullen Allen Holdings Lp	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.48%	0.58%	0.71%
Hines Interests Ltd Ptnrsp	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.91%	0.77%	0.66%	0.56%	0.92%
AT&T Mobility LLC	Utility	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%	0.35%	0.38%	0.49%	0.56%
Tpg 2101 Citywest 1 & 2 Lp	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.39%	0.45%	0.55%
Chevron Chemical Co	Oil & Gas	0.59%	0.66%	0.67%	0.73%	0.74%	0.57%	0.50%	0.36%	0.39%	0.46%
Anheuser Busch Inc	Brewery	0.00%	0.00%	0.00%	0.00%	0.00%	0.28%	0.29%	0.31%	0.36%	0.43%
Houston Refining	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.35%	0.00%
Valero Energy Corp	Oil & Gas	0.37%	0.33%	0.00%	0.29%	0.32%	0.29%	0.00%	0.00%	0.32%	0.37%
Teachers Insurance	Insurance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.55%
Shell Oil Co	Oil & Gas	0.00%	0.00%	0.30%	0.00%	0.00%	0.26%	0.26%	0.00%	0.00%	0.00%
HG Galleria I II III LP	Real Estate	0.35%	0.38%	0.31%	0.32%	0.29%	0.29%	0.25%	0.24%	0.00%	0.00%
Exxon Mobil Corp	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%	0.24%	0.23%	0.00%	0.00%
1000 Louisiana LP	Real Estate	0.27%	0.31%	0.31%	0.34%	0.32%	0.00%	0.00%	0.00%	0.00%	0.00%
Texas Tower LTD	Real Estate	0.26%	0.31%	0.00%	0.38%	0.31%	0.00%	0.00%	0.00%	0.00%	0.00%
Four Oaks Place Operating	Real Estate	0.00%	0.00%	0.00%	0.32%	0.30%	0.00%	0.00%	0.00%	0.00%	0.00%
BGHOLDCO LLC	Real Estate	0.00%	0.00%	0.00%	0.30%	0.30%	0.00%	0.00%	0.00%	0.00%	0.00%
BUSYCON Properties LLC	Real Estate	0.26%	0.00%	0.31%	0.37%	0.34%	0.00%	0.00%	0.00%	0.00%	0.00%
Cousins Greenway & POC	Real Estate	0.37%	0.66%	0.68%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
One, Two & Three Allen	Real Estate	0.44%	0.52%	0.53%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Center CO LLC											
Southwestern Bell & ATT Mobility	Utility	0.00%	0.31%	0.29%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Totals		4.14%	4.93%	4.76%	4.61%	4.58%	4.56%	4.85%	4.68%	5.45%	6.85%

Source: Local County Appraisal District

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

Table 8

Fiscal Year	Tax Rate Per \$100	Tax Base (Assessed Value)	Total Tax Levy	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years *	Total Collections to Date	
				Actual Collections per AFR	% of Levy		Amount	% of Levy
2017	\$ 0.100263	\$ 193,736,207,160	\$ 194,245,733	\$ 192,672,263	99.19%	\$ 3,977,128	\$ 196,649,391	101.24%
2016	0.101942	179,170,817,704	182,650,315	179,069,265	98.04%	1,487,978	180,557,243	98.85%
2015	0.106890	162,877,832,186	174,100,115	173,168,964	99.47%	3,471,135	176,640,099	101.46%
2014	0.097173	146,520,086,977	142,377,964	141,871,329	99.64%	3,233,799	145,105,128	101.92%
2013	0.097173	132,984,326,927	129,224,860	126,900,573	98.20%	3,135,356	130,035,929	100.63%
2012	0.097222	127,412,325,392	123,872,811	121,247,023	97.88%	4,017,805	125,264,828	101.12%
2011	0.092220	125,975,478,092	116,179,580	113,187,929	97.42%	3,994,879	117,182,808	100.86%
2010	0.092220	130,429,808,430	120,614,601	116,730,716	96.78%	3,995,418	120,726,134	100.09%
2009	0.092430	117,021,714,313	108,163,171	105,021,974	97.10%	4,064,764	109,086,738	100.85%
2008	0.092433	104,790,367,164	96,860,880	93,854,407	96.90%	4,164,454	98,018,861	101.20%

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

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

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

Table 9

	For the Year Ended August 31									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Obligation Bonds	\$ 559,696,027	\$ 540,213,663	\$ 552,429,370	\$ 568,407,151	\$ 578,139,157	\$ 126,509,613	\$ 122,965,813	\$ 128,335,993	\$ 133,079,110	\$ 137,982,325
Notes	106,793,553	151,938,465	160,781,387	168,926,738	177,016,887	184,862,037	169,764,659	129,970,994	65,596,500	67,968,928
Less: Funds Restricted for Debt Service	-	-	-	-	-	-	-	-	-	-
Net General Bonded Debt	666,489,579	692,152,128	713,210,757	737,333,889	755,156,045	311,371,650	292,730,472	258,306,987	198,675,610	205,951,253
Per Capita	\$ 273.99	\$ 284.54	\$ 293.98	\$ 319.47	\$ 333.59	\$ 139.69	\$ 134.63	\$ 118.77	\$ 92.82	\$ 95.80
Per FTSE	\$ 12,654.55	\$ 12,929.45	\$ 13,067.73	\$ 13,732.91	\$ 13,921.98	\$ 5,511.88	\$ 5,104.01	\$ 4,723.11	\$ 4,153.09	\$ 4,711.77
As a Percentage of Taxable Assessed Value	0.34%	0.39%	0.44%	0.50%	0.57%	0.24%	0.23%	0.20%	0.17%	0.20%
Revenue Bonds	\$ 240,546,861	\$ 261,350,284	\$ 288,802,667	\$ 306,455,246	\$ 323,322,694	\$ 342,071,187	\$ 341,086,330	\$ 356,162,958	\$ 338,468,001	\$ 352,607,948
Notes	2,395,310	673,299	1,346,598	-	-	-	691,584	1,383,167	2,074,750	-
Capital Lease Obligations	-	-	-	-	-	-	1,304,824	3,914,472	6,524,120	-
Total Outstanding Debt	\$ 909,431,751	\$ 954,175,711	\$ 1,003,360,022	\$ 1,043,789,134	\$ 1,078,478,739	\$ 653,442,837	\$ 635,813,210	\$ 619,767,584	\$ 545,742,481	\$ 558,559,201
Per Capita	\$ 374	\$ 392	\$ 414	\$ 452	\$ 476	\$ 293	\$ 292	\$ 285	\$ 255	\$ 260
Per FTSE	\$ 17,267	\$ 17,824	\$ 18,384	\$ 19,441	\$ 19,883	\$ 11,567	\$ 11,086	\$ 11,332	\$ 11,408	\$ 12,779
As a Percentage of Taxable Assessed Value	0.47%	0.53%	0.62%	0.71%	0.81%	0.51%	0.50%	0.48%	0.47%	0.53%

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

Table 10

	For the Year Ended August 31,				
	2017	2016	2015	2014	2013
TAXABLE ASSESSED VALUE	\$ 193,736,207,160	\$ 179,170,817,704	\$ 162,877,832,166	\$ 146,520,086,977	\$ 132,984,326,927
GENERAL OBLIGATION BONDS:					
Statutory Tax Levy Limit for Debt Service	968,681,036	895,854,089	814,389,161	735,016,644	664,921,635
Less: Funds Restricted for Repayment of General Obligation Bonds	-	-	-	-	-
Total Net General Obligation Debt	968,681,036	895,854,089	814,389,161	735,016,644	664,921,635
Current Year Debt Service Requirements	32,532,974	32,100,119	31,529,519	28,852,217	22,600,842
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 936,148,062	\$ 863,753,970	\$ 782,859,642	\$ 706,164,427	\$ 642,320,793
Net Current Requirements as a % of Statutory Limit	3.36%	3.58%	3.87%	3.93%	3.40%
	For the Year Ended August 31,				
	2012	2011	2010	2009	2008
TAXABLE ASSESSED VALUE	\$ 127,412,325,392	\$ 125,975,478,092	\$ 130,429,808,430	\$ 117,021,714,313	\$ 104,790,367,164
GENERAL OBLIGATION BONDS:					
Statutory Tax Levy Limit for Debt Service	637,061,627	629,877,207	652,149,042	585,108,572	523,951,836
Less: Funds Restricted for Repayment of General Obligation Bonds	-	-	-	-	-
Total Net General Obligation Debt	637,061,627	629,877,207	652,149,042	585,108,572	523,951,836
Current Year Debt Service Requirements	18,904,514	20,616,717	16,768,273	11,034,759	11,059,125
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 618,157,113	\$ 609,260,490	\$ 635,380,769	\$ 574,073,813	\$ 512,892,711
Net Current Requirements as a % of Statutory Limit	2.97%	3.27%	2.57%	1.89%	2.11%

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.

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

Table 11

Fiscal Year Ended August 31	Pledged Revenues										
	Total	Tuition	Technology	Registration	Laboratory	Continuing		Interest Income	Vending Commission	Bookstore Commission	Rental Revenue
			Fee	Fees	Fees	Education	Other				
2017	\$ 86,675,262	\$ 15,524,223	\$ 5,424,763	\$ 33,979,683	\$ 1,690,989	\$ 10,690,264	\$ 7,225,312	\$ 2,012,777	\$ 132,930	\$ 2,796,712	\$ 7,197,608
2016	84,059,232	15,564,359	5,466,412	34,302,596	1,709,948	10,583,589	7,140,293	1,109,495	135,680	1,915,983	6,130,877
2015	98,017,475	11,646,452	5,639,728	51,188,252	1,674,943	11,523,728	7,601,377	543,991	140,275	2,623,595	5,435,135
2014	94,161,412	11,442,938	5,614,551	50,458,748	1,779,425	9,093,829	7,066,095	432,133	201,162	2,884,880	5,187,651
2013	94,956,856	11,731,661	5,747,728	50,940,723	1,828,481	9,136,539	7,031,565	432,022	129,999	2,786,137	5,192,001
2012	98,214,059	12,206,115	5,998,853	53,283,093	1,974,359	9,330,828	7,234,999	303,384	151,823	2,864,738	4,865,866
2011	89,655,895	10,549,582	4,930,929	48,356,423	2,085,644	8,614,733	6,777,965	260,462	175,322	2,693,341	5,211,494
2010	81,401,974	9,587,926	4,543,879	43,168,485	3,393,362	8,699,410	4,250,888	405,337	167,930	2,166,708	5,018,051
2009	74,049,779	8,304,454	3,902,031	38,912,692	2,890,446	8,136,071	3,550,828	1,344,876	156,180	1,666,446	5,185,754
2008	68,374,594	7,346,541	3,485,805	35,489,400	2,434,803	7,982,248	2,700,926	2,636,536	167,813	1,545,225	4,585,297

Fiscal Year Ended August 31	Debt Service Requirements			
	Principal	Interest	Total	Coverage
				Ratio
2017	\$ 18,175,000	\$ 9,686,993	\$ 27,861,993	3.11
2016	15,640,000	8,560,997	24,200,997	3.47
2015	12,545,000	8,421,828	20,966,828	4.67
2014	11,320,000	9,658,049	20,978,049	4.49
2013	13,435,000	10,254,199	23,689,199	4.01
2012	12,715,000	10,579,416	23,294,416	4.22
2011	11,335,000	10,712,486	22,047,486	4.07
2010	10,770,000	10,325,724	21,095,724	3.86
2009	10,430,000	10,408,632	20,838,632	3.55
2008	7,520,000	8,402,868	15,922,868	4.29

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

Table 12

Calendar Year	Service Area Population	Service Area Personal Income	Service Area Personal Income Per Capita	Service Area Unemployment Rate
2016	2,432,543	\$ 81,234,773,485	\$ 33,395	3.3%
2015	2,426,057	75,280,548,710	31,030	3.4%
2014	2,308,004	68,275,374,328	29,582	3.7%
2013	2,263,741	62,320,789,730	27,530	5.4%
2012	2,228,995	64,750,075,755	29,049	4.8%
2011	2,174,361	61,960,591,056	28,496	5.1%
2010	2,174,919	60,334,427,979	27,741	5.1%
2009	2,140,484	56,172,721,612	26,243	5.1%
2008	2,149,766	51,992,090,710	24,185	5.8%
2007	2,118,315	52,815,947,895	24,933	6.3%

Sources:

HCCS MapInfo Files with 2011 Board Redistricted Boundaries

Service Area additions per HB 3659

Northwest & Southwest College Boundary changes per executive team, Sept. 2013

Census & Bureau of Labor Statistics (BLS) data from Applied Geographic Solutions (AGS) on PCensus CD-ROM,

TETRAD Computer Applications, Inc., Jan. 2017 (with 2016 AGS for Business/Occupation info.), Jan. 2017

**HOUSTON COMMUNITY COLLEGE SYSTEM
PRINCIPAL EMPLOYERS
LAST TEN FISCAL YEARS
(Unaudited)**

Table 13

**Houston-Sugar Land-Baytown MSA
(Austin, Brazoria, Chambers, Fort Bend,
Galveston, Harris, Liberty Montgomery,
San Jacinto, Waller)**

	June 2017	June 2016	July 2015	June 2014	June 2013	June 2012	June 2011	June 2010	June 2009	June 2008
Number of Employees										
Trade, Transportation, & Utilities	603,200	615,300	611,900	594,900	564,300	547,800	527,800	515,800	517,000	530,300
Professional & Business Services	486,100	458,600	473,700	466,800	429,700	410,900	383,900	363,600	359,000	392,000
Government	413,600	387,800	365,500	373,900	364,500	359,300	372,400	381,800	364,000	352,400
Education & Health Services	390,500	383,400	366,800	347,400	335,900	327,000	314,700	308,900	296,200	291,200
Mining and Logging/Construction	301,400	302,600	317,400	312,000	298,100	279,600	261,000	252,800	270,400	90,600
Manufacturing	234,100	231,500	245,300	255,300	252,800	244,600	228,200	217,500	225,000	237,800
Leisure & Hospitality	330,700	327,800	305,800	294,100	277,500	264,300	250,400	241,100	243,800	239,800
Financial Activities	156,200	154,500	152,100	148,100	143,200	141,000	137,100	136,200	140,000	147,500
Other Services	113,200	109,200	108,600	105,500	100,300	96,900	93,600	92,700	93,700	97,300
Information	32,200	31,200	32,900	33,300	32,700	31,500	31,900	32,500	34,900	37,100
Total	3,061,200	3,001,900	2,980,000	2,931,300	2,799,000	2,702,900	2,601,000	2,542,900	2,544,000	2,416,000
Percent of Employees										
Trade, Transportation, & Utilities	19.7%	20.5%	20.5%	20.3%	20.2%	20.3%	20.3%	20.3%	20.3%	21.9%
Professional & Business Services	15.9%	15.3%	15.9%	15.9%	15.4%	15.2%	14.8%	14.3%	14.1%	16.2%
Government	13.5%	12.9%	12.3%	12.8%	13.0%	13.3%	14.3%	15.0%	14.3%	14.6%
Education & Health Services	12.8%	12.8%	12.3%	11.9%	12.0%	12.1%	12.1%	12.1%	11.6%	12.1%
Mining and Logging/Construction	9.8%	10.1%	10.7%	10.6%	10.7%	10.3%	10.0%	9.9%	10.6%	3.8%
Manufacturing	7.6%	7.7%	8.2%	8.7%	9.0%	9.0%	8.8%	8.6%	8.8%	9.8%
Leisure & Hospitality	10.8%	10.9%	10.3%	10.0%	9.9%	9.8%	9.6%	9.5%	9.6%	9.9%
Financial Activities	5.1%	5.1%	5.1%	5.1%	5.1%	5.2%	5.3%	5.4%	5.5%	6.1%
Other Services	3.7%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.7%	4.0%
Information	1.1%	1.0%	1.1%	1.1%	1.2%	1.2%	1.2%	1.3%	1.4%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

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

Table 14

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Faculty										
Full-Time	830	818	759	759	789	809	910	848	829	821
Part-Time	1,545	1,717	1,687	1,742	1,715	2,781	2,921	2,345	2,049	2,499
Total	2,375	2,535	2,446	2,501	2,504	3,590	3,831	3,193	2,878	3,320
Percent										
Full-Time	34.9%	32.3%	31.0%	30.3%	31.5%	22.5%	23.8%	26.6%	28.8%	24.7%
Part-Time	65.1%	67.7%	69.0%	69.7%	68.5%	77.5%	76.2%	73.4%	71.2%	75.3%
Staff and Administrators										
Full-Time	1,528	1,465	1,385	1,323	1,350	1,327	1,272	1,185	1,102	1,079
Part-Time	1,160	1,432	1,170	1,413	1,443	1,088	1,169	1,323	1,259	1,504
Total	2,688	2,897	2,555	2,736	2,793	2,415	2,441	2,508	2,361	2,583
Percent										
Full-Time	56.8%	50.6%	54.2%	48.4%	48.3%	54.9%	52.1%	47.2%	46.7%	41.8%
Part-Time	43.2%	49.4%	45.8%	51.6%	51.7%	45.1%	47.9%	52.8%	53.3%	58.2%
Students per Full-time*										
Faculty	66.3	65.4	72.5	72.0	71.0	71.2	62.2	57.1	53.6	53.0
Staff and Administrators	36.0	36.5	39.7	41.3	41.5	43.4	44.5	40.9	40.3	40.3
Average Annual										
Faculty Salary	\$ 70,528	\$ 68,504	\$ 65,038	\$ 64,962	\$ 63,366	\$ 63,473	\$ 62,533	\$ 62,833	\$ 60,378	\$ 56,047

*All figures are calculated from the CBM001&00A reports combined.

Source: IPEDS Human Resources Survey.

HOUSTON COMMUNITY COLLEGE SYSTEM
ANNUAL STUDENT ENROLLMENT TRENDS BY RESIDENCY CODE
SEMESTER CREDIT HOUR (SCH)
LAST FIVE FISCAL YEARS
(Unaudited)

Table 15

	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
In-District	53,400	54,157	56,532	57,203	57,755
Out-of-District	21,665	20,869	21,701	21,369	21,267
Out-of-State	10,365	10,270	9,684	8,871	9,137
Other/Unknown	17	9	85	17	69
Unduplicated Enrollment	85,447	85,305	88,002	87,460	88,228

ANNUAL STUDENT ENROLLMENT TRENDS BY CAREER TYPE
LAST FIVE FISCAL YEARS

	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
Semester Credit Hour (SCH)	85,447	85,305	88,002	87,460	88,228
Funded Continuing Education Unit (CEU)	16,701	16,753	18,170	16,344	17,901
Non Funded Continuing Education	3,147	2,344	2,214	4,708	1,116
Adult HS ABE/ESL/GED	11,286	11,681	9,167	7,992	9,749
Unduplicated Enrollment *	114,430	114,288	115,575	113,689	115,600

Note:

* The unduplicated enrollment total cannot be arrived at by summing the columns. This is because students may take courses in multiple career types.

Source: HCC OIR DataMart Files, End of Term, FY 2013 - FY 2017.

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

Table 16

Student Classification*	Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Freshman	27,849	50.6%	26,282	49.2%	27,504	50.0%	28,599	52.4%	29,955	53.5%	32,304	56.1%	32,660	57.7%	28,401	58.2%
Sophomore	14,264	25.9%	14,734	27.6%	14,681	26.7%	14,414	26.4%	14,380	25.7%	14,529	25.2%	13,447	23.8%	10,695	22.2%
Unclassified	5,078	9.2%	5,221	9.8%	5,213	9.5%	4,904	9.0%	4,677	8.3%	4,437	7.7%	3,390	6.0%	2,374	4.6%
Assoc. Degree	15	0.0%	21	0.0%	30	0.1%	37	0.1%	53	0.1%	64	0.1%	120	0.2%	165	0.4%
BS & Above	57	0.1%	117	0.2%	118	0.2%	152	0.3%	171	0.3%	279	0.5%	361	0.6%	514	1.4%
Continuing Ed. Only	7,791	14.2%	7,093	13.3%	7,495	13.6%	6,515	11.9%	6,778	12.1%	6,002	10.4%	6,614	11.7%	6,256	13.1%
Total	55,054	100.0%	53,468	100.0%	55,041	100.0%	54,621	100.0%	56,014	100.0%	57,615	100.0%	56,592	100.0%	48,405	100.0%

Semester Hour Load**	Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than 3	506	0.9%	548	1.0%	650	1.2%	652	1.2%	660	1.2%	835	1.4%	748	1.3%	624	1.4%
3-5 semester hrs	13,975	25.4%	12,312	23.0%	12,503	22.7%	12,363	22.6%	13,116	23.4%	13,153	22.8%	13,516	23.9%	10,755	23.0%
6-8 Semester hrs	13,846	25.1%	13,712	25.6%	14,009	25.5%	13,915	25.5%	13,433	24.0%	14,622	25.4%	13,781	24.4%	11,575	23.7%
9-11 semester hrs	9,348	17.0%	9,694	18.1%	9,791	17.8%	9,717	17.8%	9,999	17.9%	10,856	18.8%	10,359	18.3%	8,750	17.1%
12-14 semester hrs	8,264	15.0%	8,787	16.4%	9,103	16.5%	9,933	18.2%	10,438	18.6%	10,645	18.5%	9,958	17.6%	8,950	18.4%
15-17 semester hrs	1,247	2.3%	1,205	2.3%	1,376	2.5%	1,381	2.5%	1,470	2.6%	1,364	2.4%	1,443	2.5%	1,341	3.0%
18 & over	77	0.1%	117	0.2%	114	0.2%	145	0.3%	120	0.2%	138	0.2%	173	0.3%	154	0.4%
Continuing Ed. Only	7,791	14.2%	7,093	13.3%	7,495	13.6%	6,515	11.9%	6,778	12.1%	6,002	10.4%	6,614	11.7%	6,256	13.1%
Total	55,054	100.0%	53,468	100.0%	55,041	100.0%	54,621	100.0%	56,014	100.0%	57,615	100.0%	56,592	100.0%	48,405	100.0%
Average course load	7.4 SCH		7.6 SCH		7.7 SCH		7.7 SCH		7.8 SCH		7.8 SCH		7.8 SCH		7.9 SCH	

Tuition Status***	Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Texas Resident (In-District)	29,745	54.0%	29,791	55.7%	31,296	56.9%	31,806	58.2%	32,735	58.4%	32,896	57.1%	31,267	55.2%	26,003	49.9%
Texas Resident (Out-of-District)	11,053	20.1%	10,541	19.7%	10,603	19.3%	10,592	19.4%	10,821	19.3%	12,056	20.9%	12,298	21.7%	10,446	25.3%
Non-Resident Tuition	6,151	11.2%	5,761	10.8%	5,234	9.5%	5,124	9.4%	5,302	9.5%	6,332	11.0%	6,170	10.9%	5,528	11.4%
Tuition Waiver	314	0.6%	282	0.5%	413	0.8%	584	1.1%	378	0.7%	329	0.6%	243	0.4%	172	0.3%
Continuing Ed. Only	7,791	14.2%	7,093	13.3%	7,495	13.6%	6,515	11.9%	6,778	12.1%	6,002	10.4%	6,614	11.7%	6,256	13.1%
Total	55,054	100.0%	53,468	100.0%	55,041	100.0%	54,621	100.0%	56,014	100.0%	57,615	100.0%	56,592	100.0%	48,405	100.0%

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

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

Table 17

Gender	Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Female	29,532	53.6%	29,248	54.7%	30,007	54.5%	29,652	54.3%	30,881	55.1%	31,985	55.5%	30,865	54.5%	26,452	54.6%
Male	25,522	46.4%	24,220	45.3%	25,034	45.5%	24,969	45.7%	25,133	44.9%	25,630	44.5%	25,727	45.5%	21,953	45.4%
Total	55,054	100.0%	53,468	100.0%	55,041	100.0%	54,621	100.0%	56,014	100.0%	57,615	100.0%	56,592	100.0%	48,405	100.0%

Ethnic Origin	Fall 2016*		Fall 2015*		Fall 2014*		Fall 2013*		Fall 2012*		Fall 2011*		Fall 2010*		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	8,438	15.3%	8,781	16.4%	9,302	16.9%	9,564	17.5%	10,242	18.3%	10,912	18.9%	11,393	20.1%	9,506	19.4%
African American	14,192	25.8%	14,695	27.5%	16,079	29.2%	15,631	28.6%	16,085	28.7%	17,346	30.1%	15,685	27.7%	11,558	22.9%
Hispanic	19,230	34.9%	18,336	34.3%	18,368	33.4%	18,346	33.6%	18,266	32.6%	17,812	30.9%	17,721	31.3%	14,160	29.8%
Asian	5,504	10.0%	5,341	10.0%	5,354	9.7%	5,542	10.1%	5,641	10.1%	6,107	10.6%	5,881	10.4%	4,832	10.5%
Native American	87	0.2%	104	0.2%	118	0.2%	118	0.2%	110	0.2%	131	0.2%	138	0.2%	121	0.2%
Foreign	5,257	9.5%	4,655	8.7%	4,040	7.3%	3,830	7.0%	3,884	6.9%	4,086	7.1%	4,270	7.5%	3,875	8.2%
Unknown	2,346	4.3%	1,556	2.9%	1,780	3.2%	1,590	2.9%	1,786	3.2%	1,221	2.1%	1,504	2.7%	4,353	9.0%
Total	55,054	100.0%	53,468	100.0%	55,041	100.0%	54,621	100.0%	56,014	100.0%	57,615	100.0%	56,592	100.0%	48,405	100.0%

Age	Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 18	6,112	11.1%	4,283	8.0%	4,031	7.3%	3,962	7.3%	4,639	8.3%	2,908	5.0%	3,046	5.4%	1,886	4.0%
18 - 21	15,500	28.2%	14,982	28.0%	15,074	27.4%	16,041	29.4%	16,027	28.6%	17,222	29.9%	17,205	30.4%	15,275	31.9%
22 - 24	8,308	15.1%	8,562	16.0%	8,753	15.9%	8,849	16.2%	8,962	16.0%	9,760	16.9%	9,328	16.5%	8,303	17.4%
25 - 35	15,850	28.8%	15,997	29.9%	16,903	30.7%	15,741	28.8%	15,842	28.3%	17,194	29.8%	16,569	29.3%	14,186	28.5%
36 - 50	6,983	12.7%	7,154	13.4%	7,688	14.0%	7,477	13.7%	7,862	14.0%	8,055	14.0%	7,957	14.1%	6,749	14.0%
51 & Over	2,293	4.2%	2,482	4.6%	2,589	4.7%	2,531	4.6%	2,664	4.8%	2,464	4.3%	2,468	4.4%	1,967	4.0%
Unknown	8	0.0%	8	0.0%	3	0.0%	20	0.0%	18	0.0%	12	0.0%	19	0.0%	39	0.2%
Total	55,054	100.0%	53,468	100.0%	55,041	100.0%	54,621	100.0%	56,014	100.0%	57,615	100.0%	56,592	100.0%	48,405	100.0%
Average Age	26.8 *		27.4 *		27.7 *		27.4 *		27.4 *		27.5 *		27.4		27.3	

*Removed 'Unknown' age before calculating average.
Source: Certified CBM004 & CBM00C.

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

Table 18

Funded Contact Hours				
Fiscal Year	Academic	Voc Tech	Total	CEU
2016-2017	15,443,656	5,298,512	20,742,168	2,296,406
2015-2016	15,527,528	5,762,048	21,289,576	2,146,857
2014-2015	15,873,248	6,122,448	21,995,696	2,290,228
2013-2014	15,931,744	5,822,268	21,754,012	1,980,830
2012-2013	16,237,296	5,744,810	21,982,106	1,933,271
2011-2012	17,354,256	5,822,072	23,176,328	1,798,940
2010-2011	17,802,080	5,924,078	23,726,158	1,914,445
2009-2010	16,652,752	5,680,164	22,332,916	1,880,857
2008-2009	14,345,992	4,883,890	19,229,882	1,810,761
2007-2008	12,739,232	4,422,336	17,161,568	1,847,195

Source: Certified CBM004 & CBM00C.

**HOUSTON COMMUNITY COLLEGE SYSTEM
TRANSFERS TO SENIOR INSTITUTIONS
2015-2016 GRADUATES*
(Includes Only Public Senior Colleges in Texas)
(Unaudited)**

Table 19

	Total Student	Total	Total	Total of all	% of all
	Count	Student	Student	Transfer	Transfer
	Academic	Technical	Tech-Prep	Students	Students
1 Angelo State University	8			8	0.1%
2 Baylor College of Medicine	6			6	0.1%
3 Lamar University	118	11		129	1.1%
4 Midwestern State University	19	5		24	0.2%
5 Prairie View A&M University	297	25		322	2.9%
6 Sam Houston State University	309	7		316	2.8%
7 Stephen F. Austin State University	151	6	2	159	1.4%
8 Sul Ross State University	3			3	0.0%
9 Sul Ross State University - Rio Grande College	1			1	0.0%
10 Tarleton State University	10			10	0.1%
11 Texas A&M International University	5	1		6	0.1%
12 Texas A&M University	1,037	10	2	1,049	9.3%
13 Texas A&M University - Central Texas	2			2	0.0%
14 Texas A&M University - Commerce	9	1		10	0.1%
15 Texas A&M University - Corpus Christi	64			64	0.6%
16 Texas A&M University - Kingsville	25			25	0.2%
17 Texas A&M University - San Antonio	9			9	0.1%
18 Texas A&M University - Texarkana	2			2	0.0%
19 Texas A&M University at Galveston	48			48	0.4%
20 Texas A&M University System Health Science Center	29			29	0.3%
21 Texas Southern University	572	46	1	619	5.5%
22 Texas State University	396	7		403	3.6%
23 Texas Tech University	336	4		340	3.0%
24 Texas Tech University Health Sciences Center	25	1		26	0.2%
25 Texas Tech University Health Sciences Center - El Paso				-	0.0%
26 Texas Woman's University	130	4		134	1.2%
27 The University of Texas - Rio Grande Valley	10	1		11	0.1%
28 The University of Texas at Arlington	159	13		172	1.5%
29 The University of Texas at Austin	913	6		919	8.2%
30 The University of Texas at Dallas	101	3		104	0.9%
31 The University of Texas at El Paso	13			13	0.1%
32 The University of Texas at San Antonio	257	4	2	263	2.3%
33 The University of Texas at Tyler	212	1		213	1.9%
34 The University of Texas Health Science Center at Houston	121	8		129	1.1%
35 The University of Texas Health Science Center at San Antonio	4	1		5	0.0%
36 The University of Texas M.D. Anderson Cancer Center	54	2		56	0.5%
37 The University of Texas Medical Branch at Galveston	36	5		41	0.4%
38 The University of Texas of the Permian Basin	39	1		40	0.4%
39 The University of Texas Southwestern Medical Center	1			1	0.0%
40 University of Houston	3,291	114	12	3,417	30.5%
41 University of Houston - Clear Lake	173	22		195	1.7%
42 University of Houston - Downtown	1,388	101	7	1,496	13.3%
43 University of Houston - Victoria	254	28		282	2.5%
44 University of North Texas	92	4		96	0.9%
45 University of North Texas at Dallas	1			1	0.0%
46 University of North Texas Health Science Center	8			8	0.1%
47 West Texas A&M University	11	3		14	0.1%
	10,749	445	26	11,220	100.00%

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

* Data reflect the most recent year available from the THECB, there is a one year lag from the time students' graduate until they are located at the transfer institutions.

HOUSTON COMMUNITY COLLEGE SYSTEM
CAPITAL ASSET INFORMATION
LAST FIVE FISCAL YEARS
(Unaudited)

Table 20

	2017	2016	2015	2014	2013
Number of Academic Buildings*	52	50	50	49	49
Square footage	3,174,752	2,938,234	2,925,810	2,921,680	2,880,875
Number of Administrative Buildings	1	1	1	1	1
Square footage	558,450	558,450	558,450	558,450	558,450
Number of Plant Facilities/Warehouses	6	6	6	6	6
Square footage	180,845	180,845	180,845	180,845	180,845
Number of Parking Structures	6	6	4	4	4
Square footage	1,413,861	1,413,861	1,056,211	1,082,259	996,689
Number of Libraries**	14	14	15	16	16
Square footage	149,831	149,831	149,831	136,741	136,741
<u>Libraries</u>					
Number of Volumes					
Circulating books	260,723	255,605	252,646	248,133	241,382
Reference books	24,167	26,202	25,541	24,799	24,299
Media items	22,768	22,492	26,426	24,356	28,016
Magazines, journals, newspapers	464	527	415	589	230
Electronic books/digital video	282,510	242,580	207,507	186,540	69,699
Electronic journals	7,100	8,228	23,746	48,758	23,535
Total	<u>597,732</u>	<u>555,634</u>	<u>536,281</u>	<u>533,175</u>	<u>387,161</u>
<u>Transportation</u>					
Bus	0	0	2	2	2
Cars	42	38	34	33	29
Golf Cart	19	24	24	23	28
Utility Carts	13	10	10	10	10
Motorcycle	1	1	1	1	1
Segway	0	3	3	3	3
Mobile Unit	2	2	2	3	3
Sports Utility Vehicle	11	5	5	4	4
Tractors	33	37	31	33	29
Trailers	40	45	45	45	49
Truck	19	19	19	16	14
Truck, Heavy	5	4	4	2	2
(Fire Truck)	2	2	2	2	2
Cargo Vans	14	18	22	19	19
15 Passenger Vans	2	2	2	2	2
Forklift	10	10	10	8	8
Total	<u>213</u>	<u>220</u>	<u>216</u>	<u>206</u>	<u>205</u>

Note:

*Buildings include both capital and operating leases.

**They are not free standing buildings and are already included in Academic Buildings.

**SINGLE AUDIT REPORTS AND SCHEDULES OF
EXPENDITURES OF FEDERAL AND STATE OF TEXAS
AWARDS**



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT
AUDITING STANDARDS**

Grant Thornton LLP
700 Milam Street, Suite 300
Houston, TX 77002-2848

T 832.476.3600
F 713.655.8741
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

Board of Trustees
Houston Community College System
Houston, Texas

We have audited, 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, the financial statements of Houston Community College System (the "System"), which comprise the statement of financial position as of August 31, 2017 and 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the System's financial statements, and have issued our report thereon dated December 14, 2017.

Our report includes a reference to other auditors who audited the financial statements of the Houston Community College Foundation ("The Foundation"), as described in our report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Foundation, audited by other auditors, were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Internal control over financial reporting

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

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

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

System's response to findings

The System's response to our finding, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the System's response.

Intended purpose

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



Houston, Texas
December 14, 2017



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

Grant Thornton LLP
700 Milam Street, Suite 300
Houston, TX 77002-2848
T 832.476.3600
F 713.655.8741
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

Board of Trustees
Houston Community College System
Houston, Texas

Report on compliance for each major federal and state program

We have audited the compliance of Houston Community College System (the “System”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Compliance Supplement* and *The State of Texas Single Audit Circular* that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2017. The System’s major federal and state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to the System’s federal and state programs.

Auditor’s responsibility

Our responsibility is to express an opinion on compliance for each of the System’s major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Texas Single Audit Circular*. Those standards, the Uniform Guidance and *The State of Texas Single Audit Circular* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the System’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for qualified opinion on Texas Educational Opportunity Grant

As described in the accompanying schedule of findings and questioned costs, the System did not comply with the requirement regarding Texas Education Opportunity Grant as described in finding number 2017-002 for Matching. Compliance with such requirement is necessary, in our opinion, for the System to comply with the requirements applicable to that program.

Qualified opinion on Texas Educational Opportunity Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on the Texas Educational Opportunity Grant paragraph, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Texas Educational Opportunity Grant for the year ended August 31, 2017.

Unmodified opinion on each of the other major federal programs

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal and state programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2017.

Other matters

The results of our audit procedures disclosed an instance of noncompliance, described in the accompanying schedule of findings and questioned costs as item 2017-001, which is required to be reported in accordance with the Uniform Guidance. Our opinion on each major federal and state program is not modified with respect to this matter.

The System's response to the noncompliance finding identified in our audit, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the System's response.

Report on internal control over compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2017-002, which we consider to be a material weakness in the System's internal control over compliance. We also identified a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2017-001, which we consider to be a significant deficiency in the System's internal control over compliance.

The System's response to the findings on internal control over compliance identified in our audit, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the System's response.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and *The State of Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Houston, Texas
December 14, 2017

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2017

Schedule E

Federal Grantor/Cluster/Program Title/Pass-through Grantor Pass-through Grantor's Award Number	CFDA Number	Expenditures			Subrecipients Expenditures
		Direct Awards	Pass-Through Awards	Total	
U. S. Department of Education					
Student Financial Assistance Cluster					
Federal Supplemental Educational Opportunity Grants	84.007	\$ 1,305,459	\$ -	\$ 1,305,459	\$ -
Federal Work-Study Program	84.033	1,271,883		1,271,883	
Federal Pell Grant Program	84.063	79,226,004		79,226,004	
Federal Direct Student Loans	84.268	81,363,642		81,363,642	
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	11,643		11,643	
Total		163,178,631	-	163,178,631	-
TRIO Cluster					
TRIO - Upward Bound	84.047	299,870		299,870	
P047A 121264-15					
TRIO - Upward Bound	84.047	403,668		403,668	
P047A 120962-16					
TRIO - Upward Bound	84.047	175,658		175,658	
P047A 171255					
TRIO - Educational Opportunities Centers	84.066A	175,047		175,047	
P066A 160447					
Total		1,054,243	-	1,054,243	-
Minority Science and Engineering Improvement	84.120A	8,268		8,268	
P120A 110109-13					
Pass-Through From:					
Texas Workforce Commission					
Adult Education - Basic Grants to States	84.002A		435,198	435,198	372,066
2816AEL004					
Houston - Galveston Area Council					
Adult Education - Basic Grants to States	84.002A		802,631	802,631	562,160
H-GAC 213-16					
Adult Education - Basic Grants to States	84.002A		3,640,875	3,640,875	2,024,984
H-GAC 213-17					
Adult Education - Basic Grants to States	84.002A		18,920	18,920	
H-GAC 213-16					
Adult Education - Basic Grants to States	84.002A		311,929	311,929	
H-GAC 213-17					
Adult Education - Basic Grants to States	84.002A		16,724	16,724	
PTE 215-17					
Adult Education - Basic Grants to States	84.002A		57,924	57,924	
H-GAC 213-17					
Total		-	4,849,003	4,849,003	2,587,144
College of the Mainland					
Adult Education - Basic Grants to States	84.002A		(90)	(90)	
TWC 2915AEL002					
Texas Health and Human Services/HISD					
Title I Grants to Local Educational Agencies	84.010		5,995	5,995	
621-99-TH2					
University of St. Thomas					
Higher Education - Institutional Aid	84.031C		87,799	87,799	
UST HSI STEM					
Manpower Demonstration Research Corporation					
Education Research, Development and Dissemination	84.305A		3,188	3,188	
Texas Higher Education Coordinating Board (THECB)					
Career and Technical Education - Basic Grants to States	84.048		1,664,701	1,664,701	
17663					
Education Research, Development and Dissemination	84.305H		15,600	15,600	
15384					
Education Research, Development and Dissemination	84.305H		46,970	46,970	
15526					
Total		-	1,727,271	1,727,271	-
Total U.S. Department of Education		\$ 164,241,142	\$ 7,108,364	\$ 171,349,506	\$ 2,959,210

See accompanying notes to Schedule of Expenditures of Federal Awards

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
YEAR ENDED AUGUST 31, 2017

Schedule E

Federal Grantor/Cluster/Program Title/Pass-through Grantor Pass-through Grantor's Award Number	CFDA Number	Expenditures		Subrecipients Expenditures
		Direct Awards	Pass-Through Awards	
U.S. Department of Commerce				
Minority Business Development Agency - Business Center MB13DAL8050011	11.805	91		91
Minority Business Development Agency - Business Center MB160BD8050023	11.805	368,065		368,065
Total U.S. Department of Commerce		368,156	-	368,156
U.S. Department of Justice				
Bulletproof Vest Partnership Program	16.607	2,064		2,064
Total U.S. Department of Justice		2,064	-	2,064
U.S. Department of Labor				
H-1B Job Training Grants AP-27829-15-60-A-48	17.268	625,588		625,588
Pass-Through From Texas Education Agency WIOA Adult Program 17391801711013	17.258		9,794	9,794
Pass-Through From Texas Workforce Commission WIOA Dislocated Worker Formula Grants 2817WOS001	17.278		127,495	127,495
WIOA Dislocated Worker Formula Grants 2817ATP001	17.278		144,142	144,142
Total U.S. Department of Labor		625,588	281,431	907,019
U.S. Department of State				
Pass-Through From: Northern Virginia Community College Academic Exchange Programs- Undergraduate Programs SECACD-16-CA 1061	19.009		79,688	79,688
Undergraduate Programs SECACD-16-CA 1061	19.009		51,355	51,355
Total U.S. Department of State		-	131,043	131,043
National Endowment for the Humanities				
Promotion of the Humanities Public Programs LA 105401	45.164		1,138	1,138
Total National Endowment for the Humanities		-	1,138	1,138
Federal Institute of Museum and Library Services				
Pass-Through From: Texas State library & Archives Commission Grants to State 478-17010	45.310		72,792	72,792
Total Institute of Museum and Library Services		-	72,792	72,792
National Science Foundation				
Mathematical and Physical Sciences 1460564	47.049	205,954		205,954
Education and Human Resources 1501938	47.076	71,539		71,539
Pass-Through From: Texas Southern University Education and Human Resources 3285	47.076		45,590	45,590
Total National Science Foundation		277,493	45,590	323,083
U. S. Nuclear Regulatory Commission				
Pass-Through From: University of Houston - Downtown U.S. NRC Scholarship and Fellowship Program FY14-NRC HQ-84-14-G-0028VI	77.008		67,912	67,912
Total U.S. Nuclear Regulatory Commission		-	67,912	67,912

See accompanying notes to Schedule of Expenditures of Federal Awards

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
YEAR ENDED AUGUST 31, 2017

Schedule E

Federal Grantor/Cluster/Program Title/Pass-through Grantor Pass-through Grantor's Award Number	CFDA Number	Direct Awards	Expenditures Pass-Through Awards	Total	Subrecipients Expenditures
U.S. Department of Energy					
Pass-Through From:					
Houston - Galveston Area Council Conservation Research and Development UDOE.13.0103.13	81.086		6,597	6,597	
Total U.S. Department of Energy		-	6,597	6,597	
U. S. Department of Health and Human Services					
Pass-Through From:					
University of Texas at Austin Substance Abuse and Mental Health Services Projects UTA12-001074 AMD4	93.243		3,116	3,116	
Substance Abuse and Mental Health Services Projects UTA12-001074 AMD7	93.243		17,798	17,798	
Total		-	20,914	20,914	
Houston - Galveston Area Council Temporary Assistance for Needy Families H-GAC 213-16	93.558		21,310	21,310	
Temporary Assistance for Needy Families H-GAC 213-17	93.558		274,468	274,468	
Total		-	295,778	295,778	
Texas Workforce Commission Temporary Assistance for Needy Families 2817SMP001	93.558		71,696	71,696	
Temporary Assistance for Needy Families 2816SMP003	93.558		14,833	14,833	
Temporary Assistance for Needy Families 2817ATP001			13,735	13,735	13,735
Total		-	100,264	100,264	13,735
YMCA of Greater Houston Refugee and Entrant Assistance - Targeted Assistance Grants 529-14-009-00036B	93.584		24,989	24,989	
Total U. S. Department of Health and Human Services		-	441,945	441,945	
Corporation for National and Community Service					
AmeriCorps	94.006	86,874		86,874	
Pass Through From:					
Local Initiative Support Corp/Chinese Community Center Social Innovation Fund	94.019		15,131	15,131	
Total Corporation for National and Community Service		86,874	15,131	102,005	
Total Expenditures of Federal Awards		\$ 165,601,317	\$ 8,171,943	\$ 173,773,260	\$ 3,437,853

See accompanying notes to Schedule of Expenditures of Federal Awards

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE

The Schedule of Expenditures of Federal Awards presents the federal grant activity of the System for the year ended August 31, 2017. The schedule is presented using the accrual basis of accounting. The expenditures reported in the schedule represent funds which have been expended by the System for the purposes of the award. The expenditures reported in the schedule 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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The System has followed all applicable guidelines issued by various entities in the preparation of the schedule. Since the System utilizes an agency approved Indirect Recovery Rate, it has elected not to use the 10% de minimis cost rate as permitted under the Uniform Guidance, Section 200.414.

NOTE 2 – FEDERAL ASSISTANCE RECONCILIATION

Revenues - Federal Grants and Contracts – per Schedule A	\$ 14,092,252
Add: Non-Operating Federal Revenue - per Schedule C	\$ 80,531,464
Total Federal Revenues per Schedules A and C	<u>\$ 94,623,716</u>

Reconciling items:

Add: Direct Student Loans	81,363,642
Less: Programs not subject to Federal Single Audit	<u>\$ (2,214,098)</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 173,773,260</u>

NOTE 3 – EXPENDITURES NOT SUBJECT TO FEDERAL SINGLE AUDIT

The following federal funds were not subject to federal single audit –

CFDA 64.027 Post 9/11 Veterans Educational Assistance	<u>\$ 2,214,098</u>
---	---------------------

These funds were not subject to a federal single audit as per the Catalog of Federal Domestic Assistance.

NOTE 4 – STUDENT LOANS PROCESSED AND ADMINISTRATIVE COSTS RECOVERED

<u>Federal Grantor/ CFDA Number/Program Name</u>	<u>New Loans Processed</u>	<u>Administrative Cost Recovered</u>	<u>Total Loans Processed & Administrative Cost Recovered</u>
U.S. Department of Education:			
84.268 Direct Loans	<u>\$ 81,363,642</u>	<u>\$ -</u>	<u>\$ 81,363,642</u>

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

NOTE 5 – SUBRECIPIENTS

The following were subrecipients of the U.S. Department of Education Adult Education Basic Grant Program (Adult Education and Family Literacy Act), CFDA 84.002. These amounts are included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

Alliance for Multicultural Community Services	\$ 253,621
Association for the Advancement of Mexican Americans	708,606
AVANCE	135,636
Chinese Community Center	187,322
Community Family Center	535,067
Gulf Coast Community Services	4,815
Houston Center for Literacy	313,412
Houston International University	69,419
Neighborhood Centers, Inc.	379,245
Alamo Community College District	94,885
Amarillo Junior College District	95,828
South Texas Community College	96,066
Tarrant County Junior College	<u>85,287</u>
Total Passed-through to Subrecipients	<u>\$ 2,959,210</u>

The following were subrecipients of the U.S. Department of Labor H-1B Job Training grant, CFDA 17.268. These amounts are included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

CVS Health Corporation	\$ 95,920
Dallas County Community College District	<u>213,439</u>
Total Passed-through to Subrecipients	<u>\$ 309,358</u>

The following was a subrecipient of the U.S. Department of Labor WIOA Dislocated Work Formula grant, CFDA 17.278. This amount is included as an expenditure in the accompanying Schedule of Expenditures of Federal Awards.

Joint Apprenticeship Training Committee	<u>\$ 144,142</u>
Total Passed-through to Subrecipient	<u>\$ 144,142</u>

The following were subrecipients of the National Science Foundation Mathematical and Physical Sciences grant, CFDA 47.049. These amounts are included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

Rice University	\$ 4,747
University of Houston	<u>6,662</u>
Total Passed-through to Subrecipients	<u>\$ 11,408</u>

The following was a subrecipient of the U.S. Department of Health and Human Services Temporary Assistance for Needy Family grant, CFDA 93.558. This amount is included as an expenditure in the accompanying Schedule of Expenditures of Federal Awards.

Joint Apprenticeship Training Committee	<u>\$ 13,735</u>
Total Passed-through to Subrecipient	<u>\$ 13,735</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

Schedule F

State Grantor Program Title	Grantor Contract Number	Expenditures and Pass-Through Disbursements
Texas Higher Education Coordinating Board		
Accelerate Texas - ABE Scaling & Sustaining Success	14160	\$ 209,854
Accelerate Texas - Mentor College	15135	63,753
Work-Study Student Mentorship Program	11833	1,070
Work-Study Student Mentorship Program	15558	11,634
Houston Pathways Initiative - College for Readiness	09928	15,110
Nursing Shortage Under 70 Program	N/A	12,465
First Year Experience	06838	1,906
Texas College Work Study Program	N/A	198,351
Texas Educational Opportunity Grant	N/A	4,838,502
Texas Grant Program	N/A	1,416
Pass-Through From:		
Austin Community College/Houston Center for Literacy 2015-2016 Texas Innovative Adult Career Education Program	N/A	262,317
Total Texas Higher Education Coordinating Board		\$ 5,616,378
Texas Workforce Commission		
Apprenticeship Training Program (Chapter 133)	2817ATP001	\$ 298,217
Pass-Through From:		
Houston - Galveston Area Council ABE - GED	213-17	928,165
Temporary Assistance for Needy Families	213-16	3,492
Total Texas Workforce Commission		\$ 1,229,875
Texas State Board of Public Accountancy		
Fifth Year Accounting Student	N/A	2,356
Total Texas State Board of Public Accountancy		\$ 2,356
Total State Financial Assistance		\$ 6,848,608

See accompanying notes to Schedule of Expenditures of State Awards.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE

The Schedule of Expenditures of State of Texas Awards presents the activity of State of Texas awards programs of Houston Community College System (the “System”) for the year ended August 31, 2017. The accompanying Schedule of Expenditures of State of Texas Awards is presented using the accrual basis of accounting. See Note 2 in the Notes to Basic Financial Statements for the System’s significant accounting policies. The expenditures included in the schedule are reported for the System’s fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.

NOTE 2 – STATE ASSISTANCE RECONCILIATION

State Grants and Contracts Revenue – per Schedule A	\$	6,848,608
Reconciling items:		
None		-
 Total State revenues per Schedule of Expenditures of State of Texas Awards	 \$	 6,848,608

NOTE 3 – SUBRECIPIENTS

The following were subrecipients of the 1516/1517 TIACE Grant. These amounts are included as expenditures in the accompanying Schedule of Expenditures of State of Texas Awards.

Alliance for Multicultural Community Services	\$	22,148
Association for Advancement of Mexican Americans		11,030
Chinese Community Center		22,406
Houston Center for Literacy		9,648
Literary Council of Fort Bend County Inc.		14,918
Total Passed-through to Subrecipients		80,150

The following were subrecipients of the Texas Higher Education Coordinating Board Accelerate Texas ABE-Scaling & Sustaining Success Grant. This amount is included as expenditures in the accompanying Schedule of Expenditures of State of Texas Awards.

Del Mar College	\$	127,491
Galveston College		28,561
Total Passed-through to Subrecipients		156,052

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

NOTE 3 – SUBRECIPIENTS - CONTINUED

The following was a subrecipients of the Texas Higher Education Coordinating Board Accelerate Texas Mentor College Grant. This amount is included as expenditures in the accompanying Schedule of Expenditures of State of Texas Awards.

Wharton County Junior College	\$ 3,754
Total Passed-through to Subrecipient	\$ 3,754

The following were subrecipients of the TWC Apprenticeship Training Program/Chap. 133 Grant. This amount is included as expenditures in the accompanying Schedule of Expenditures of State of Texas Awards.

Sheet Metal Joint Apprentice Committee	\$ 83,007
Joint Apprenticeship Training Committee	102,412
Texas Ironworkers, Houston Branch	66,371
Total Passed-through to Subrecipients	\$ 251,790

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
 FOR THE YEAR ENDED AUGUST 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditors’ report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____	yes	_____ <u>X</u> no
Significant deficiencies identified that are not considered to be material weaknesses?	_____	yes	_____ <u>X</u> none reported
Noncompliance material to financial statements noted?	_____	yes	_____ <u>X</u> no

Federal and State of Texas Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ <u>X</u>	yes	_____ no
Significant deficiencies identified that are not considered to be material weaknesses?	_____ <u>X</u>	yes	_____ none reported

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

Qualified:	
N/A	Texas Educational Opportunity Grant

Unmodified:	
Cluster of Programs – Student Financial Assistance:	
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Loan Program
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)
84.048	Career and Technical Education - Basic Grants to States

Any audit findings disclosed that are required to be reported in accordance with:

Uniform Guidance and State of Texas Single Audit Circular	_____ <u>X</u>	yes	_____ no
---	----------------	-----	----------

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
 FOR THE YEAR ENDED AUGUST 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS – CONTINUED

Identification of Major Programs:

<u>Federal - CFDA Number</u>	<u>Name of Federal Programs</u>
Cluster of Programs – Student Financial Assistance:	
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Loan Program
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)
84.048	Career and Technical Education - Basic Grants to States
<u>State - Contract Number</u>	<u>Name of State Programs</u>
N/A	Adult Basic Education - GED
N/A	Texas Educational Opportunity Grant

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

Federal	\$750,000
State of Texas	\$300,000

Auditee qualified as low-risk auditee?

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

SECTION II – FINANCIAL STATEMENT FINDINGS

The audit disclosed no findings required to be reported.

SECTION III – FEDERAL and STATE AWARD FINDINGS AND QUESTIONED COSTS

Finding #: 2017 – 001

Program Title: Texas Education Opportunity Grant

State Award Number: N/A

State Award Year: 2017

State Agency: Texas Higher Education Coordinating Board

Type of Finding: Significant Deficiency and Noncompliance

Cash Management

Criteria:

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2017

Per Texas Administrative Code Title 19, Part 1, Chapter 22, Subchapter M Texas Education Opportunity Grant (TEOG) Program, Rule 22.262 Allocation and Reallocation of Funds, letter (f) "Disbursement of Funds to Institutions. As requested by institutions throughout the fall and spring terms, the Board shall forward to each participating institution a portion of its allocation of funds for immediate release to students or immediate application to student accounts at the institution." Per the TEOG Program Guidelines, "requests for funds may be made on an as-needed basis for current disbursement and must be applied to the student's account within 5 business days.

Per the Funds Request Form Instructions for the TEOG program, the Funds Request Form (reimbursement request) should include the current amount of funds being requested and the total number of unique student awards for the initial and/or renewal request. The definition of a unique student award is the count of initial and/or renewal recipients receiving program funds for the first time this award year. If the institution is only requesting funds for previously reported students in the current award year, leave the unique student awards count at 0.

Condition:

For the reimbursement request dated November 29, 2016 in the amount of \$324,225, Houston Community College (HCC) did not immediately disburse funds to students that were drawn down in advance.

Context:

It was noted that funds were requested on November 29, 2016, in the amount of \$324,225. These funds were received from the Higher Education Coordinating Board on December 8, 2016. It was noted that disbursements to students in the amount of \$223,286 related to this request occurred from September 27 to December 13, 2016.

Cause:

When the Funds Request Form was prepared by HCC, a screen print of the PeopleSoft disbursement screen was not retained and no additional documentation was maintained to substantiate how the amount in the Funds Request Form was determined.

Effect:

Failure to immediately disburse funds could cause noncompliance with state regulations, which could potentially lead to loss or return of funding.

Questioned Costs:

None reported

Repeat Finding:

No

Recommendation:

We recommend HCC revise their procedures surrounding their controls to ensure that funds drawn down in advance of disbursement are immediately applied to student's accounts and the reimbursement requests submitted are supported by underlying documentation.

Views of responsible officials:

HCC requests TEOG funds throughout the year when disbursements are made to students (i.e. posted to the student's account). This information is obtained through the use of queried reports. In the past, the financial aid office would run reports using a date range of disbursements and would request funds according to disbursements made during that date range.

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2017

For example, the first request is made immediately after the first disbursement in September for the total amount disbursed. The next disbursement is made using a date range of disbursements made from the date of the last request for funds through the second request date. For each request, total disbursement amounts were reported as student detailed records are not required to be provided to The Texas Coordinating Board (THECB) when requests are made.

Due to the results of this finding, HCC has changed its practice of requesting funds from THECB. HCC now runs a report after each disbursement of total disbursements made for the award year. Any previous requests made to THECB will be subtracted from the total disbursements. Each report will be retained and tied out to all requests with the exception of the final request that must be made in February. Each year, THECB requires schools to request the entire allocation of funds even if awarded students do not yet qualify for their disbursement. HCC will release the final allocated funds to the student as soon as the student has met all eligibility requirements and attendance has been verified.

Finding #: 2017 – 002

Program Title: Texas Education Opportunity Grant

State Award Number: N/A

State Award Year: 2017

State Agency: Texas Higher Education Coordinating Board

Type of Finding: Material Weakness and Material Noncompliance

Matching

Criteria:

Per Texas Administrative Code Title 19, Part 1, Chapter 22, Subchapter M Texas Education Opportunity Grant (TEOG) Program, Rule 22.260 Award Amounts and Adjustments:

An approved institution may not charge a person receiving a Texas Educational Opportunity Grant through that institution, an amount of tuition and required fees in excess of the amount of the Texas Educational Opportunity Grant award received by the person. Nor may it deny admission to or enrollment in the institution based on a person's eligibility to receive or actual receipt of a Texas Educational Opportunity Grant award. If an institution's tuition and fee charges exceed the Texas Educational Opportunity Grant award amount, it may address the shortfall in one of two ways:

- (A) It may use other available sources of financial aid, other than a loan or Pell grant to cover any difference in the amount of a Texas Educational Opportunity Grant award and the student's actual amount of tuition and required fees at the institution; or
- (B) it may waive the excess charges for the student. However, if a waiver is used, the institution may not report the recipient's tuition and fees in a way that would increase the general revenue appropriations to the institution.

Condition:

HCC did not meet the matching requirements for 8 of the 40 students selected for testing.

Context:

8 of the 40 students tested had tuition and fee amounts which exceeded the TEOG award amounts and this excess was covered by student payments, Pell, and/or Direct loan funds.

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2017

Cause:

HCC was not aware of this requirement and did not have a process in place to ensure the matching requirement is met.

Effect:

Failure to provide matching for HCC students (in the form of other scholarships, federal funding, or waivers) causes students to take out additional funding (through Pell or Direct Loans) or pay out of pocket for the additional tuition and fees balance. Additionally, failure to meet the matching requirements could potentially lead to loss or return of funding.

Questioned Costs:

None reported

Repeat Finding:

No

Recommendation:

We recommend HCC establish procedures to ensure that students who receive TEOG funding less than tuition and fees are provided an appropriate match to cover the excess.

Views of responsible officials:

HCC was unaware that Pell could no longer be utilized to cover the difference between the student's billed tuition and fees and the TEOG award. HCC will implement the following procedures to ensure that the TEOG matching requirement is met.

HCC students enroll in classes throughout the semester and final billed costs cannot be determined until the semester is completed. Therefore, the financial aid office will develop a report to identify students whose billed costs exceed their TEOG award. The financial aid office will go back and award the student TPEG state funds to cover the difference between the total billed tuition and fees and the TEOG award. The TPEG funds will be awarded and disbursed at the end of the Fall and Spring semesters beginning immediately. This practice of manually awarding the TPEG funds at the end of Fall and Spring is being conducted by other community colleges in Texas that are performing the TEOG match.