



Houston Community College

Financial Statements and Single Audit Reports

August 31, 2014 and 2013



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

HOUSTON COMMUNITY COLLEGE SYSTEM

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/ Schedule/ Table</u>
ORGANIZATIONAL DATA	3	
INDEPENDENT AUDITOR’S REPORT	4	
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)	7	
 FINANCIAL STATEMENTS		
Statements of Net Position	26	Exhibit 1
Statements of Revenues, Expenses, and Changes in Net Position	27	Exhibit 2
Statements of Cash Flows	28	Exhibit 3
Notes to the Financial Statements	30	
 SUPPLEMENTAL SCHEDULES		
Schedule of Operating Revenues	58	Schedule A
Schedule of Operating Expenses by Object	59	Schedule B
Schedule of Non-operating Revenues and Expenses	60	Schedule C
Schedule of Net Position by Source and Availability	61	Schedule D
 STATISTICAL SECTION (Unaudited)		
Net Position by Component	64	Table 1
Revenues by Source	65	Table 2
Program Expenses by Function	67	Table 3
Tuition and Fees	69	Table 4
Assessed Value and Taxable Assessed Value of Property	72	Table 5
State Appropriations per Full Time Student Equivalents And Contact Hours	73	Table 6
Principal Taxpayers (Taxable Value)	74	Table 7
Property Tax Levies and Collections	76	Table 8
Ratios of Outstanding Debt	77	Table 9

HOUSTON COMMUNITY COLLEGE SYSTEM

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/ Schedule/ Table</u>
STATISTICAL SECTION (Unaudited) – CONTINUED		
Legal Debt Margin Information.....	78	Table 10
Pledged Revenue Coverage	79	Table 11
Demographic and Economic Statistics - Taxing District.....	80	Table 12
Principal Employers	81	Table 13
Faculty, Staff, and Administrators Statistics.....	82	Table 14
Annual Student Enrollment	83	Table 15
Enrollment Details	84	Table 16
Student Profile	85	Table 17
Contact Hours.....	86	Table 18
Transfers to Senior Institutions.....	87	Table 19
Capital Asset Information.....	88	Table 20
SINGLE AUDIT REPORTS AND SCHEDULE 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>	90	
Report of Independent Certified Public Accountants on Compliance For Each Major Federal and State Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and the <i>State of Texas Single Audit Circular</i>	92	
Schedule of Expenditures of Federal Awards	95	Schedule E
Notes to the Schedule of Expenditures of Federal Awards	98	
Schedule of Expenditures of State of Texas Awards.....	101	Schedule F
Notes to the Schedule of Expenditures of State of Texas Awards.....	102	
Schedule of Findings and Questioned Costs	104	

HOUSTON COMMUNITY COLLEGE SYSTEM
ORGANIZATIONAL DATA
FOR THE YEAR ENDED AUGUST 31, 2014

BOARD OF TRUSTEES

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Eva L. Loreda	Houston, Texas	2015
Adriana Tamez	Houston, Texas	2015
Carroll G. Robinson	Houston, Texas	2017
Christopher W. Oliver, <i>Vice Chair</i>	Houston, Texas	2017
Robert Glaser, <i>Secretary</i>	Houston, Texas	2017
Neeta Sane, <i>Chair</i>	Houston, Texas	2019
Zeph Capo	Houston, Texas	2019
David Wilson	Houston, Texas	2019

PRINCIPAL ADMINISTRATIVE OFFICERS

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Zachary Hodges, Ed.D	Acting Vice Chancellor, Academic Affairs
William Carter, Ph.D.	Vice Chancellor, Information Technology
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William Harmon, Ph.D.	President, Central College
Michael Edwards, JD	Acting President, Coleman College
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Edmond Herod, Ph.D.	Acting President, Northwest College
Orfelina Garza, Ph.D.	President, Southwest College
Charles Smith, P.E.	Chief Facilities Officer
Diana Pino, Ph.D.	Vice Chancellor, Student Services
Karla Bender, Ed.D.	Controller
Ronald Defalco, CPA	Treasurer



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Trustees
Houston Community College System
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Houston Community College System (the "System"), which comprise the statement of net position as of August 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston Community College System as of August 31, 2014, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Houston Community College System as of and for the year ended August 31, 2013 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2013 financial statements in their report dated November 14, 2013.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 25 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 58 through 61 and the schedule of expenditures of federal awards and schedule of expenditures of State of Texas awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State of Texas Single Audit Circular* 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 audit 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 statistical section on pages 63 through 88, is presented for purposes of additional analysis and is 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 17, 2014, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 17, 2014

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

INTRODUCTION

This section of Houston Community College System's ("HCC" or the "System") Annual Financial Report presents management's discussion and analysis. Management's Discussion and Analysis is included to provide a narrative introduction, overview and analysis of the financial position and changes in financial position of the System's financial activity during the fiscal years ended August 31, 2014 and 2013. Since management's discussion and analysis is designed to focus on current activities, and currently known facts, please read this in conjunction with the System's basic financial statements and the notes thereto. Responsibility for the completeness and fairness of this information rests with the management of the System.

ADMINISTRATOR'S STATEMENT

Houston Community College (HCC) has a vision to be the most relevant community college in the country. We strive to be the opportunity institution for every student we serve – essential to our community's success. HCC is committed to meeting the needs of its diverse communities, providing academic courses for transfer to four-year institutions, degrees and certificates in more than seventy fields of work, as well as continuing education and corporate training, lifelong learning and enrichment.

The service delivery area (SDA) of Houston Community College includes the school districts of Houston, Stafford, Katy, Spring Branch, Alief, and portions of Missouri City ISD located in Houston, Pearland, and Missouri City. The area is economically, educationally and ethnically diverse. While the average household income is \$75,225, more than 38% of the households in the SDA have an income less than \$25,000. While 36% of the population has some type of college degree, 24% of the population has no high school degree or GED. The population's ethnicity is 42% Hispanic, 28% white, 22% African American and 8% other. There is a relatively large young population, with 808,173 individuals, or 36%, under the age of 18 years old. These factors give Houston Community College the potential of providing a large workforce pool for the service delivery area, the state and the nation's economic growth, and the energy sector in particular.

Houston Community College 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.

Houston Community College strongly supports the Texas Association of Community College's (TACC) request to the 84th legislature for a total of \$2.011 billion in funding for Texas' community/junior colleges, as outlined in a letter dated July 16, 2014 from the President of TACC.

With its proportionate share of the community college funding, Houston Community College pledges to:

- Enhance higher education relationships with universities to provide students seamless transfer opportunities to continue their higher education;
- Provide technical job-ready graduates that can meet the demands of the industry;
- Provide students with the degrees and training necessary to increase their employment opportunities and/or career advancement;
- Work cooperatively with community colleges and other partners to address Texas' training needs;
- Continue to strengthen relationships with Texas public schools to promote high school graduation and college preparation with a variety of joint programs that directly emphasize STEM experiences;
- Maintain close relationships with industry to implement current business practices in the design and delivery of technical training programs, set new standards in the achievement of technical skills, and develop/redesign new technical programs to meet industry needs;
- Maximize College's resources by continually looking for ways to increase efficiency in all areas.

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

Community College Week ranked Houston Community College fourth nationally among two-year institutions in the number of Associate Degrees produced in 2013, which was an increase from a ranking of fourteenth in 2012. Including Associate Degrees, Certificates, Core Completers and Marketable Skills Achievers, HCC's total awards for 2013 were 10,999 as compared to 6,509 during 2009. This focus on retention and completion continues in 2014 and 2015 through a variety of student services initiatives.

Programmatically, the college is expanding into areas of high demand, including the following:

Middle-Skilled Workforce for the Oil and Gas Industry

To address the demand for skilled technical workers in the oil and gas industry, and more specifically address the shortage of petroleum, process and instrumentation technicians and drilling crew rig members, HCC will provide the faculty and equipment needed to train increased numbers of students annually in Petroleum Engineering and Process Technology programs, and 240 new students annually in the drilling crew program.

Bachelor of Science in Nursing

In order to meet the demand needed by hospitals in 2020 for Registered Nurses holding a Bachelor degree, upon future approval by the Texas Legislature to allow community colleges to offer the BSN degree, a new BSN program will serve as a pathway for RNs who are currently working, as well as current and future graduates of the Associate Degree Nursing program. Approval will allow faculty and staff to plan and implement a Bachelor of Science in Nursing program during fiscal year 2016, to open and serve approximately 100 students in fiscal year 2017.

Associate Degree in Nursing Expansion to Two Additional Locations

Houston Community College's (HCC) Coleman College is located in the Texas Medical Center, and is its largest supplier of RN graduates. To expand HCC's ability to graduate RNs with Associate Degrees, the current program will be expanded to HCC-Northwest College and to HCC-Missouri City. The addition of these two locations will better serve the Houston community geographically, and efficiently increases the colleges' collective ability to produce more RNs.

Filmmaking Program to Support Texas Film Industry

To address the need for a workforce with new and different technology skills to be utilized by the film industry and film-related industries in Texas, the new certificates and revised Associate degree support Houston's current efforts to become a hub for the film industry in Texas.

MISSION, GUIDING PRINCIPLES, VISION, & STRATEGIC INITIATIVES 2012 - 2015

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 and economic development, and lifelong learning to prepare individuals in our diverse communities for life and work in a global and technological society.

GUIDING PRINCIPLES

Freedom with Responsibility
Commitment to Excellence
Respect for the Person
Sound Stewardship

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

VISION

Houston Community College will be the most **relevant** community college in the country. We will be the **opportunity** institution for every student we serve – **essential** to our community's success.

STRATEGIC INITIATIVES

The seven initiatives of the 2012 – 2015 Strategic Plan are:

1. Increase Student Completion through Advanced Educational Opportunities
2. Respond to the Needs of Business and Industry for Skilled Workers
3. Ensure Instructional Programs Provide the Knowledge and Skills Required for 21st Century Learners
4. Enrich Institutional Capacity for Faculty and Staff Professional Development and Student Leadership Development
5. Support Innovation as a Means to Improve Institutional Resilience
6. Cultivate an Entrepreneurial Culture Across the Institution
7. Leverage Local and International Partnerships for Institutional and Community Development

All initiatives are important to moving the institution to the next level; however the focus on student success is HCC's top priority.

Houston Community College is a diverse and complex multi-campus institution accredited by the Southern Association of Colleges and Schools' Commission on Colleges to award associate degrees. With a population of 2.1 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 is one of the largest institutions of higher education in the country with a fall enrollment of approximately 70,000 students in fiscal year 2014 and 6 colleges with 23 campuses in a 628 square mile service area. 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.

HCC has been a part of Achieving the Dream since it began in 2004 and has been recognized as an AtD leader college since 2009 because of its demonstrated commitment to, and progress on four principles: committed leadership, use of evidence to improve programs and services, broad engagement, and systemic institutional improvement.

The HCC team has focused on the challenges of creating and enhancing opportunities in direct response to the vision. Actions taken by HCC contributed to increases in completion rates, expansion of existing programs, and opening of new programs. In addition, the College has restructured offerings such as Ready-When-U-R, and provided critical workforce and business development programs to enhance economic development, such as the Goldman Sachs 10,000 Small Business Program. HCC has progressively moved forward as an institution and is poised to reprioritize and focus on its vision – ensuring that students achieve their goals.

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

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

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

As the college takes on what is a bold and dramatic step in Houston's future, there is equal commitment to change or to break old molds and to reallocate resources to fit the priorities of the 21st century.

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

FINANCIAL STATEMENTS

The financial statements of this annual report consist of three parts – Management's Discussion and Analysis, the Basic Financial Statements, and Required Supplementary Information. The financial statements, consisting of the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows are prepared in accordance with the Governmental Accounting Standards Board Statements No. 34 (GASB 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; and No. 35 (GASB 35), *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

These three statements will assist the reader in determining whether the System, as a whole, is performing financially better this year as compared to last year. The financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

The Statements of Net Position report all of the System's assets and liabilities. Net position, the difference between assets and liabilities, is subdivided into three categories to indicate the limitations on its use. Net investment in capital assets is not available for general use, since these are resources that have been invested in capital assets such as land, building and improvements, and equipment of the System. Restricted net position is not accessible for general use because the use of these assets is subject to third-party restrictions. Any remaining net position is classified as unrestricted and is available for general use.

Over time, increases or decreases in net position indicate the improvement or erosion of the System's financial health when considered with non-financial facts, such as enrollment levels and the condition of the facilities.

The Statements of Revenues, Expenses, and Changes in Net Position present the revenues earned and expenses incurred over the course of the fiscal year. Activities are reported as either operating or non-operating. Operating revenues are primarily those that result from instruction, the operation of the System's auxiliary services, and federal and state grants. State appropriations and ad-valorem taxes, while budgeted for operations, are considered to be non-operating revenue. Depreciation on capital assets is included in operating expenses. Since state appropriations and ad-valorem taxes are a significant portion of maintenance and operations funding, classification of this revenue as non-operating will usually result in an operating deficit.

Another important factor to consider when evaluating financial viability is the System's ability to meet financial obligations as they mature. The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing and investing activities.

This discussion and analysis of the System's financial statements provides an overview of its financial activities for the fiscal year.

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

**ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND
CONDENSED FINANCIAL INFORMATION**

Statement of Net Position

The Statement of Net Position represents the System's financial position at the end of the fiscal year and includes all assets, liabilities and deferred inflows and outflows of resources of the System using the accrual basis of accounting. The accrual basis of accounting is similar to the accounting basis utilized by most private-sector institutions. Net Position is the difference between assets and deferred outflows of resources and liabilities and deferred inflow 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.

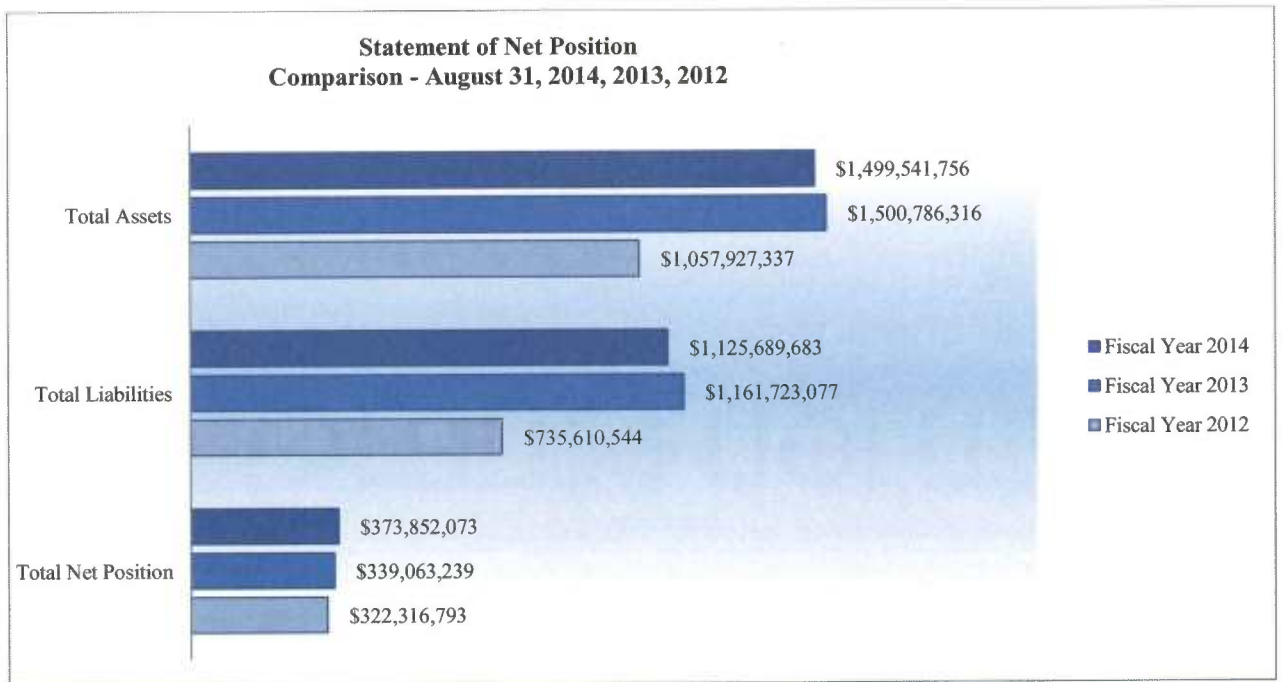
Current liabilities are generally those liabilities which are due within one year, and current assets are those assets which are available to satisfy current liabilities. Noncurrent assets include restricted cash and cash equivalents, capital assets, investments and other assets not classified as current.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

This statement defines the financial position of the System and includes a comparison for fiscal years 2014, 2013 and 2012.

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

Statement of Net Position - Continued

	2014	2013	2012	Change	
				2013 to 2014	2012 to 2013
ASSETS:					
Other Assets	620,812,884	709,985,878	321,739,059	(89,172,994)	388,246,819
Capital Assets	870,756,195	782,119,403	726,798,884	88,636,792	55,320,519
	<u>1,491,569,079</u>	<u>1,492,105,281</u>	<u>1,048,537,943</u>	<u>(536,202)</u>	<u>443,567,338</u>
DEFERRED OUTFLOWS OF RESOURCES					
Advance Funding Valuation	7,972,677	8,681,035	9,389,394	(708,358)	(708,359)
	<u>1,499,541,756</u>	<u>1,500,786,316</u>	<u>1,057,927,337</u>	<u>(1,244,560)</u>	<u>442,858,979</u>
LIABILITIES:					
Current Liabilities	113,335,339	113,309,337	107,472,707	26,001	5,836,630
Long-term Liabilities	1,011,479,574	1,048,413,740	628,137,837	(36,934,166)	420,275,903
	<u>1,124,814,913</u>	<u>1,161,723,077</u>	<u>735,610,544</u>	<u>(36,908,165)</u>	<u>426,112,533</u>
DEFERRED INFLOWS OF RESOURCES					
Advance Funding Valuation	874,770	-	-	874,770	-
	<u>1,125,689,683</u>	<u>1,161,723,077</u>	<u>735,610,544</u>	<u>(36,033,395)</u>	<u>426,112,533</u>
NET POSITION:					
Net Investment in Capital Assets	255,131,793	230,705,769	234,824,583	24,426,024	(4,118,814)
Restricted-Expendable	509,932	1,215,548	488,477	(705,616)	727,071
Unrestricted	118,210,348	107,141,922	87,003,733	11,068,426	20,138,189
	<u>373,852,073</u>	<u>339,063,239</u>	<u>322,316,793</u>	<u>34,788,833</u>	<u>16,746,446</u>



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

Assets

Fiscal Year 2014:

In comparing fiscal year 2014 to fiscal year 2013, there was a decrease of \$86.4 million in cash and cash equivalents, and long-term investments. The decrease is due mainly to land purchases of \$30.7 million and capital expenditures of \$50.9 million.

Overall returns on investments increased slightly in fiscal 2014 to a weighted average interest rate of .42% at August 31, 2014. The investment portfolio is highly liquid with 89% of the assets invested in local government pools, money market funds and short-term certificates of deposit. All pools and money market funds are rated at the highest level. Certificates of deposit, high yield savings and other bank deposits are secured with U.S. Treasuries or United States agencies which have the full faith and credit of the United States government. The balance of the portfolio is invested in government-sponsored entities/agencies with "AAA" credit ratings.

Fiscal Year 2013:

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

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

Liabilities

Fiscal Year 2014:

Overall liabilities decreased by \$36 million from fiscal 2013 to fiscal 2014. General obligation bonds decreased by \$10.0 million due to principal payments. Notes payable decreased by \$8.1 million due to principal payments. There were principal payments made on all revenue bonds of \$12.7 million and principal payments of \$4.2 million were made on PFC lease revenue bonds. Accounts payable and accrued liabilities decreased by \$3.9 million. Unearned revenues increased by \$1.6 million due to an increase in Fall 2014 enrollment versus Fall 2013 enrollment.

Fiscal Year 2013:

Overall liabilities increased by approximately \$425 million from fiscal 2012 to fiscal 2013. General obligation bonds increased by \$459.9 million, due to the issuance of the Limited Tax General Obligation Bonds, Series 2013 on March 19, 2013. Principal payments of \$7.7 million were made on all maintenance tax notes. There were principal payments made on all revenue bonds of \$13.3 million and principal payments of \$4.0 million were made on PFC lease revenue bonds.

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

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the Statements of Net Position are based on the activity presented in the Statements of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues earned by the System, both operating and non-operating, and the expenses incurred by the System, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the System.

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

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

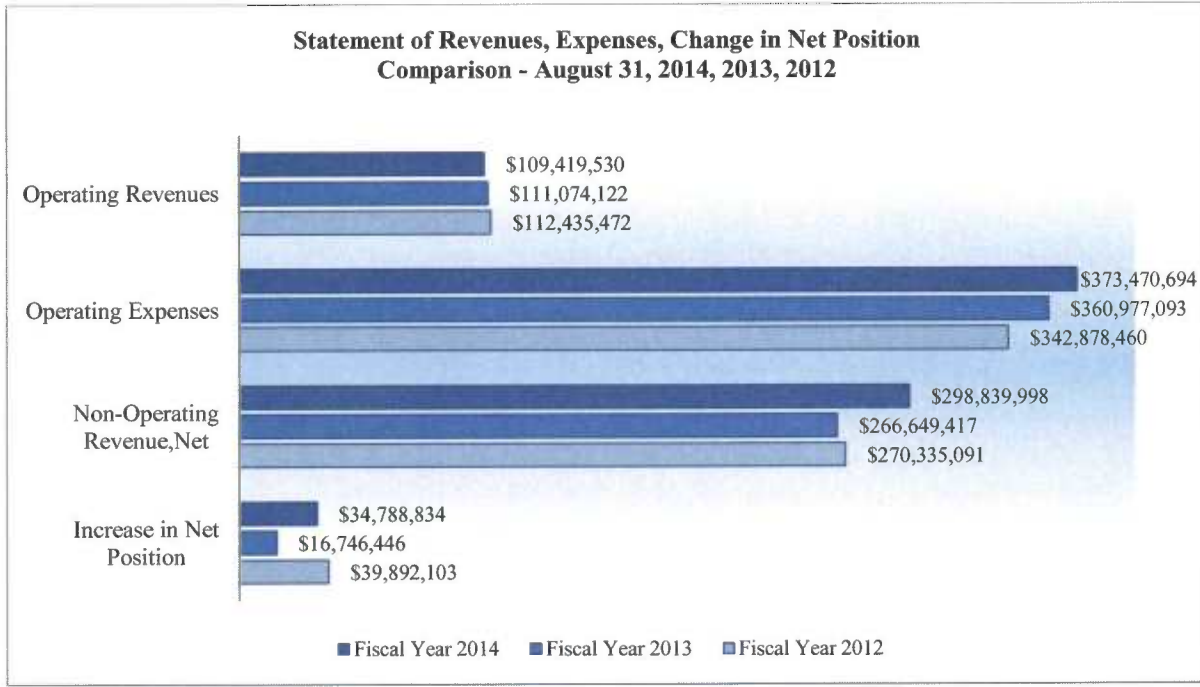
A summarized comparison of the System's revenues, expenses and changes in net position for the years ended August 31, 2014, 2013, and 2012 is presented in table below.

Statement of Revenues, Expenses, and Changes in Net Position

	2014	2013	2012	Change	
				2013 to 2014	2012 to 2013
Operating Revenues	\$109,419,530	\$111,074,122	\$112,435,472	\$ (1,654,592)	\$ (1,361,350)
Operating Expenses	373,470,694	360,977,093	342,878,460	12,493,601	18,098,633
Operating Loss	(264,051,164)	(249,902,971)	(230,442,988)	(14,148,193)	(19,459,983)
Nonoperating Revenue, Net	298,839,998	266,649,417	270,335,091	32,190,581	(3,685,674)
Increase in Net Position	\$ 34,788,834	\$ 16,746,446	\$ 39,892,103	\$ 18,042,388	\$ (23,145,657)

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

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



Revenues

Fiscal Year 2014

Overall, operating revenues decreased by \$1.7 million or 1.5% in fiscal year 2014 as compared to fiscal year 2013. The System experienced a decrease of 1% or \$ 0.7 million in tuition and fee revenue; a decrease of 5% or \$0.7 million in federal grants and contracts; and a decrease of 9% in state grants and contract revenue. Tuition and fees decreased due to enrollment declines experienced in the fall and spring semesters. Decreases in federal and state grant revenue are due to several grants that ended during the period. These decreases are partially offset by increases in revenue from local grants and contracts and auxiliary enterprises.

Non-operating revenues increased by 5.4% or \$16.6 million over the previous year, mainly due to an increase in ad valorem tax revenue, along with increases in investment income and other non-operating revenue. The total tax base in the System's taxing district increased from 2013 to 2014 by approximately 10%, resulting in an increase in the Maintenance & Operation portion of ad valorem taxes of \$7.9 million. An increase in debt service needs resulted in a corresponding increase in the Debt Service portion of ad valorem taxes in the amount of \$6.2 million. The increase is offset by a decrease in interest paid on capital related debt of \$16 million due to the capitalization of interest on construction in process. Interest earned for FY 2014 was \$3.7 million. Non-operating revenue, net of expenses, increased by \$32.2 million for a total increase in net position of \$34.8 million.

Fiscal Year 2013

Operating revenues decreased 1% in fiscal year 2013 as compared to fiscal year 2012 namely due to a decrease in Federal Grants & Contract revenue. Non-operating revenues decreased by 1.9% over the previous year due to decreases in Title IV grants and a decrease in other non-operating revenue. There was a \$0.9 million decrease in investment income in fiscal 2013. Actual interest earned for fiscal 2013 was \$1.5 million.

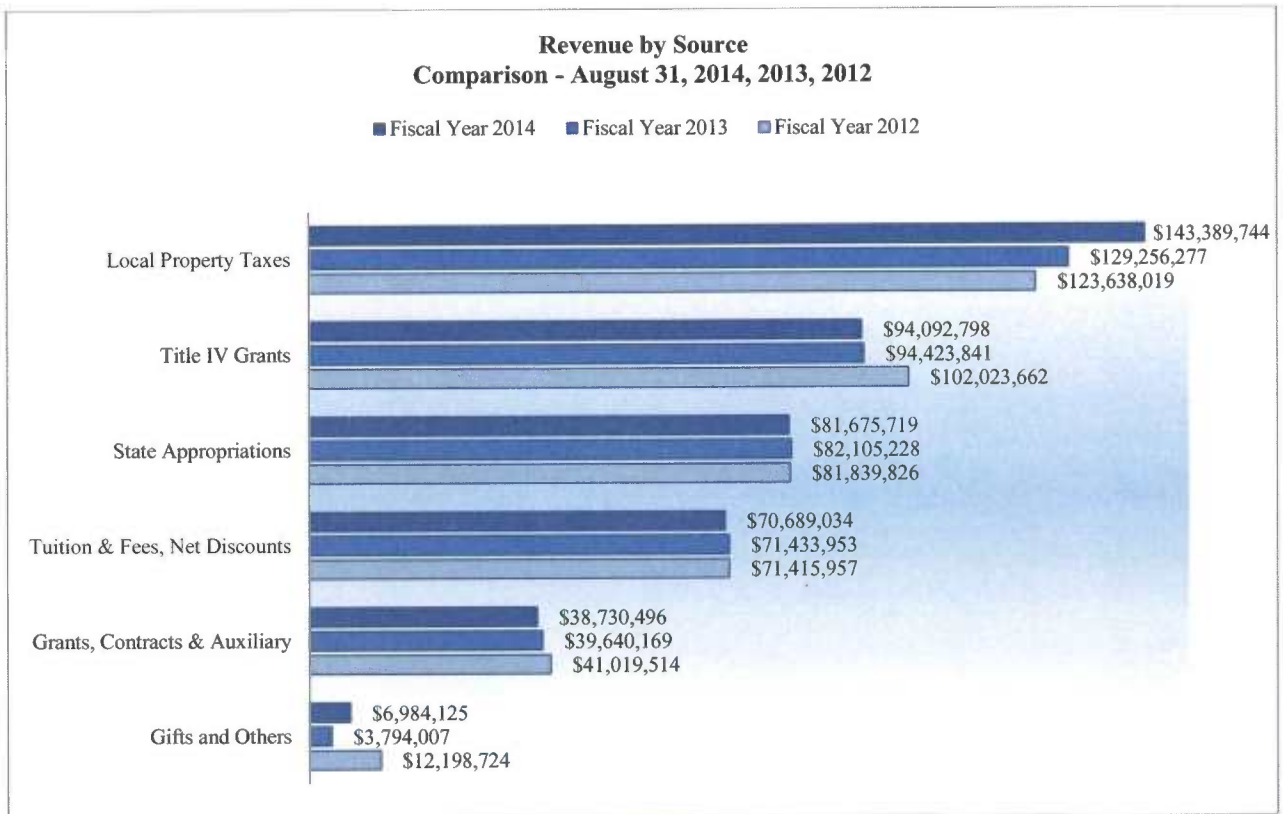
HOUSTON COMMUNITY COLLEGE SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Revenue by Source

	2014	2013	2012	Change	
				2013 to 2014	2012 to 2013
<u>OPERATING REVENUES:</u>					
Tuition & Fees, Net of Discounts	\$ 70,689,034	\$ 71,433,953	\$ 71,415,957	\$ (744,919)	\$ 17,996
Grants, Contracts & Auxiliary:					
Federal	13,946,190	14,702,419	16,848,269	(756,229)	(2,145,850)
State	5,617,228	6,156,585	5,152,251	(539,357)	1,004,334
Local, Private & Non-Governmental	2,747,018	2,688,266	2,922,500	58,752	(234,234)
Auxiliary	16,420,060	16,092,899	16,096,494	327,161	(3,595)
Total Grants, Contracts & Auxiliary	38,730,496	39,640,169	41,019,514	(909,673)	(1,379,345)
TOTAL OPERATING REVENUES	109,419,530	111,074,122	112,435,471	(1,654,592)	(1,361,349)
<u>NONOPERATING REVENUES:</u>					
State Appropriations:					
Unrestricted	69,148,935	70,014,003	70,232,038	(865,068)	(218,035)
Restricted	12,526,784	12,091,225	11,607,788	435,559	483,437
Total State Appropriations	81,675,719	82,105,228	81,839,826	(429,509)	265,402
Local Property Taxes:					
M & O	113,987,287	106,097,476	105,943,722	7,889,811	153,754
Debt	29,402,457	23,158,801	17,694,297	6,243,656	5,464,504
Total Local Property Taxes	143,389,744	129,256,277	123,638,019	14,133,467	5,618,258
Title IV Grants	94,092,798	94,423,841	102,023,662	(331,043)	(7,599,821)
Gifts and Others:					
Gifts	1,436,292	1,591,888	2,053,638	(155,596)	(461,750)
Others	5,547,833	2,202,119	10,145,086	3,345,714	(7,942,967)
Total Gifts and Others	6,984,125	3,794,007	12,198,724	3,190,118	(8,404,717)
TOTAL NONOPERATING REVENUES	326,142,386	309,579,353	319,700,231	16,563,033	(10,120,878)
TOTAL REVENUES	\$ 435,561,916	\$ 420,653,475	\$ 432,135,702	\$ 14,908,441	\$ (11,482,227)

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

Revenue by Source - Continued



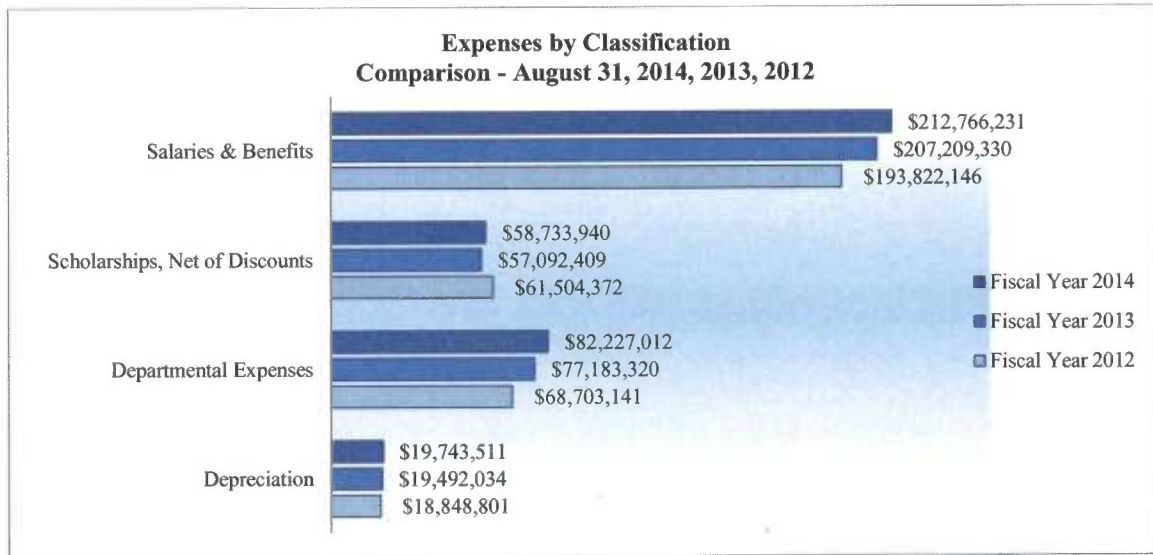
Expenses

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

	Operating Expenses by Natural Classification						Change	
	2014	% of Total	2013	% of Total	2012	% of Total	2013 to 2014	2012 to 2013
Salaries & Benefits	\$ 212,766,231	57.0%	\$ 207,209,330	57.4%	\$ 193,822,146	56.5%	\$ 5,556,901	\$ 13,387,184
Scholarships, Net of Discount	58,733,940	15.7%	57,092,409	15.8%	61,504,372	17.9%	1,641,531	(4,411,963)
Departmental Expenses	82,227,012	22.0%	77,183,320	21.4%	68,703,141	20.0%	5,043,692	8,480,179
Depreciation	19,743,511	5.3%	19,492,034	5.4%	18,848,801	5.5%	251,477	643,233
	<u>\$ 373,470,694</u>	100%	<u>\$ 360,977,093</u>	100%	<u>\$ 342,878,460</u>	100%	<u>\$ 12,493,601</u>	<u>\$ 18,098,633</u>

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

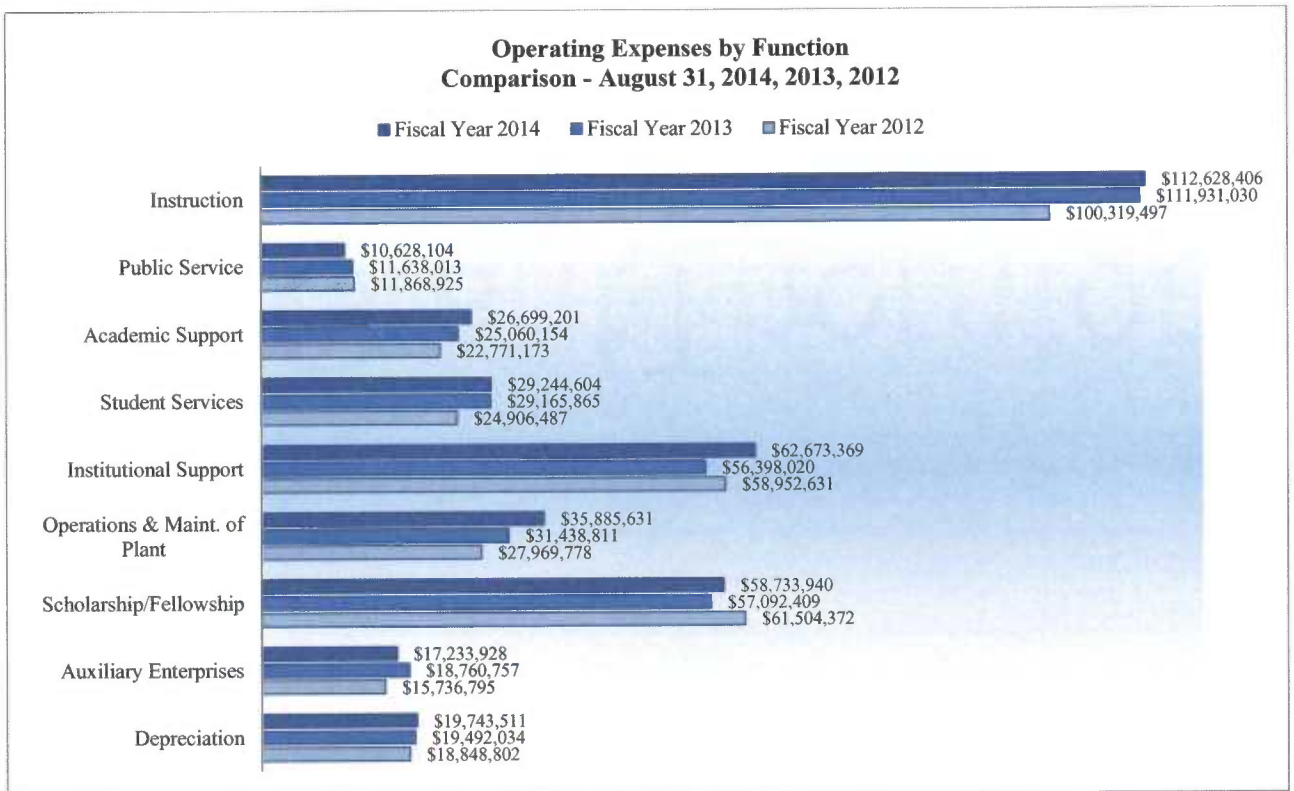
Expenses - Continued



	Operating Expenses by Functional Classification						Change	
	2014	% of Total	2013	% of Total	2012	% of Total	2013 to 2014	2012 to 2013
Instruction	\$ 12,628,406	30.2%	\$ 11,931,030	31.0%	\$ 10,319,497	29.3%	\$ 697,376	\$ 1,611,533
Public Service	10,628,104	2.8%	11,638,013	3.2%	11,868,925	3.5%	(1,009,909)	(230,912)
Academic Support	26,699,201	7.1%	25,060,154	6.9%	22,771,173	6.6%	1,639,047	2,288,981
Student Services	29,244,604	7.8%	29,165,865	8.1%	24,906,487	7.3%	78,739	4,259,378
Institutional Support	62,673,369	16.8%	56,398,020	15.6%	58,952,631	17.2%	6,275,349	(2,554,611)
Operation/ Maint. of Plant	35,885,631	9.6%	31,438,811	8.7%	27,969,778	8.2%	4,446,820	3,469,033
Scholarship/Fellowship	58,733,940	15.7%	57,092,409	15.8%	61,504,372	17.9%	1,641,531	(4,411,963)
Depreciation	19,743,511	5.3%	19,492,034	5.4%	18,848,802	5.5%	251,477	643,232
Auxiliary Enterprises	17,233,928	4.6%	18,760,757	5.2%	15,736,795	4.6%	(1,526,829)	3,023,962
Total Expenses	\$ 373,470,694	100%	\$ 360,977,093	100%	\$ 342,878,460	100%	\$ 12,493,601	\$ 18,098,633

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

Expenses – Continued



Fiscal Year 2014

An analysis of operating expenses indicates an increase in fiscal year 2014 by \$12.5 million or 3% compared to fiscal year 2013. The increases are namely in the operations & maintenance of plant, institutional support and academic support functional areas due to the following:

- Increase in employee benefits costs related to the reduction in the State's contribution to TRS and ORP, an increase in health insurance premiums and compliance with the Affordable Care Act;
- Land purchase and buildings improvements;
- Increase in debt services.

Fiscal Year 2013

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

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

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

Fiscal Year 2014:

There was a significant increase in net capital assets of approximately \$88.6 million from fiscal 2013 to fiscal 2014. This increase was due primarily to a \$36.0 million net increase in construction in progress, an increase in land of \$30.7 million, and increases in buildings, real estate improvements and equipment of \$21.9 million (net of accumulated depreciation) which were funded from various bond proceeds. See Footnote 6 of the financial statements.

Fiscal Year 2013:

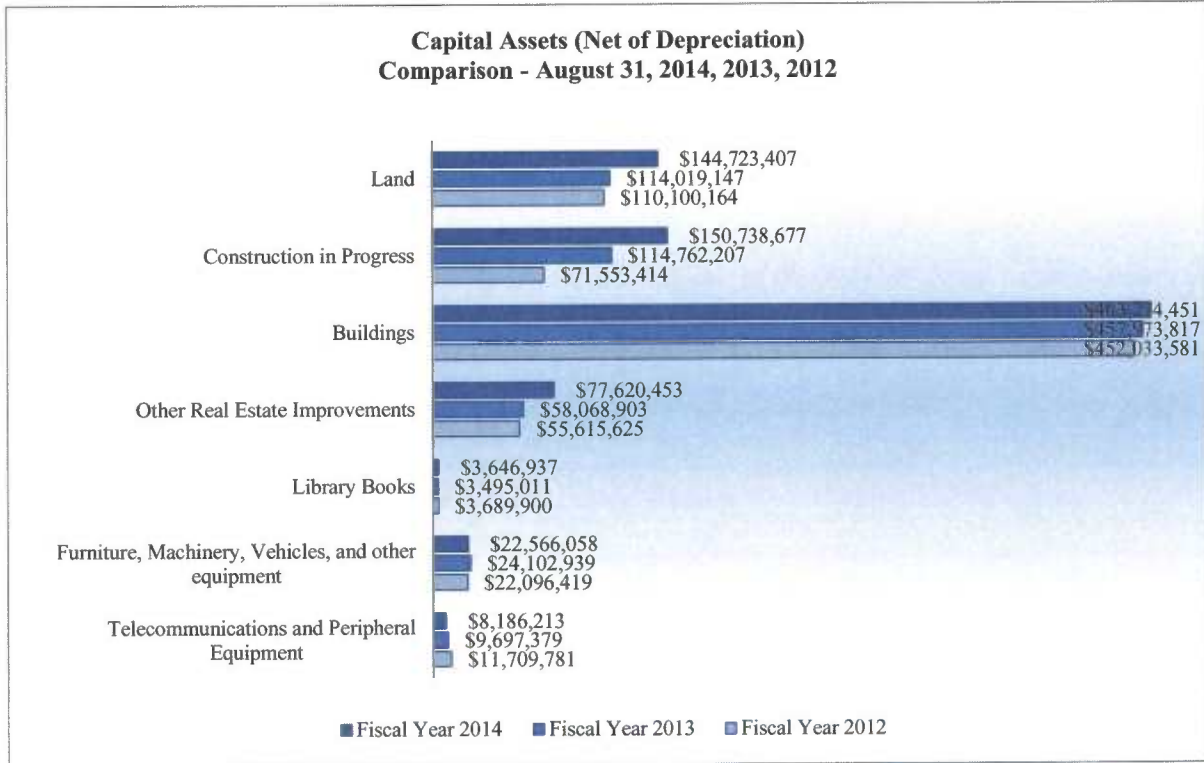
There was a significant increase in net capital assets of approximately \$55.3 million from fiscal 2012 to fiscal 2013. This increase was due to primarily to a \$43.2 million net increase in construction in progress, an increase in land of \$3.9 million, an increase in building, real estate improvement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

Capital Assets, Net of Depreciation

Capital Assets:	2014	2013	2012	Change	
				2013 to 2014	2012 to 2013
Land	\$ 144,723,407	\$ 114,019,147	\$ 110,100,164	\$ 30,704,260	\$ 3,918,984
Construction in Progress	150,738,677	114,762,207	71,553,414	35,976,470	43,208,793
Buildings	463,274,451	457,973,817	452,033,581	5,300,634	5,940,236
Other Real Estate Improvements	77,620,452	58,068,903	55,615,625	19,551,549	2,453,278
Library Books	3,646,937	3,495,011	3,689,900	151,926	(194,889)
Furniture, Machinery, Vehicles and Other Equipment	22,566,058	24,102,939	22,096,419	(1,536,881)	2,006,520
Telecommunications and Peripheral Equipment	8,186,213	9,697,379	11,709,781	(1,511,166)	(2,012,402)
Total Capital Assets	\$ 870,756,195	\$ 782,119,403	\$ 726,798,884	\$ 88,636,792	\$ 55,320,519

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

Capital Assets, Net of Depreciation continued

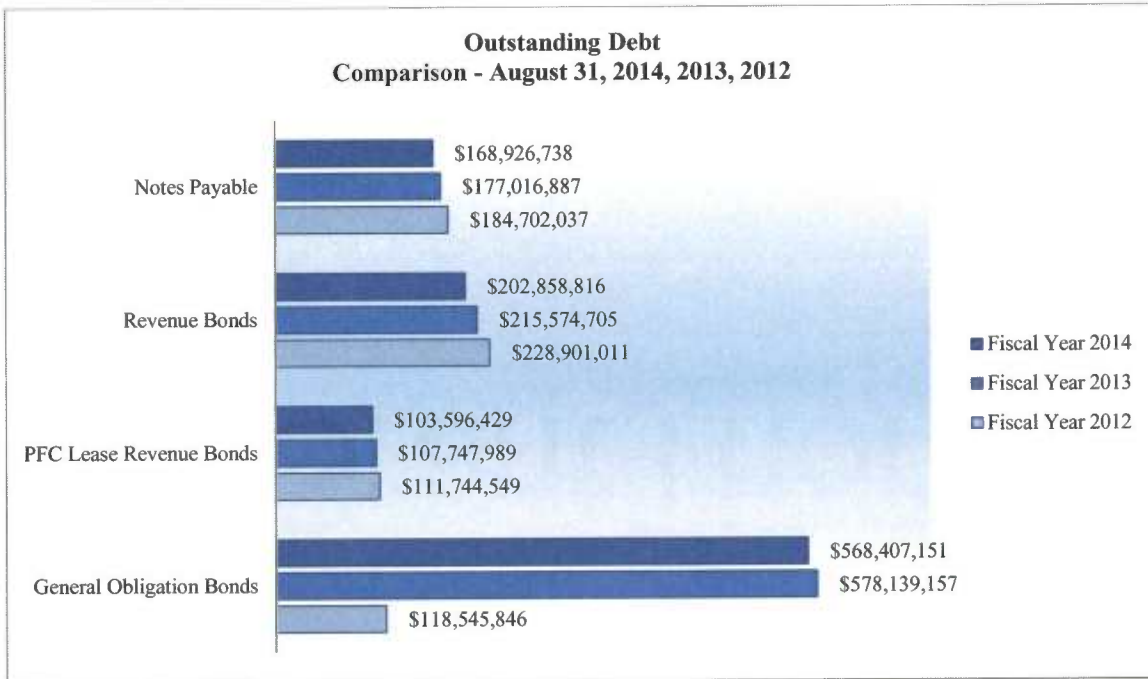


Outstanding Debt

Outstanding debt:	2014	2013	2012	Change	
				2013 to 2014	2012 to 2013
Notes Payable	\$ 168,926,738	\$ 177,016,888	\$ 184,702,037	\$ (8,090,150)	\$ (7,685,149)
Revenue Bonds	202,858,816	215,574,705	228,901,011	(12,715,889)	(13,326,306)
PFC Lease Revenue Bonds	103,596,429	107,747,989	111,744,549	(4,151,560)	(3,996,560)
General Obligation Bonds	568,407,151	578,139,157	118,545,846	(9,732,007)	459,593,311
Total Outstanding Debt	\$1,043,789,133	\$ 1,078,478,740	\$ 643,893,443	\$ (34,689,606)	\$ 434,585,296

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

Outstanding Debt continued



Fiscal Year 2014:

Bonds and notes payable decreased as follows:

- Decrease of \$8,090,150 due to principal payments on Maintenance Tax Notes.
- Decrease of \$12,715,889 due to principal payments on Revenue Bonds.
- PFC Lease Revenue Bonds decreased by \$4,151,560 due to principal payments.
- Decrease of \$9,373,909 for principal payments on Limited Tax General Obligation Bonds.

Fiscal Year 2013:

Bonds and notes payable increased as follows:

- Increase of \$451,629,544 due to the issuance of Limited Tax General Obligation Bonds
- Decrease of \$7,845,149 for principal payments on Maintenance Tax Notes.
- Decrease of \$14,751,933 due to principal payments on Revenue Bonds.
- PFC Lease Revenue Bonds decreased by \$3,996,560 due to principal payments.

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

Future Outlook

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

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

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

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

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

- (1) Futures Academy (formerly known as the Houston Innovative Learning Zone) – We have worked with HISD to create six certificate/Associate of Applied Science (AAS) programs in HISD high schools. After its first year of operation, cohort one had 83 students on track for the AAS degree and 24 on track for certificates in Advanced Manufacturing, Computer Networking, Engineering Technology, Pharmacy Technology, Logistics, or Process Technology. HCC continues to work with HISD and the University of Texas M. D. Anderson Cancer Center on the 7th Futures Academy program, one that prepares students with an AS in a field of science for entry into the U.T. M.D. Anderson baccalaureate programs.
- (2) Early College High Schools (ECHS) – our five ECHS continue to perform at an extraordinary level. Currently, students are graduating from the ECHS with an average of 48 semester credit hours (SCH) of college credit and 52 percent of students are graduating from high school with an earned associate degree. Compare that to the recent study by the Houston Endowment that showed of Houston's current 8th graders; only about 20 percent go on to earn any post-secondary certificate or degree within 6 years of high school graduation.

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

Future Outlook - Continued

- (3) Middle College High Schools (MCHS) – we continue to partner with HISD to facilitate the MCHS– located at Southwest, Southeast, and Central Colleges. The MCHS differs from the ECHS in that it is smaller (about 120 students vs. 400) and consist of students at lower levels and greater risk for drop out. The goal for these students will be to complete high school and to earn 6-12 SCH of college credit.

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

The 2013 Capital Improvements Program (CIP) continues to accomplish significant milestones. The Program Execution Plan (PEP) continues to be in use for all aspects of the Bond Program activities. Planning and construction is underway to build several new HCC facilities. The bond referendum, approved by the voters in 2012 for \$425,000,000, provides each HCC college with new or renovated facilities and the technology to meet student needs, especially in high-demand areas such as science, technology, engineering, and math (STEM) education, as well as health sciences.

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

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

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

Funding by the State for group health insurance was significantly reduced during the 82nd legislative session. During the 83rd legislative session, funding levels were increased, although not completely restored. The State contributions to TRS and ORP are as follows:

- TRS contribution is limited to 50% of employer's contribution of 6.8% in fiscal years 2014 and 2015, respectively.
- ORP contribution is limited to 50% of state contribution of 6.6% of total covered.

State funding has been reduced considerably over the last ten years. Appropriation funding per contact hour has decreased from \$3.23 to \$2.93 over the last ten years; disproportionately with subsequent growth in enrollment. The State of Texas allocated the full amount of the 10% set-aside for student success in the 2014-2015 biennium. However, future allocations will be based on success points earned annually. Although State funding for TRS and ORP contributions increased, HCC's contribution has also increased; thereby increasing operational expenses related to employee benefits. Our challenge is to support more students despite declining state funds.

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

Future Outlook – Continued

The ad valorem tax rate for 2014 was increased to \$0.106890 from the 2013 rate of \$0.097173. This increase was due to the increase in debt service payments that will be incurred in fiscal year 2014-2015. The tax rate for maintenance and operations (M&O) remained the same as the prior year at \$0.077055.

HCC began its cost savings program in 2008 in order to proactively address the anticipated reduction in state funding. The Budget Task Force continues to work to address the focused, critical issue of identifying transformational strategies at the institutional level to reduce spending through one-time and on-going savings and generate one-time and on-going revenue. To date the reports and recommendations for action have resulted in significant savings that have allowed the college to protect the integrity of our instructional program, maintain our course offerings and student services, and honor our commitment to retain jobs.

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, contact the Business Office at 3100 Main, Houston, Texas 77002.

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF NET POSITION
AUGUST 31, 2014 AND 2013

Exhibit 1

ASSETS	2014	2013
CURRENT ASSETS:		
Cash and Cash Equivalents (Note 4)	\$ 63,176,139	\$ 94,519,529
Accounts Receivable and Other Receivable, Net (Note 5)	42,278,645	37,013,426
Prepaid Charges	3,605,721	11,604,827
Total Current Assets	109,060,505	143,137,782
NONCURRENT ASSETS:		
Restricted Cash and Cash Equivalents (Note 4)	186,368,726	300,263,695
Other Long-Term Investments (Note 4)	6,829,534	18,765,869
Restricted Long Term Investment (Note 4)	318,554,119	247,818,532
Capital Assets Net (Note 6)	870,756,195	782,119,403
Total Noncurrent Assets	1,382,508,574	1,348,967,499
TOTAL ASSETS	1,491,569,079	1,492,105,281
DEFERRED OUTFLOWS OF RESOURCES		
Advance Funding Valuation	7,972,677	8,681,035
Total Deferred Outflows of Resources	7,972,677	8,681,035
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable (Note 5)	8,475,408	7,756,834
Accrued Liabilities	12,530,762	17,202,942
Compensated Absences (Note 17)	2,357,551	2,261,499
Funds Held for Others	852,319	819,447
Unearned Revenues	56,809,299	55,203,615
Notes Payable - Current Portion (Note 7 and 12)	7,785,000	7,495,000
Bonds Payable - Current Portion (Note 7 and 8)	24,525,000	22,570,000
Total Current Liabilities	113,335,339	113,309,337
NONCURRENT LIABILITIES:		
Deposits	440	-
Notes Payable (Note 7 and 12)	161,141,738	169,521,888
Bonds Payable (Note 7 and 8)	850,337,396	878,891,852
Total Noncurrent Liabilities	1,011,479,574	1,048,413,740
TOTAL LIABILITIES	1,124,814,913	1,161,723,077
DEFERRED INFLOWS OF RESOURCES		
Advance Funding Valuation	874,770	-
Total Deferred Inflows of Resources	874,770	-
NET POSITION		
Net Investment in Capital Assets	255,131,793	230,705,769
Restricted - Expendable	509,932	1,215,548
Unrestricted	118,210,348	107,141,922
TOTAL NET POSITION	\$ 373,852,073	\$ 339,063,239

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

HOUSTON COMMUNITY COLLEGE SYSTEM
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

Exhibit 2

	2014	2013
OPERATING REVENUES:		
Tuition and Fees, Net of Discounts	\$ 70,689,034	\$ 71,433,953
Federal Grants and Contracts	13,946,190	14,702,419
State Grants and Contracts	5,617,228	6,156,585
Local Grants and Contracts	116,899	81,407
Non-Governmental Grants and Contracts	2,441,076	2,413,531
Sales and Services of Educational Activities	189,043	193,328
Auxiliary Enterprises	16,420,060	16,092,899
Total Operating Revenues (Schedule A)	109,419,530	111,074,122
OPERATING EXPENSES:		
Instruction	112,628,406	111,931,030
Public Service	10,628,104	11,638,013
Academic Support	26,699,201	25,060,154
Student Services	29,244,604	29,165,865
Institutional Support	62,673,369	56,398,020
Operations and Maintenance	35,885,631	31,438,811
Scholarships and Fellowships	58,733,940	57,092,409
Auxiliary Enterprises	17,233,928	18,760,757
Depreciation	19,743,511	19,492,034
Total Operating Expenses (Schedule B)	373,470,694	360,977,093
OPERATING LOSS	(264,051,164)	(249,902,971)
NONOPERATING REVENUES (EXPENSES):		
State Appropriations	81,675,719	82,105,228
Maintenance Ad Valorem Taxes	113,987,287	106,097,476
Debt Service Ad Valorem Taxes	29,402,457	23,158,801
Gifts	1,436,292	1,591,888
Investment Income, Net	3,704,351	(140,747)
Interest on Capital Related Debt	(16,346,638)	(32,612,343)
Title IV Grants	94,092,798	94,423,841
Nursing Shortage Reduction	171,333	111,309
Hurricane Ike Expenses (Net of Recoveries)	-	40,887
Other Nonoperating Revenues	1,672,149	2,178,239
Other Nonoperating Expenses	(10,955,750)	(10,305,162)
Net Nonoperating Revenues (Schedule C)	298,839,998	266,649,417
INCREASE IN NET POSITION	34,788,834	16,746,446
NET POSITION, BEGINNING OF YEAR	339,063,239	322,316,793
NET POSITION, END OF YEAR	\$ 373,852,073	\$ 339,063,239

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

HOUSTON COMMUNITY COLLEGE SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

Exhibit 3

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and other customers	86,573,534	88,845,895
Receipts from grants and contracts	25,207,015	23,153,269
Payments to suppliers for goods and services	(69,448,900)	(71,905,480)
Payments to or on behalf of employees	(213,136,663)	(206,171,462)
Payments for scholarships and fellowships	(58,715,132)	(57,312,598)
	<u>(229,520,146)</u>	<u>(223,390,374)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from ad valorem taxes	141,036,343	128,883,247
Receipts from state allocations	81,675,719	81,970,943
Receipts from private gifts	1,436,292	1,591,888
Received Federal Direct Student Loans (SA: Federal note 3)	109,967,108	108,583,044
Disbursement of Federal Direct Student Loans (SA: Federal note 3)	(109,889,158)	(108,426,338)
Other Non-Operating Revenue	1,257,033	1,312,528
Receipts from Title IV	94,104,002	94,890,727
Receipts from Nursing	171,333	
Disbursement for Nursing		(93,490)
Net Receipts from IKE Relief		40,887
	<u>319,758,672</u>	<u>308,753,436</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from the issuance of capital debt	40,472,857	454,167,571
Bond issue cost paid on new capital debt issue	(362,857)	(2,570,661)
Purchases of capital assets	(77,466,967)	(46,213,517)
Payments of expenses relating to capital assets in Plant Funds	(4,817,882)	(6,278,325)
Payments on capital debt and leases - principal	(68,920,000)	(25,305,000)
Payments on capital debt and leases - interest and fees	(46,335,639)	(36,275,743)
Net cash provided (used) by capital and related financing activities	<u>(157,430,488)</u>	<u>337,524,325</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	31,543,193	28,829,580
Interest on investments	2,262,392	1,158,222
Purchase of investments	(23,490,694)	(431,317,980)
Net cash provided (used) by investing activities	<u>10,314,891</u>	<u>(401,330,178)</u>
INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(56,877,071)	21,557,209
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	120,053,210	98,496,001
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>63,176,139</u></u>	<u><u>120,053,210</u></u>

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

HOUSTON COMMUNITY COLLEGE SYSTEM
 STATEMENTS OF CASH FLOWS - CONTINUED
 FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

Exhibit 3

RECONCILIATION OF NET OPERATING LOSS TO NET CASH

Operating loss	(264,051,164)	(249,902,973)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	19,743,511	19,492,035
Addback Non-Cash Charges (Add in the Reserve) for Doubtful Accounts	1,533,270	1,007,341
Changes in assets and liabilities		
Receivables (net)	4,159,703	5,821,836
Prepays Charges	7,290,745	(885,245)
Accounts payables and accruals	3,803,155	2,433,897
Unearned revenues	(1,966,494)	(1,385,260)
Funds held for others	(32,872)	27,993
Total adjustment	<u>34,531,018</u>	<u>26,512,597</u>
Net cash used in operating activities	<u>(229,520,146)</u>	<u>(223,390,376)</u>

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

HOUSTON COMMUNITY COLLEGE SYSTEM NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY

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

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

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

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

The Houston Community College Foundation (the “Foundation”) is a legally separate not-for-profit corporation controlled by a separate board of trustees, whose sole purpose is to advance and assist in the development, growth and operation of the System. The System does not appoint any of the Foundation’s board members nor does it fund or is it obligated to pay debt related to the Foundation. The financial position of the Foundation as of August 31, 2014 and 2013 and the cost of services provided by the System to the Foundation during the years then ended are not significant to the System. The Foundation has therefore not been included as a component unit in the financial statements of the System. Financial information for the Foundation may be obtained from its administrative office.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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

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

Budgetary Data

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

Cash and Cash Equivalents

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments

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

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 deferred charges.

Capital Assets

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

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

Interest on Capital Related Debt

Interest expense on capital related debt totaled \$41,208,254 for fiscal 2014. Of that amount, \$24,861,616 was capitalized to construction in process in accordance with provisions of GASB Statement No. 62.

Unearned Revenues

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

Income Taxes

The System is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable, etc. Organizations*. The System had no unrelated business income tax liability for the years ended August 31, 2014 and 2013.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Management Estimates

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

Operating and Nonoperating Revenues and Expenses

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

Federal Financial Assistance Programs

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

Reclassifications

Certain 2013 amounts have been reclassified to conform with fiscal year 2014 presentation.

On Exhibit 1, restricted long-term investments amounting to \$149.8 million were reclassified to restricted cash and cash equivalent based on liquidity.

On Exhibit 2, amortization of bond premiums totaling \$4,215,301 was reclassified from nonoperating revenues to interest on capital related debt.

On Schedule A, remission and exemptions were reclassified from state classification to local classification in the amount of \$1.9 million.

On Schedule B, a reclassification was made to reflect proportional distribution of Information Technology expenses in accordance with NACUBO (form) section 342. This reclassification had no effect on total expenses.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

Adoption of New Accounting Standards

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

The System has evaluated events through the date the financial statements were available for issuance on December 17, 2014. No matters were identified affecting the accompanying financial statements and related disclosures that have not been disclosed elsewhere in these financial statements.

NOTE 3 – AUTHORIZED INVESTMENTS

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

NOTE 4 – DEPOSITS AND INVESTMENTS

The carrying amount (book balance) of the System's demand deposits with financial institutions as of August 31, 2014 and 2013 was \$21,177,412 and \$25,431,564 and total bank balances equaled \$81,828,415 and \$37,150,344, respectively. Of the bank balances for fiscal year 2014, \$250,000 is covered by FDIC, and \$81,574,415 is collateralized in the System's name. Of the Bank Balances for fiscal year 2013, \$250,000 was covered by FDIC and \$36,900,344 was covered by collateral pledged in the System's name. Restricted Long-Term investments include collateralized investments of \$121,888,042 and \$229,979,016 as high yield savings, \$19,162,254 and \$13,175,030 as Money Market and \$211,972,691 and \$211,972,691 as Certificate of Deposits, with a Bank as of August 31, 2014 and 2013 respectively. The collateral was held in an account of and independent third party agent.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

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

	<u>2014</u>	<u>2013</u>
Bank Deposits:		
Demand Deposits	\$ 170,974,032	\$ 300,161,578
Cash and Cash Equivalents:		
Petty Cash on Hand	51,730	50,710
Money Market Funds	25,201,664	34,709,335
High Yield Savings	10,598,707	23,972,410
Certificates of Deposit	33,277,309	33,277,309
TexPool	7,845,034	1,017,445
Lone star	1,596,389	1,594,437
	<u>78,570,833</u>	<u>94,621,646</u>
Total Cash and Deposits	249,544,865	394,783,224
Restricted Cash and Cash Equivalents	<u>(186,368,726)</u>	<u>(300,263,695)</u>
Cash and Cash Equivalents (Exhibit 1)	<u>\$ 63,176,139</u>	<u>\$ 94,519,529</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>2014</u>	<u>2013</u>
U.S. Agency Securities	\$ 61,890,576	\$ 52,817,630
Money Market, CD's, High Yield Savings		
Other securities & Checking Accounts	<u>263,493,076</u>	<u>213,766,771</u>
Total Investments	325,383,652	266,584,401
Total Cash and Deposits	<u>249,544,866</u>	<u>394,783,224</u>
Total Deposits and Investments	<u>\$ 574,928,518</u>	<u>\$ 661,367,625</u>
Cash and Cash Equivalents (Exhibit 1)	\$ 63,176,139	\$ 94,519,529
Restricted Cash and Cash Equivalents (Exhibit 1)	186,368,726	300,263,695
Restricted Long-Term Investment (Exhibit 1)	318,554,119	247,818,532
Other Long-Term Investments (Exhibit 1)	<u>6,829,534</u>	<u>18,765,869</u>
Total Deposits and Investments	<u>\$ 574,928,518</u>	<u>\$ 661,367,625</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

As of August 31, 2014 Houston Community College System had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity(Years)</u>
U.S. Agency Securities	\$ 61,890,574	4.49
Investment Pools	10,123,333	0.00
Certificates of Deposit	245,250,000	1.19
Cash and Money Market Funds (excluding \$824,813 of Operating Cash)	256,839,798	0.00
Total Fair Value	\$ 574,103,705	
Portfolio weighted average maturity		1

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

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

The credit quality (ratings) and concentration of credit exposure of securities in excess of 5% of total investments as of August 31, 2014 is as follows:

	<u>Credit Rating</u>	<u>Credit Exposure</u>
Fannie Mae (Federal National Mortgage Association)	AAA	0%
Freddie Mac (Federal Home Loan Mortgage Corporation)	AAA	0%
FHLB (Federal Home Bank)	AAA	7%
FFCB (Federal Farm Credit Bank)	AAA	2%

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.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables at August 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Accounts Receivable (net of allowance for doubtful accounts of \$287,236 for 2014 and 2013)	\$ 3,646,150	\$ 3,811,934
Student Receivables (net of allowance for doubtful accounts of \$9,809,474 for 2014 and \$8,276,204 for 2013)	31,188,884	27,075,231
Taxes Receivable (net of allowance for doubtful accounts of \$4,451,926 for 2014 and \$5,542,091 for 2013)	3,190,367	2,531,873
Federal Receivables	1,454,081	1,977,638
Other Receivables	<u>2,799,163</u>	<u>1,616,750</u>
 Total Receivables	 <u>\$ 42,278,645</u>	 <u>\$ 37,013,426</u>

Taxes receivable at August 31, 2014 and 2013 includes an accrual of \$374,145 and \$225,312 respectively, for property taxes assessed to service debt related to the Limited Tax Bonds, Series 2003 and Limited Tax Building and Refunding Bonds, Series 2005.

Payables at August 31, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Vendors Payable	\$ 4,871,348	\$ 4,562,398
Salaries & Benefits Payable	51,906	1,003,134
Student Payables	629,662	3,384
Other Payables	<u>2,922,492</u>	<u>2,187,918</u>
 Total Payables	 <u>\$ 8,475,408</u>	 <u>\$ 7,756,834</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2014 was as follows:

	Balance August 31, 2013	Increases	Decreases	Balance August 31, 2014
Not Depreciated:				
Land	\$ 114,019,147	\$ 30,704,260	\$ -	\$ 144,723,407
Construction in Process	114,762,207	70,883,831	34,907,361	150,738,677
Subtotal	228,781,354	101,588,091	-	295,462,084
Other Capital Assets:				
Buildings	533,855,420	14,538,268	-	548,393,687
Other Real Estate Improvements	70,666,818	23,227,641	-	93,894,458
Total Buildings and Other Real Estate Improvements	604,522,238	37,765,909	-	642,288,145
Library Books	17,161,906	691,394	80,141	17,773,159
Furniture, Machinery, Vehicles and Other Equipment	74,834,651	4,096,602	2,654,542	76,276,714
Telecommunications and Peripheral Equipment	37,185,804	110,752	100,359	37,196,197
Subtotal	733,704,599	42,664,657	2,835,042	773,534,215
Accumulated Depreciation:				
Buildings	75,881,603	9,237,633	-	85,119,236
Other Real Estate Improvements	12,597,915	3,676,091	-	16,274,006
Total Buildings and Other Real Estate Improvements	88,479,518	12,913,724	-	101,393,242
Library Books	13,666,895	539,468	80,141	14,126,222
Furniture, Machinery, Vehicles and Other Equipment	50,731,712	4,668,402	1,689,458	53,710,656
Telecommunications and Peripheral Equipment	27,488,425	1,621,918	100,359	29,009,984
Subtotal	180,366,550	19,743,511	1,869,958	198,240,104
Net Other Capital Assets	553,338,049	22,921,145	965,084	575,294,112
Net Capital Assets	\$ 782,119,403	\$ 124,509,236	\$ 965,084	\$ 870,756,195

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS - CONTINUED

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

	Balance August 31, 2012	Increases	Decreases	Balance August 31, 2013
Not depreciated:				
Land	\$ 110,100,164	\$ 3,918,983	\$ -	\$ 114,019,147
Construction in Process	71,553,414	44,490,805	1,282,012	114,762,207
Subtotal	181,653,578	48,409,788	1,282,012	228,781,354
Other Capital Assets:				
Buildings	518,915,028	14,940,392	-	533,855,420
Other Real Estate Improvements	65,209,145	5,457,673	-	70,666,818
Total Building and Other Real Estate Improvements	584,124,173	20,398,065	-	604,522,238
Library Books	16,835,197	339,132	12,423	17,161,906
Furniture, Machinery, Vehicles and Other Equipment	67,982,609	6,975,791	123,749	74,834,651
Telecommunications and Peripheral Equipment	37,185,804			37,185,804
Subtotal	706,127,783	27,712,988	136,172	733,704,599
Accumulated depreciation:				
Buildings	66,881,447	9,000,156	-	75,881,603
Other Real Estate Improvements	9,593,520	3,004,395	-	12,597,915
Total Building and Other Real Estate Improvements	76,474,967	12,004,551	-	88,479,518
Library Books	13,145,297	534,021	12,423	13,666,895
Furniture, Machinery, Vehicles and Other Equipment	45,886,190	4,941,060	95,538	50,731,712
Telecommunications and Peripheral Equipment	25,476,023	2,012,402	-	27,488,425
Subtotal	160,982,477	19,492,034	107,961	180,366,550
Net Other Capital Assets	545,145,305	8,220,954	28,211	553,338,049
Net Capital Assets	\$ 726,798,884	\$ 56,630,742	\$ 1,310,223	\$ 782,119,403

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liability activity for the years ended August 31, 2014 and 2013 was as follows:

	Balance as of September 1, 2013	Additions	Reductions	Balance as of August 31, 2014	Current Portion	Noncurrent Portion
Long-Term Notes Payable	\$ 177,016,888		(8,090,150)	\$ 168,926,738	\$ 7,785,000	\$ 161,141,738
Bonds:						
Revenue Bonds	215,574,705	40,530,224	(53,246,113)	202,858,816	12,545,000	190,313,816
PFC Lease Revenue	107,747,989		(4,151,560)	103,596,429	4,240,000	99,356,429
General Obligation Bonds	578,139,158		(9,373,909)	568,407,151	7,740,000	560,667,151
Total Bonds	901,461,852	40,530,224	(66,771,582)	874,862,396	24,525,000	850,337,396
Compensated absences (Note 17)	-	-	-	-	-	-
Total Noncurrent Liabilities	\$ 1,078,478,740	\$ 40,530,223	\$ (74,861,732)	\$ 1,043,789,133	\$ 32,309,999	\$ 1,011,479,133
Long-Term Notes Payable	\$ 184,862,037		(7,845,149)	\$ 177,016,888	\$ 7,495,000	\$ 169,521,888
Bonds:						
Revenue Bonds	230,326,638		(14,751,933)	215,574,705	11,320,000	204,254,705
PFC Lease Revenue	111,744,549		(3,996,560)	107,747,989	4,035,000	103,712,989
General Obligation Bonds	126,509,613	454,167,571	(2,538,027)	578,139,158	7,215,000	571,183,355
Total Bonds	468,580,800	454,167,571	(21,286,519)	901,461,852	22,570,000	879,151,049
Compensated absences (Note 17)	-	-	-	-	-	-
Total Noncurrent Liabilities	\$653,442,837	\$454,167,571	(\$29,131,668)	\$1,078,478,740	\$30,065,000	\$1,048,672,937

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 2005 through 2014 with interest rates ranging from 3% 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:

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

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

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

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

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

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

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

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

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

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

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

Limited Tax Bonds:

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

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 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") with interest rates of 5.00%. The optional redemption date of the Series 2005 Bonds was November 14, 2011.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

Date Series				Outstanding	Outstanding
Issued	Par Value	Maturity Date	Interest Rate	Balances at August 31, 2014	Balances at August 31, 2013
Student Fee Revenue Bonds:					
2005	\$51,285,000	04/15/2009 - 2020	3.250% - 5.250%	\$ 5,230,000	\$ 33,045,000
2006	72,815,000	04/15/2007 - 2030	4.000% - 5.000%	53,010,000	53,930,000
2008	54,540,000	04/15/2009 - 2030	4.000% - 5.250%	44,960,000	46,730,000
2010	27,250,000	04/15/2012 - 2031	3.000% - 5.250%	24,535,000	25,475,000
2011	26,245,000	04/15/2012 - 2025	4.000% - 5.250%	26,245,000	28,975,000
2011T	16,000,000	04/15/2015 - 2021	2.430% - 4.270%	-	16,000,000
2014A	9,210,000	04/15/2015 - 2026	2.000% - 3.250%	9,210,000	-
2014B	30,900,000	04/15/2015 - 2026	.0031% - 4.070%	30,900,000	-
PFC Lease Revenue Bonds (Blended Component Unit):					
2005A	\$11,605,000	04/15/2006 - 2028	3.500% - 5.000%	8,315,000	8,725,000
2005C	19,155,000	04/15/2007 - 2030	4.000% - 5.000%	14,775,000	15,400,000
2006	36,950,000	04/15/2008 - 2031	4.000% - 5.000%	29,460,000	30,660,000
2007	58,885,000	04/15/2009 - 2031	4.000% - 5.625%	49,070,000	50,870,000
Limited Tax Bonds:					
2003	\$144,155,000	02/15/06 - 2028	2.000% - 5.000%	-	455,000
2011	109,490,000	02/15/14 - 2028	4.000% - 5.000%	102,730,000	109,490,000
2013	398,775,000	02/15/15 - 2043	3.000% - 5.000%	398,775,000	398,775,000
Total Principal Payable				797,215,000	818,530,000
Unamortized Premium and Discount, Net				77,647,396	82,931,852
Total Bonds Payable				\$ 874,862,396	\$ 901,461,852

**HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 8 – BONDS PAYABLE – CONTINUED

Debt service requirements to maturities as of August 31, 2014 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
2015	\$ 12,545,000	\$ 8,421,828	\$ 20,966,828	\$ 4,240,000	\$ 4,726,279	\$ 8,966,279	\$ 7,740,000	\$ 23,789,519	\$ 31,529,519	\$ 24,525,000	\$ 36,937,626	\$ 61,462,626
2016	13,305,000	7,864,978	21,169,978	4,445,000	4,519,204	8,964,204	8,880,000	23,423,369	32,303,369	26,630,000	35,807,550	62,437,550
2017	13,665,000	7,502,160	21,167,160	4,665,000	4,303,854	8,968,854	10,145,000	22,961,494	33,106,494	28,475,000	34,767,507	63,242,507
2018	14,100,000	7,070,966	21,170,966	4,875,000	4,090,554	8,965,554	10,035,000	22,488,644	32,523,644	29,010,000	33,650,164	62,660,164
2019	14,580,000	6,592,094	21,172,094	5,095,000	3,866,629	8,961,629	11,355,000	21,971,794	33,326,794	31,030,000	32,430,517	63,460,517
2020 - 2024	68,670,000	22,668,039	91,338,039	29,240,000	15,566,740	44,806,740	64,350,000	100,822,694	165,172,694	162,260,000	139,057,473	301,317,473
2025 - 2029	46,120,000	8,833,546	54,953,546	35,605,000	8,375,288	43,980,288	72,235,000	83,938,719	156,173,719	153,960,000	101,147,552	255,107,552
2030 - 2034	11,105,000	646,045	11,751,045	13,455,000	969,863	14,424,863	121,335,000	61,448,953	182,783,953	145,885,000	63,064,861	208,959,861
2035 - 2039	-	-	-	-	-	-	108,115,000	32,648,625	140,763,625	108,115,000	32,648,625	140,763,625
2040 - 2043	-	-	-	-	-	-	87,315,000	7,846,375	95,161,375	87,315,000	7,846,375	95,161,375
	\$ 194,090,000	\$ 69,599,656	\$ 263,689,656	\$ 101,620,000	\$ 46,418,409	\$ 148,038,409	\$ 501,505,000	\$ 401,340,185	\$ 902,845,185	\$ 797,215,000	\$ 517,358,249	\$ 1,314,573,249

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

Year ending August 31,	Student Fee Revenue Bonds			PFC Lease Revenue Bonds			Limited Tax Bonds			Total Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 11,320,000	\$ 9,658,049	\$ 20,978,049	\$ 4,035,000	\$ 4,923,179	\$ 8,958,179	\$ 7,215,000	\$ 24,080,244	\$ 31,295,244	\$ 22,570,000	\$ 38,661,471	\$ 61,231,471
2015	13,545,714	9,232,249	22,777,963	4,240,000	4,726,279	8,966,279	7,740,000	23,789,519	31,529,519	25,525,714	37,748,046	63,273,761
2016	14,290,714	8,737,624	23,028,338	4,445,000	4,519,204	8,964,204	8,880,000	23,423,369	32,303,369	27,615,714	36,680,196	64,295,911
2017	14,895,714	8,039,399	22,935,113	4,665,000	4,303,854	8,968,854	10,145,000	22,961,494	33,106,494	29,705,714	35,304,746	65,010,461
2018	15,550,714	7,345,911	22,896,626	4,875,000	4,090,554	8,965,554	10,035,000	22,488,644	32,523,644	30,460,714	33,925,109	64,385,823
2019 - 2023	71,997,143	24,732,531	96,729,674	27,950,000	16,856,831	44,806,831	62,255,000	103,931,019	166,186,019	162,202,143	145,520,381	307,722,524
2024 - 2028	42,775,000	10,701,294	53,476,294	34,885,000	9,929,963	44,814,963	69,355,000	87,478,469	156,833,469	147,015,000	108,109,725	255,124,725
2029 - 2033	19,780,000	1,596,050	21,376,050	20,560,000	1,991,725	22,551,725	110,455,000	66,880,922	177,335,922	150,795,000	70,468,697	221,263,697
2034 - 2038	-	-	-	-	-	-	113,640,000	38,136,500	151,776,500	113,640,000	38,136,500	151,776,500
2039 - 2043	-	-	-	-	-	-	109,000,000	12,250,250	121,250,250	109,000,000	12,250,250	121,250,250
	\$ 204,155,000	\$ 80,043,106	\$ 284,198,106	\$ 105,655,000	\$ 51,341,588	\$ 156,996,588	\$ 508,720,000	\$ 425,420,428	\$ 934,140,428	\$ 818,530,000	\$ 556,805,122	\$ 1,375,335,122

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – DEFEASANCE OF LONG-TERM DEBT

The System issued \$30,900,000 in Combined Fee Revenue Refunding Bonds, Taxable Series 2014B and \$9,210,000 in Combined Fee Revenue Refunding Bonds, Series 2014A (“collectively Series 2014 Bonds”) on April 16, 2014. The Series 2014 Bonds were used to fully retire the Senior Lien Revenue Bond, Series 2011T (“Series 2011T”) of \$16,000,000 and to partially refund \$22,855,000 in Senior Lien Revenue Bonds, Series 2005 (“Series 2005”) with interest rates ranging from 2.43% to 5.25%. The optional redemption date of the Series 2011T Bonds was November 15, 2013 and the optional redemption date of the Series 2005 Bonds is April 15, 2015.

Proceeds of \$24,023,760 of the Taxable Series 2014B Bonds were placed in an irrevocable trust with an escrow agent and will be used to redeem the Series 2005 Bonds on the call date of April 15, 2015. The liability 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:

- \$266,931 in future cash flow deficits resulting from an increase in the aggregate debt service payments over the next twelve years.
- Economic gain of \$1,236,449, which is the difference between the present values of the old and new debt service payments.
- Advance funding valuation of \$874,770 was created, which is the difference between the reacquisition price of \$40,030,239 and the carrying amount of the refunded bonds of \$40,905,009. The valuation is deferred and amortized as a component of interest expense over the term of the defeased Series 2005 Bonds.

NOTE 10 – DEFEASED BONDS OUTSTANDING

The defeased bonds outstanding at August 31, 2014 and 2013 were as follows:

Bond issue	Year Refunded	Par Value Outstanding	
		August 31, 2014	August 31, 2013
Series 2005 Senior Lien Revenue Bonds	2014	\$ 22,855,000	_____

NOTE 11 – CAPITAL LEASE OBLIGATIONS

The System fully discharged all capital lease obligations.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – NOTES PAYABLE

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

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

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

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

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – NOTES PAYABLE – CONTINUED

Maturities of notes payable at August 31, 2014 were as follows:

<u>Year ending August 31</u>	<u>Central Utility Plant</u>	<u>Capital Improvements</u>	<u>Total</u>
2015	\$ 888,550	\$ 14,272,383	\$ 15,160,933
2016	891,250	14,264,983	15,156,233
2017	888,050	14,257,958	15,146,008
2018	888,566	14,277,426	15,165,992
2019	887,681	14,259,095	15,146,776
2020 - 2024	4,443,778	71,223,868	75,667,646
2025 - 2029	1,777,400	61,981,778	63,759,178
2030 - 2031	-	9,754,406	9,754,406
Total Payments	10,665,275	214,291,896	224,957,172
Less Amounts Representing Interest	(2,406,680)	(53,623,754)	(56,030,434)
Total Notes Payable	<u>\$ 8,258,595</u>	<u>\$ 160,668,142</u>	<u>\$ 168,926,738</u>

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – OPERATING LEASES

The System leases certain educational facilities, offices and other equipment. Future minimum rental payments under non-cancelable operating leases having remaining terms in excess of one year as of August 31, 2014 for each of the next five years and thereafter, and in the aggregate are as follows:

<u>Year ending August 31</u>	<u>Amount</u>
2015	\$ 1,134,929
2016	372,042
2017	281,907
2018	274,095
2019	195,179
Total	<u>\$ 2,258,153</u>

Rent expense totaled approximately \$1.3 million and \$1.2 million for the years ended August 31, 2014 and 2013 respectively.

NOTE 14 – LEASED FACILITIES

The System leases office space to other entities under operating leases. Minimum lease payments due to the System under these operating leases as of August 31, 2014 are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2015	\$ 4,378,569
2016	2,534,097
2017	311,208
2018	174,000
2019	154,000
Thereafter	158,400
Total	<u>\$ 7,710,274</u>

The System received approximately \$5.0 million in rental income for the years ended August 31, 2014 and 2013, respectively.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 - RETIREMENT PLANS

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

Teacher Retirement System of Texas

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefits improvements or contribution reductions if, as result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if that amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2014 and 2013 and a state contribution rate of 6.8% and 6.4% for fiscal years 2014 and 2013.

Optional Retirement Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.6% and 6.65%, respectively. As part of the College cost saving initiatives for fiscal year 2012, the College no longer provides subsidies for employees who participate in ORP. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

Retirement Expense

The retirement expense to the State for the System was \$3,236,549, \$4,407,127, and \$3,956,728 for the fiscal years ended August 31, 2014, 2013 and 2012 respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the System. Effective FY15, ERS will change their billing to reflect 50% funding for retiree as appropriated; therefore, no adjustment to the state's funding will be necessary.

The total payroll for all System employees was \$178,760,700 and \$174,038,989 for fiscal years 2014 and 2013, respectively. The total payroll of employees covered by the Teacher Retirement System was \$108,523,260 and \$100,405,708 and the total payroll of employees covered by the Optional Retirement Program was \$40,787,284 and \$41,672,052 for fiscal years 2014 and 2013, respectively.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 - DEFERRED COMPENSATION PROGRAM

The System's employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. Both a 403(b) plan and a 457 plan are available. The 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, 2014 and 2013 were 644 and 638, respectively.

During fiscal years ended August 31, 2014 and August 31, 2013, employee contributions amounting to \$4,030,815 and \$4,106,672 were invested in the plan, respectively.

NOTE 17 – COMPENSATED ABSENCES

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

Employees earn up to 160 vacation hours depending on the number of years employed with the System. Up to 80 earned vacation hours may be carried forward by employees from one fiscal year to another, but must be utilized before the end of February of the following year or be lost. An employee is compensated for any earned but unused vacation hours upon termination of employment with the System. Accrued compensable absences of \$2,357,551 and \$2,261,499 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, 2014 and 2013, respectively.

NOTE 18 – FUNDS HELD IN TRUST BY OTHERS

The balances of funds held in trust by others on behalf of the Public Facility Corporation are reflected in the financial statements. At August 31, 2014 and 2013, there were ten funds for the benefit of the Public Facility Corporation. These trust assets represent bond proceeds to be utilized for construction purposes. The assets of these funds are reported by the trustee at values totaling \$1,554,088 and \$1,794,080 at August 31, 2014 and August 31, 2013, respectively. These assets are classified as restricted long-term investments.

NOTE 19 – COMMITMENTS

The System has entered into contracts for the planning and construction of new facilities, as well as the renovation and repair of existing campuses. Commitments remaining under such contracts were \$31,979,614 at August 31, 2014. The System has also entered into contracts for technology capital projects, with commitments of \$414,381 remaining at August 31, 2014. Proceeds from the sales of various bonds and notes will fund the purchase and construction of new facilities and the technology projects.

The Public Facility Corporation has entered into contracts for the planning and construction of new facilities, as well as the renovation and repair of existing campuses. Commitments remaining under such contracts were \$100,108 at August 31, 2014. Proceeds from the sale of the Public Facility Corporation Lease Revenue Bonds will fund the construction of new facilities.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 – COMMITMENTS - CONTINUED

Community College of Qatar

In May 2010, the System entered into a five-year service agreement with The Community College of Qatar (CCQ) to develop the community college model to meet the educational needs of Qatar. The agreement for the five-year period represents a \$45.6 million commitment by the CCQ for HCC services plus other necessary costs. Either party may terminate the agreement with a 180 calendar day notice provided that the 180 day notice shall not end prior to the last day of the academic year. The System is developing a custom curriculum and will institute a fully operational community college. HCC is also providing the faculty and staff while the CCQ is in development. Classes at the CCQ began in Fall 2010. The CCQ will reimburse the System in accordance with the terms of the agreement. At August 31, 2014 and 2013, amounts due under this agreement totaled \$812,527 and \$1,352,007 respectively, and are included in other receivables in the accompanying Statements of Net Position.

NOTE 20 – CONTINGENCIES

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

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

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

The State Constitution Article 16 provides that the State of Texas "must" make a contribution for individuals participating in the Texas Retirement System or Optional Retirement Program and action has been taken by the State to enforce their position, requiring community colleges to implement GASB 68 effective FY2015. HCC will recognize its proportionate share of the collective net pension liability, pension expense and deferred inflows and outflows of the cost sharing plan as of the measurable date and amount determined by the State of Texas.

A penalty in the amount of \$696,100 has been assessed by IRS for incorrect filing of 1098's for the year of 2012. These filings violated Internal Revenue code (IRC) section 6721. HCC has responded to the IRS in an attempt to mitigate this matter and has included a contingent liability in the amount of \$696,100 in the fiscal year 2014 financial statements.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 – POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for both active and retired employees. Almost all of the employees may become eligible for these benefits if they reach normal retirement age while working for the State. These and similar benefits for active employees are provided through a self-funded State plan which is administered by an insurance company. The premiums are based on benefits paid during the previous year. The State's contribution per full-time employee ranged from \$503.14 and \$984.12 per month for the year ended August 31, 2014 (\$470.38 and \$919.82 per month for the year ended August 31, 2013) and totaled \$ 20,012,887 for the year ended August 31, 2014 (\$18,427,127 for the year ended August 31, 2013). The cost of premiums for 528 retirees in the year ended August 31, 2014 was \$3,300,335 (retiree benefits for 517 retirees cost \$3,055,213 in the year ended August 31, 2013). For 2305 active employees, the cost of premiums was \$16,712,552 for the year ended August 31, 2014 (active employee benefits for 2,261 employees cost \$15,371,915 for the year ended August 31, 2013). On-behalf payments of these benefits were recognized as restricted revenues and restricted expenses during the year.

NOTE 22 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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

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

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

The system's contributions to SRHP for the years ended August 31, 2014 and 2013 were \$3,298,890 and \$3,049,496 respectively, which equaled the required contributions each year.

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 – PROPERTY TAX

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

At August 31:	<u>2014</u>	<u>2013</u>
Assessed valuation of the System	\$ 180,734,029,067	\$ 145,875,030,461
Less: Exemptions	<u>(34,213,942,090)</u>	<u>(12,890,703,534)</u>
Net Assessed Valuation of the System	<u>\$ 146,520,086,977</u>	<u>\$ 132,984,326,927</u>

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

Taxes levied for the years ended August 31, 2014 and 2013, based on the certified rolls, as reported by the taxing authorities amounted to \$142,377,964 and \$129,224,860, respectively, which includes any penalty and interest assessed if applicable.

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

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

	<u>August 31, 2014</u>			<u>August 31, 2013</u>		
	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	\$ 0.077055	\$ 0.020118	\$ 0.097173	\$ 0.079673	\$ 0.017500	\$ 0.097173

Tax collections for the year ended August 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Current Taxes Collected	\$ 141,871,329	\$ 126,900,573
Delinquent Taxes Collected	1,863,095	1,639,206
Penalties and Interest Collected	<u>1,370,704</u>	<u>1,496,150</u>
Total	<u>\$ 145,105,128</u>	<u>\$ 130,035,929</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 – PROPERTY TAX – CONTINUED

For the years ended August 31, 2014 and 2013 tax collections represent 98% and 98% of the tax levy, respectively. Taxes assessed are recorded in the System's financial statements net of the related allowance for uncollectable taxes, based upon the System's expected collection experience. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

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 24 – RELATED PARTY TRANSACTIONS

The Houston Community College Foundation (the "Foundation") is a nonprofit organization with the sole purpose of supporting the educational and other activities of the System. The Foundation solicits donations and acts as coordinator of gifts made to the System. The Foundation remitted \$908,590 and \$405,768 to the System for scholarship awards during the years ended August 31, 2014 and August 31, 2013, respectively. The Foundation remitted \$1,006,555 and \$1,752,006 to the System to fund grant programs during the years ended August 31, 2014 and August 31, 2013, respectively.

During the years ended August 31, 2014 and August 31, 2013, the System provided staff assistance to the Foundation at no cost. The System's management estimates the value of the services provided to the Foundation in fiscal years August 31, 2014 and August 31, 2013 to be approximately \$968,778 and \$1,056,600, respectively. As of August 31, 2014 and August 31, 2013, the amount due to the System from the Foundation was zero. In January 2011, the Foundation signed a lease with the System for rental of office space at \$1,200 per month. The Foundation paid the System \$14,400 in rent during the years ended August 31, 2014 and August 31, 2013.

SUPPLEMENTAL SCHEDULES

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF OPERATING REVENUES
FOR THE YEAR ENDED AUGUST 31, 2014
With Memorandum Totals for the Year Ended AUGUST 31, 2013

Schedule A

	Total			August 31, 2014 Total	August 31, 2013 Total	
	Unrestricted	Restricted	Educational Activities			
Tuition:						
State Funded Courses:						
In-District Resident Tuition	20,885,668	0	20,885,668	0	20,885,668	22,286,600
Out-of-District Resident Tuition	7,848,313	0	7,848,313	0	7,848,313	7,878,193
TPEG (Credit)	2,385,439	0	2,385,439	0	2,385,439	1,752,919
State Funded Continuing Education:	7,615,333	0	7,615,333	0	7,615,333	7,653,992
TPEG (Non-Credit)	384,339	0	384,339	0	384,339	392,584
Non-Resident Tuition	14,652,333	0	14,652,333	0	14,652,333	15,008,933
Non-State Funded Continuing Education	511,725	0	511,725	0	511,725	630,500
Total Tuition	54,283,150	-	54,283,150	-	54,283,150	55,603,721
Fees:						
Installment Plan Fees	991,859	0	991,859	0	991,859	1,056,555
Non-Instructional Contract Training Fees	220,800	0	220,800	0	220,800	139
General Fees	34,428,754	0	34,428,754	0	34,428,754	35,068,637
Laboratory Fees	4,422,208	0	4,422,208	0	4,422,208	4,486,634
Other Fees	11,176,420	0	11,176,420	0	11,176,420	11,265,617
Out-of-District Fees	16,029,993	0	16,029,993	0	16,029,993	15,872,087
Student Service Fees	2,052,192	0	2,052,192	2,045,014	4,097,206	4,025,806
Total Fees	69,322,227	-	69,322,227	2,045,014	71,367,241	71,775,475
Scholarship Allowances and Discounts:						
Remissions and Exemptions-State	(6,995,065)	0	(6,995,065)	0	(6,995,065)	(6,849,094)
Remissions and Exemptions-Local	(2,032,952)	0	(2,032,952)	(29,000)	(2,061,952)	(2,299,037)
Title IV Federal Grants	(38,887,877)	0	(38,887,877)	0	(38,887,877)	(39,702,624)
Other Federal Grants	(2,527,554)	0	(2,527,554)	0	(2,527,554)	(2,734,302)
TPEG Awards	(1,506,869)	0	(1,506,869)	0	(1,506,869)	(1,249,419)
Other State Grants	(1,783,368)	0	(1,783,368)	0	(1,783,368)	(1,949,721)
Other Local Grants	(1,198,671)	0	(1,198,671)	0	(1,198,671)	(1,161,046)
Total Scholarship Allowances	(54,932,357)	0	(54,932,357)	(29,000)	(54,961,357)	(55,945,243)
Total Net Tuition and Fees	68,673,021	-	68,673,021	2,016,014	70,689,034	71,433,953
Other Operating Revenues:						
Federal Grants and Contracts	0	13,946,190	13,946,190	0	13,946,190	14,702,419
State Grants and Contracts	0	5,617,228	5,617,228	0	5,617,228	6,156,585
Local Grants And Contracts	0	116,899	116,899	0	116,899	81,407
Non-Governmental Grants And Contracts	0	2,441,076	2,441,076	0	2,441,076	2,413,531
Sales And Services	188,547	0	188,547	496	189,043	193,328
Total Other Operating Revenues	188,547	22,121,394	22,309,941	496	22,310,437	23,547,270
Auxiliary Enterprises:						
Bookstore	0	0	0	2,884,880	2,884,880	2,732,804
Long-Term Parking	0	0	0	543,753	543,753	654,237
Qatar	0	0	0	6,779,102	6,779,102	7,082,446
Rental Of Facilities	0	0	0	5,502,779	5,502,779	4,939,220
Restaurant	0	0	0	517,458	517,458	507,256
Vending And Other Commissions	0	0	0	192,087	192,087	176,936
Total Auxiliary Enterprises	-	-	-	16,420,060	16,420,060	16,092,899
Total Operating Revenues	\$ 68,861,568	\$ 22,121,394	\$ 90,982,961	\$ 18,436,570	\$ 109,419,530	\$ 111,074,122

*In accordance with Education Code 56.033, \$2,223,442 and \$2,145,503 of tuition for fiscal years ended August 31, 2014 and 2013, respectively were set aside for Texas Public Education Grants (TPEG).

See Independent Auditor's Report

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF OPERATING EXPENSES BY OBJECT
FOR THE YEAR ENDED AUGUST 31, 2014
With Memorandum Totals for the Year Ended AUGUST 31, 2013

Schedule B

	Salaries and Wages	Operating Expenses				2014 Total	2013 Total
		Benefits		Other Expenses	2013 Total		
		State	Local				
Unrestricted Educational Activities							
Instruction	89,897,251	-	10,222,219	\$ 3,935,519	\$ 104,054,989	\$ 103,074,344	
Public Service	625,188	-	71,090	686,140	1,382,418	1,301,455	
Academic Support	18,051,308	-	2,052,615	3,393,849	23,497,772	21,989,352	
Student Services	19,817,873	-	2,253,491	3,099,446	25,170,810	25,325,778	
Institutional Support	33,145,312	-	4,534,450	22,324,270	60,004,032	54,045,998	
Operation and Maintenance of Plant	2,285,417	-	259,875	33,340,339	35,885,631	31,438,811	
Total Unrestricted Educational Activities	163,822,349		19,393,740	66,779,563	249,995,652	237,175,738	
Restricted Educational Activities							
Instruction	742,437		106,641	755,797	8,573,417	8,856,686	
Public Service	4,258,547		508,700	4,478,439	9,245,686	10,336,558	
Academic Support	749,495		136,091	916,564	3,201,429	3,070,802	
Student Services	2,083,350		19,756	434,471	4,073,794	3,840,087	
Institutional Support	-		-	100,020	2,669,337	2,352,022	
Scholarship and Fellowship	-		-	58,733,940	58,733,940	57,092,409	
Total Restricted Educational Activities	7,833,829		771,188	65,419,231	86,497,603	85,548,564	
Total Educational Activities	171,656,178		20,164,928	132,198,794	336,493,255	322,724,302	
Auxiliary Enterprises							
Auxiliary Enterprises - Qatar Expenses	1,961,754		431,922	8,563,907	10,957,583	11,911,255	
Depreciation - Buildings	5,142,768		935,326	198,251	6,276,345	6,849,502	
Depreciation - Equipment	-		-	12,913,723	12,913,723	12,004,551	
Depreciation - Library Books	-		-	6,290,320	6,290,320	6,953,462	
Total Operating Expenses	\$ 178,760,700		\$ 21,532,176	\$ 160,704,463	\$ 373,470,694	\$ 360,977,093	
					(Exhibit 2)	(Exhibit 2)	

See Independent Auditor's Report

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF NONOPERATING REVENUES AND EXPENSES
 FOR THE YEAR ENDED AUGUST 31, 2014

With Memorandum Totals for the Year Ended AUGUST 31, 2013

Schedule C

	Unrestricted	Restricted	Auxiliary Enterprises	Total 2014	Total 2013
NONOPERATING REVENUES:					
State Appropriations:					
Educational and General State Support	\$ 69,148,935	\$ -	\$ -	\$ 69,148,935	\$ 70,014,003
State Group Insurance	-	9,302,498	-	9,302,498	8,065,635
State Retirement Matching	-	3,170,857	-	3,170,857	4,025,590
Other State Appropriations	53,429	-	-	53,429	-
Total State Appropriations	<u>69,202,364</u>	<u>12,473,355</u>	<u>-</u>	<u>81,675,719</u>	<u>82,105,228</u>
Maintenance Ad-Valorem Taxes	113,987,287	-	-	113,987,287	106,097,476
Debt Service Ad-Valorem Taxes	29,402,457	-	-	29,402,457	23,158,801
Gifts	-	1,431,392	4,900	1,436,292	1,591,888
Investment Income, Net	3,704,351	-	-	3,704,351	(140,747)
Title IV Grants	-	94,092,798	-	94,092,798	94,423,841
Nursing Shortage Reduction	-	171,333	-	171,333	111,309
Hurricane Ike	-	-	-	-	53,318
Other Nonoperating Revenue	1,672,517	-	(368)	1,672,149	2,178,239
Total Nonoperating Revenues	<u>217,968,976</u>	<u>108,168,878</u>	<u>4,532</u>	<u>326,142,386</u>	<u>309,579,353</u>
NONOPERATING EXPENSES:					
Interest on Capital-Related Debt	(16,346,638)	-	-	(16,346,638)	(32,612,343)
Hurricane Ike Expenses	-	-	-	-	(12,431)
Other Nonoperating Expenses	(10,955,750)	-	-	(10,955,750)	(10,305,162)
Total Nonoperating Expenses	<u>(27,302,388)</u>	<u>-</u>	<u>-</u>	<u>(27,302,388)</u>	<u>(42,929,936)</u>
NET NONOPERATING REVENUES	<u>\$ 190,666,588</u>	<u>\$ 108,168,878</u>	<u>\$ 4,532</u>	<u>\$ 298,839,998</u>	<u>\$ 266,649,417</u>
				(Exhibit 2)	(Exhibit 2)

See Independent Auditor's Report

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE NET POSITION BY SOURCE AND AVAILABILITY
 FOR THE YEAR ENDED AUGUST 31, 2014
 With Memorandum Totals for the Year Ended AUGUST 31, 2013

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	\$ 103,507,364			\$ 103,507,364	\$ 103,507,364		
Auxiliary enterprises	6,048,536			6,048,536	6,048,536		
Loan		509,932		509,932	509,932		509,932
Plant:							
Unexpended	5,418,977			5,418,977	5,418,977		
Investment in Plant	3,235,471			3,235,471	3,235,471		255,131,793
Total Net Position August 31, 2014	118,210,348	509,932	-	373,852,073	118,210,348		255,641,725
				Exhibit 1			
Total Net Position August 31, 2013	110,291,177	1,215,548	-	339,063,239	107,141,922		231,921,317
				Exhibit 1			
Net Increase(Decrease) in Net Position	\$ 7,919,171	\$ (705,616)	\$ -	\$ 27,575,279	\$ 11,068,426		\$ 23,720,408
				Exhibit 2			

See Independent Auditor's Report

STATISTICAL SECTION
(Unaudited)

HOUSTON COMMUNITY COLLEGE SYSTEM STATISTICAL SECTION NARRATIVE

Statistical Section

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Economic & Demographic Information

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

Operating information

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

Sources: Unless otherwise stated, the information in this section is derived from the annual financial reports for the relevant year. The System 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,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net Investment in Capital Assets	\$ 255,132	\$ 230,706	\$ 234,825	\$ 207,977	\$ 197,013	\$ 197,253	\$ 190,084	\$ 173,412	\$ 146,493	\$ 148,651
Restricted - Expendable	510	1,216	488	488	449	449	449	449	582	450
Restricted - Nonexpendable	-	-	-	-	-	-	-	-	-	-
Unrestricted	118,210	107,142	87,004	73,959	70,083	62,731	62,334	55,872	60,092	42,439
Total Primary Government, Net of Position	\$ 373,852	\$ 339,063	\$ 322,317	\$ 282,424	\$ 267,545	\$ 260,433	\$ 252,867	\$ 229,733	\$ 207,166	\$ 191,540
Net Increase in Position	\$ 34,789	\$ 16,746	\$ 39,893	\$ 14,879	\$ 7,112	\$ 7,566	\$ 23,134	\$ 22,567	\$ 15,626	\$ 12,855

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

Table 2

	For the Year Ended August 31,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
OPERATING REVENUES:										
Tuition and Fees, Net of Discounts	\$ 70,689,034	\$ 71,433,953	\$ 71,415,957	\$ 67,907,897	\$ 65,655,752	\$ 64,689,510	\$ 58,939,437	\$ 54,389,997	\$ 50,027,656	\$ 50,300,876
Federal Grants and Contracts	13,946,190	14,702,419	16,848,269	16,064,089	16,243,394	12,480,512	13,001,562	12,924,612	13,579,195	13,678,022
State Grants and Contracts	5,617,228	6,156,585	5,152,251	6,448,589	5,157,058	3,695,688	2,988,267	2,796,870	2,349,662	2,322,147
Local Grants and Contracts	116,899	81,407	95,226	275,085	79,055	77,955	81,761	77,116	90,392	84,962
Non-Governmental Grants and Contracts	2,441,076	2,413,531	2,497,892	1,283,150	1,286,822	854,759	467,151	605,832	705,186	305,459
Sales and Services of Educational Activities	189,043	193,328	329,382	369,530	315,835	261,861	203,207	208,228	470,021	161,349
Other Operating Revenues	-	-	-	-	-	-	-	527,125	589,409	717,187
Auxiliary Enterprises	16,420,060	16,092,899	16,096,494	14,535,914	10,493,233	8,709,724	7,937,176	7,351,627	5,294,890	5,519,502
Total Operating Revenues	109,419,530	111,074,122	112,435,472	106,884,254	99,231,149	90,770,009	83,618,561	78,881,407	73,106,411	73,089,504
NONOPERATING REVENUES:										
State Appropriations	81,675,719	82,105,228	81,839,826	84,838,315	84,665,409	81,677,836	80,863,825	77,302,202	76,641,509	76,553,540
Ad Valorem Taxes	143,389,744	129,256,277	123,638,019	115,820,065	119,273,809	107,746,487	97,214,316	88,882,876	82,580,297	72,873,881
Gifts	1,436,292	1,591,888	2,053,638	1,573,601	1,555,967	1,115,895	964,033	491,270	578,333	424,138
Investment Income	3,704,351	(140,747)	789,917	566,945	900,323	4,213,587	11,160,656	17,507,157	11,102,588	5,058,363
Disaster Relief Grants	-	-	-	-	1,415,592	1,525,611	-	-	-	-
Title IV (Pell)	94,092,798	94,423,841	102,023,662	96,171,936	75,639,561	41,239,311	31,591,860	30,325,297	26,288,282	26,445,601
Nursing Shortage Reduction	171,333	111,309	14,038	151,786	73,453	19,969	33,974	66,969	16,091	-
Other Nonoperating Revenues	1,672,149	2,231,557	9,341,129	6,153,631	3,455,364	2,241,061	7,768,434	3,866,533	2,438,678	1,717,391
Total Nonoperating Revenues	326,142,386	309,579,353	319,700,229	305,276,279	286,979,477	239,779,757	229,597,098	218,442,304	199,645,778	183,072,914
TOTAL REVENUES	\$ 435,561,916	\$ 420,653,475	\$ 432,135,701	\$ 412,160,533	\$ 386,210,626	\$ 330,549,766	\$ 313,215,659	\$ 297,323,711	\$ 272,752,189	\$ 256,162,418

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

Table 2

	(percentage of total)									
OPERATING REVENUES:										
Tuition and Fees, Net of Discounts	16.23%	16.98%	16.53%	16.48%	17.00%	19.57%	18.82%	18.29%	18.34%	19.64%
Federal Grants and Contracts	3.20%	3.50%	3.90%	3.90%	4.21%	3.78%	4.15%	4.35%	4.98%	5.34%
State Grants and Contracts	1.29%	1.46%	1.19%	1.56%	1.34%	1.12%	0.95%	0.94%	0.86%	0.91%
Local Grants and Contracts	0.03%	0.02%	0.02%	0.07%	0.02%	0.02%	0.03%	0.03%	0.03%	0.03%
Non-Governmental Grants and Contracts	0.56%	0.57%	0.58%	0.31%	0.33%	0.26%	0.15%	0.20%	0.26%	0.12%
Sales and Services of Educational Activities	0.04%	0.05%	0.08%	0.09%	0.08%	0.08%	0.06%	0.07%	0.17%	0.06%
Other Operating Revenues	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.18%	0.22%	0.28%
Auxiliary Enterprises	3.77%	3.83%	3.72%	3.53%	2.72%	2.63%	2.53%	2.47%	1.94%	2.15%
Total Operating Revenues	25.12%	26.41%	26.02%	25.93%	25.69%	27.46%	26.70%	26.53%	26.80%	28.53%
NONOPERATING REVENUES:										
State Appropriations	18.75%	19.52%	18.94%	20.58%	21.92%	24.71%	25.82%	26.00%	28.10%	29.88%
Ad Valorem Taxes	32.92%	30.73%	28.61%	28.10%	30.88%	32.60%	31.04%	29.89%	30.28%	28.45%
Gifts	0.33%	0.38%	0.48%	0.38%	0.40%	0.34%	0.31%	0.17%	0.21%	0.17%
Investment Income	0.85%	-0.03%	0.18%	0.14%	0.23%	1.27%	3.56%	5.89%	4.07%	1.97%
Disaster Relief Grants	0.00%	0.00%	0.00%	0.00%	0.37%	0.46%	0.00%	0.00%	0.00%	0.00%
Title IV (Peil)	21.60%	22.45%	23.61%	23.33%	19.59%	12.48%	10.09%	10.20%	9.64%	10.32%
Nursing Shortage Reduction	0.04%	0.03%	0.00%	0.04%	0.02%	0.01%	0.01%	0.02%	0.01%	0.00%
Other Nonoperating Revenues	0.38%	0.53%	2.16%	1.49%	0.89%	0.68%	2.48%	1.30%	0.89%	0.67%
Total Nonoperating Revenues	74.88%	73.59%	73.98%	74.07%	74.31%	72.54%	73.30%	73.47%	73.20%	71.47%
TOTAL REVENUES	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

See Independent Auditor's Report

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

Table 3

	For the Year Ended August 31,									
	2014	2013*	2012	2011	2010	2009	2008	2007	2006	2005
OPERATING EXPENSES:										
Instruction	\$ 112,628,406	\$ 111,931,030	\$ 100,319,497	\$ 112,617,877	\$ 113,319,505	\$ 105,158,760	\$ 96,006,367	\$ 92,249,139	\$ 88,156,430	\$ 86,655,657
Public Service	10,628,104	11,638,013	11,868,925	11,766,675	11,477,787	9,988,399	9,868,651	11,362,415	11,435,129	11,199,015
Academic Support	26,699,201	25,060,153	22,771,173	19,616,391	23,449,473	20,632,551	19,645,603	17,972,637	16,355,817	15,315,072
Student Services	29,244,604	29,165,865	24,906,487	31,901,438	30,902,922	27,473,142	25,822,223	24,659,370	24,919,075	24,754,156
Institutional Support	62,673,369	56,398,020	58,952,631	55,747,071	53,302,151	47,880,656	44,359,869	43,163,084	40,884,807	36,375,786
Operation and Maintenance of Plant	35,885,631	31,438,811	27,969,778	28,350,817	35,937,690	32,628,588	26,917,292	26,782,535	23,055,592	20,213,768
Scholarships and Fellowships	58,733,940	57,092,409	61,504,372	65,346,087	49,920,320	24,796,647	18,201,589	16,474,485	15,634,651	15,426,494
Auxiliary Enterprises	17,233,928	18,760,757	15,736,795	14,607,330	9,740,078	8,718,772	6,698,807	6,726,829	3,919,787	2,454,330
Depreciation	19,743,511	19,492,034	18,848,802	17,067,466	14,832,747	11,098,086	10,096,713	10,524,141	9,965,132	9,748,580
Total Operating Expenses	373,470,694	360,977,093	342,878,460	357,021,152	342,882,673	288,375,601	257,617,114	249,914,635	234,326,420	222,142,858
NON-OPERATING EXPENSES:										
Interest on Capital Related Debt	16,346,638	32,612,343	28,498,392	29,424,886	25,379,834	25,375,863	20,640,888	21,187,768	17,201,531	17,168,453
Hurricane Ike Expense, Net	-	12,431	626,194	284,103	561,861	297,616	-	-	-	-
Other Non-Operating Expenses	10,955,750	10,305,162	20,240,555	10,550,397	10,274,777	8,934,397	7,768,434	3,682,262	5,597,748	4,290,908
Total Non-Operating Expenses	27,302,388	42,929,936	49,365,141	40,259,386	36,216,472	34,607,876	28,409,322	24,870,030	22,799,279	21,459,361
Total Expenses	\$ 400,773,082	\$ 403,907,029	\$ 392,243,601	\$ 397,280,538	\$ 379,099,145	\$ 322,983,477	\$ 286,026,436	\$ 274,784,665	\$ 257,125,699	\$ 243,602,219

*FY2013 has been reclassified to conform to current year presentation

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

Table 3

	(percentage of total)									
OPERATING EXPENSES:										
Instruction	28.10%	27.71%	25.58%	28.35%	29.89%	32.56%	33.57%	33.57%	34.29%	35.57%
Public Service	2.65%	2.88%	3.03%	2.96%	3.03%	3.09%	3.45%	4.14%	4.45%	4.60%
Academic Support	6.66%	6.20%	5.81%	4.94%	6.19%	6.39%	6.87%	6.54%	6.36%	6.29%
Student Services	7.30%	7.22%	6.35%	8.03%	8.15%	8.51%	9.03%	8.97%	9.69%	10.16%
Institutional Support	15.64%	13.96%	15.03%	14.03%	14.06%	14.82%	15.51%	15.71%	15.90%	14.93%
Operation and Maintenance of Plant	8.95%	7.78%	7.13%	7.14%	9.48%	10.10%	9.41%	9.75%	8.97%	8.30%
Scholarships and Fellowships	14.66%	14.14%	15.68%	16.45%	13.17%	7.68%	6.36%	6.00%	6.08%	6.33%
Auxiliary Enterprises	4.30%	4.64%	4.01%	3.68%	2.57%	2.70%	2.34%	2.45%	1.52%	1.01%
Depreciation	4.93%	4.83%	4.81%	4.30%	3.91%	3.44%	3.53%	3.83%	3.88%	4.00%
Total Operating Expenses	93.19%	89.37%	87.41%	89.87%	90.45%	89.28%	90.07%	90.95%	91.13%	91.19%
NON-OPERATING EXPENSES:										
Interest on Capital Related Debt	4.08%	8.07%	7.27%	7.41%	6.69%	7.86%	7.22%	7.71%	6.69%	7.05%
Hurricane Ike Expense, Net	0.00%	0.00%	0.16%	0.07%	-	-	-	-	-	-
Other Non-Operating Expenses	2.73%	2.55%	5.16%	2.66%	2.71%	2.77%	2.72%	1.34%	2.18%	1.76%
Total Non-Operating Expenses	6.81%	10.63%	12.59%	10.13%	9.55%	10.72%	9.93%	9.05%	8.87%	8.81%
Total Expenses	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

See Independent Auditor's Report

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

Table 4

SEMESTER CREDIT HOUR (SCH)									
IN-DISTRICT									
Academic Year	Semester	In-District Tuition	Out-of-District Tuition	General Fees	Technology Fees	Student Activity / Services Fee	Recreation Fee	Cost for 12 SCH	Increase from Prior Year-Fall
2013-2014	Fall	\$ 372		\$ 306	\$ 118.80	\$ 12	\$ 6	\$ 814.80	0.15%
2012-2013	Fall	372		306	117.60	12	6	813.60	0.15%
2011-2012	Fall	372		306	116.40	12	6	812.40	18.56%
2010-2011*	Summer	372		306	115.20	12	6	811.20	n/a
2010-2011	Fall	300		264	103.20	12	6	685.20	0.18%
2009-2010	Fall	300		264	102.00	12	6	684.00	1.79%
2008-2009*	Spring	300		264	96.00	12	6	678.00	n/a
2008-2009	Fall	300		264	96.00	12	---	672.00	2.28%
2007-2008	Fall	300		264	81.00	12	---	657.00	2.82%
2006-2007	Fall	300		264	63.00	12	---	639.00	8.67%
2005-2006*	Spring	300		264	48.00	---	---	612.00	n/a
2005-2006	Fall	276		264	48.00	---	---	588.00	0.00%
2004-2005	Fall	276		264	48.00	---	---	588.00	4.26%
2003-2004	Fall	276		240	48.00	---	---	564.00	9.30%
2002-2003*	Summer	276		240	48.00	---	---	564.00	n/a
2002-2003	Fall	228		240	48.00	---	---	516.00	10.26%

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

Table 4

SEMESTER CREDIT HOUR (SCH)											
OUT-OF-DISTRICT											
Academic Year	Semester	In-District Tuition	Out-of-District Tuition	General Fees	Technology Fees	Student Activity / Services Fee	Recreation Fee	Cost for 12 SCH	Increase from Prior Year-Fall		
2013-2014	Fall	\$ 372	\$ 768	\$ 402	\$ 118.80	\$ 12	\$ 6	\$ 1,678.80	0.07%		
2012-2013	Fall	372	768	402	117.60	12	6	1,677.60	0.07%		
2011-2012	Fall	372	768	402	116.40	12	6	1,676.40	18.29%		
2010-2011*	Summer	372	708	402	115.20	12	6	1,615.20	n/a		
2010-2011	Fall	300	672	324	103.20	12	6	1,417.20	6.40%		
2009-2010	Fall	300	648	264	102.00	12	6	1,332.00	0.91%		
2008-2009*	Spring	300	648	264	96.00	12	6	1,326.00	n/a		
2008-2009	Fall	300	648	264	96.00	12	---	1,320.00	1.15%		
2007-2008	Fall	300	648	264	81.00	12	---	1,305.00	1.40%		
2006-2007	Fall	300	648	264	63.00	12	---	1,287.00	4.13%		
2005-2006*	Spring	300	648	264	48.00	---	---	1,260.00	n/a		
2005-2006	Fall	276	648	264	48.00	---	---	1,236.00	0.00%		
2004-2005	Fall	276	648	264	48.00	---	---	1,236.00	1.98%		
2003-2004	Fall	276	648	240	48.00	---	---	1,212.00	16.09%		
2002-2003*	Summer	276	528	240	48.00	---	---	1,092.00	n/a		
2002-2003	Fall	228	528	240	48.00	---	---	1,044.00	27.94%		

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

* Changes to Rates in Semester other than Fall.

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

Table 4

**SEMESTER CREDIT HOUR (SCH)
 OUT OF STATE/INTERNATIONAL**

Academic Year	Semester	Out of State / Inter- national Tuition	General Fees	Techno- logy Fees	Student Activity / Services Fee	Recrea- tion Fee	Cost for 12 SCH	Increase from Prior Year-Fall
2013-2014	Fall	\$ 1,140	\$ 600	\$ 118.80	\$ 12	\$ 6	\$ 1,876.80	0.06%
2012-2013	Fall	1140	600	117.60	12	6	1,875.60	0.06%
2011-2012	Fall	1140	600	116.40	12	6	1,874.40	10.70%
2010-2011*	Summer	1080	600	115.20	12	6	1,813.20	n/a
2010-2011	Fall	972	600	103.20	12	6	1,693.20	7.71%
2009-2010	Fall	912	540	102.00	12	6	1,572.00	0.77%
2008-2009	Spring	912	540	96.00	12	6	1,566.00	n/a
2008-2009	Fall	912	540	96.00	12	---	1,560.00	0.97%
2007-2008	Fall	912	540	81.00	12	---	1,545.00	1.18%
2006-2007	Fall	912	540	63.00	12	---	1,527.00	3.46%
2005-2006*	Spring	912	540	48.00	---	---	1,500.00	n/a
2005-2006	Fall	888	540	48.00	---	---	1,476.00	0.00%
2004-2005	Fall	888	540	48.00	---	---	1,476.00	1.65%
2003-2004	Fall	888	516	48.00	---	---	1,452.00	3.42%
2002-2003*	Summer	888	516	48.00	---	---	1,452.00	n/a

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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		Maintenance & Operations	Debt Service	Total Direct Rate (a)
				Value to Assessed	Assessed			
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	
2007	114,880,333,614	23,035,765,722	91,844,567,892	79.95%	0.081333	0.013842	0.095175	
2006	103,397,321,246	18,595,499,000	84,801,822,246	82.02%	0.081333	0.014436	0.095769	
2005*	88,579,791,310	8,205,391,837	80,374,399,473	90.74%	0.081333	0.014644	0.095977	

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

Source: Local Appraisal District

Notes: Property is assessed at full market value.

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

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

Table 6

Fiscal Year	State Appropriation (Unrestricted)	FTSE**	State Appropriation per FTSE
2013-2014	\$ 69,202,364	48,611	\$ 1,424
2012-2013	70,014,003	49,824	1,405
2011-2012	70,232,038	52,032	1,350
2010-2011	65,957,104 *	53,418	1,235
2009-2010	65,791,457	50,445	1,304
2008-2009	63,627,432	43,835	1,452
2007-2008	63,627,433	39,602	1,607
2006-2007	61,312,488	38,641	1,587
2005-2006	61,312,368	36,922	1,661
2004-2005	61,423,796	37,790	1,625

Fiscal Year	State Appropriation (Unrestricted)	Academic Contract Hours	Voc/Tech Contract Hours	CEU Contract Hours	Total Funded Contract Hours (1)	State Appropriation per Contract Hour
2013-2014	\$ 69,202,364	15,931,744	5,822,268	1,579,145	23,333,157	\$ 2.97
2012-2013	70,014,003	16,237,296	5,744,810	1,933,271	23,915,377	2.93
2011-2012	70,232,038	17,354,256	5,822,072	1,798,940	24,975,268	2.81
2010-2011	65,957,104 *	17,802,080	5,924,078	1,914,445	25,640,603	2.57
2009-2010	65,791,457	16,652,752	5,680,164	1,880,857	24,213,773	2.72
2008-2009	63,627,432	14,345,992	4,883,890	1,810,761	21,040,643	3.02
2007-2008	63,627,433	12,739,232	4,422,336	1,847,195	19,008,763	3.35
2006-2007	61,312,488	12,077,904	4,378,250	2,091,365	18,547,519	3.31
2005-2006	61,312,368	11,487,128	4,260,486	1,974,799	17,722,413	3.46
2004-2005	61,423,796	11,406,432	4,613,888	2,118,738	18,139,058	3.39

Note:

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

* Revised based on FY2011 AFR.

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

See Independent Auditor's Report

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

Table 7

Taxpayer	Industry	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	
		Taxable Assessed Value (TAV) by Tax Year										
Centerpoint Energy Inc	Utility	\$ 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	\$ 1,020,251,119	\$ 1,031,341,633	\$ 926,349,501	
Crescent Real Estate	Real Estate	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	1,213,068,497	880,336,507	635,272,869	
Cullen Allen Holdings Lp	Real Estate	-	-	-	-	632,088,821	679,738,613	740,183,451	597,559,584	-	-	
Hines Interests Ltd Ptnrsp	Real Estate	-	-	1,163,749,277	967,638,791	855,622,627	649,533,262	962,302,817	982,519,591	574,840,017	634,172,927	
A T&T Mobility Lc	Utility	-	-	318,206,364	446,070,581	499,096,180	573,892,778	584,854,404	-	-	-	
Tpg 2101 Citywest 1 & 2 Lp	Real Estate	-	-	0	497,060,529	469,096,180	520,865,513	576,224,151	-	-	-	
Chevron Chemical Co	Oil & Gas	1,066,441,442	982,653,385	724,298,902	627,685,117	469,387,624	460,639,861	478,700,396	407,061,688	343,365,607	251,494,288	
Anheuser Busch Inc	Brewery	-	-	357,792,263	366,424,086	404,399,350	421,420,837	451,539,258	461,994,178	470,539,317	473,881,489	
Houston Refining	Oil & Gas	-	-	363,437,432	-	-	407,442,917	-	-	-	-	
Valero Energy Corp	Oil & Gas	418,086,374	426,028,458	-	-	-	374,025,572	386,831,716	309,554,958	-	-	
Teachers Insurance	Insurance	-	-	-	-	-	-	578,530,234	512,401,996	300,049,967	-	
Shell Oil Co	Oil & Gas	-	-	334,605,330	331,875,591	-	-	-	-	-	-	
Southwestern Bell	Utility	-	-	-	-	-	-	-	529,778,957	554,904,933	603,569,106	
HG Galleria I II III LP	Real Estate	475,503,575	385,054,953	363,274,752	319,442,735	315,388,094	-	-	324,487,276	-	-	
Traechahn Allen Ctr LP	Real Estate	-	-	-	-	-	-	-	-	494,993,746	415,503,465	
Lyonell Chemical Co	Oil & Gas	-	-	-	-	-	-	-	-	295,571,464	-	
HG Shopping Centers LP	Real Estate	-	-	-	-	-	-	-	-	292,756,445	266,442,640	
Block 98 Partners Lt D	Real Estate	-	-	-	-	-	-	-	-	-	335,909,200	
Exxon Mobil Corp	Oil & Gas	-	-	317,979,103	305,020,231	305,281,064	-	-	-	-	302,072,770	
Continental Airlines	Airline	-	-	-	-	-	-	-	-	-	-	
1000 Louisiana LP	Real Estate	504,063,645	426,551,193	-	-	-	-	-	-	-	-	
Texas Tower LTD	Real Estate	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	536,989,676	453,269,103	-	-	-	-	-	-	-	-	
Totals		\$ 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	\$ 6,358,677,844	\$ 5,238,699,636	\$ 4,844,668,255	
Total Taxable Assessed Value		\$ 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	\$ 91,844,567,892	\$ 84,801,822,246	\$ 80,374,399,473	

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

Table 7

Taxpayer	Industry	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	
		% of Taxable Assessed Value (TAV) by Tax Year										
Centerpoint Energy Inc	Utility	0.93%	1.04%	0.91%	0.89%	0.86%	0.99%	0.99%	1.11%	1.22%	1.15%	
Crescent Real Estate	Real Estate	0.63%	0.63%	0.56%	0.90%	0.79%	0.97%	1.32%	1.32%	1.04%	0.79%	
Cullen Allen Holdings Lp	Real Estate	0.00%	0.00%	0.00%	0.00%	0.48%	0.58%	0.71%	0.65%	0.00%	0.00%	
Hines Interests Lid Prnsp	Real Estate	0.00%	0.00%	0.91%	0.77%	0.66%	0.56%	0.92%	1.07%	0.68%	0.79%	
AT&T Mobility Llc	Utility	0.00%	0.00%	0.25%	0.35%	0.38%	0.49%	0.56%	0.00%	0.00%	0.00%	
Tpg 2101 Citywest 1 & 2 Lp	Real Estate	0.00%	0.00%	0.00%	0.39%	0.36%	0.45%	0.55%	0.00%	0.00%	0.00%	
Chevron Chemical Co	Oil & Gas	0.73%	0.74%	0.57%	0.50%	0.36%	0.39%	0.46%	0.44%	0.40%	0.31%	
Anheuser Busch Inc	Brewery	0.00%	0.00%	0.28%	0.29%	0.31%	0.39%	0.43%	0.50%	0.55%	0.59%	
Houston Refining	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.35%	0.00%	0.00%	0.00%	0.00%	
Valero Energy Corp	Oil & Gas	0.29%	0.32%	0.29%	0.00%	0.00%	0.32%	0.37%	0.34%	0.00%	0.00%	
Teachers Insurance	Insurance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.55%	0.56%	0.35%	0.00%	
Shell Oil Co	Oil & Gas	0.00%	0.00%	0.26%	0.26%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Southwestern Bell	Utility	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.58%	0.65%	0.75%	
HG Galleria I II III LP	Real Estate	0.32%	0.29%	0.29%	0.25%	0.24%	0.00%	0.00%	0.35%	0.00%	0.00%	
Triaachahn Allen Ctr LP	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.58%	0.52%	
Lyondell Chemical Co	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.35%	0.00%	
HG Shopping Centers LP	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.35%	0.33%	
Block 98 Partners L1 D	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.42%	
Exxon Mobil Corp	Oil & Gas	0.00%	0.00%	0.25%	0.24%	0.23%	0.00%	0.00%	0.00%	0.00%	0.38%	
Continental Airlines	Airline	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
1000 Louisiana LP	Real Estate	0.34%										
Texas Tower LTD	Real Estate	0.38%										
Four Oaks Place Operating LP	Real Estate	0.32%										
BG HOLDCO LLC	Real Estate	0.30%										
BUSYCON Properties LLC	Real Estate	0.37%	0.34%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Totals		4.61%	4.58%	4.56%	4.85%	4.68%	5.45%	6.85%	6.92%	6.18%	6.03%	

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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		Total Collections to Date		
				Actual Collections per AFR	% of Levy	Collections in Subsequent Years *	Amount	% of Levy
2013-2014	0.097173	\$ 146,520,086,977	\$ 142,377,964	\$ 141,871,329	99.64%	\$ 3,233,799	\$ 145,105,128	101.92%
2012-2013	0.097173	132,984,326,927	129,224,860	126,900,573	98.20%	3,135,356	130,035,929	100.63%
2011-2012	0.097222	127,412,325,392	123,872,811	121,247,023	97.88%	4,017,805	125,264,828	101.12%
2010-2011	0.092220	125,975,478,092	116,179,580	113,187,929	97.42%	3,994,879	117,182,808	100.86%
2009-2010	0.092220	130,429,808,430	120,614,601	116,730,716	96.78%	3,995,418	120,726,134	100.09%
2008-2009	0.092430	117,021,714,313	108,163,171	105,021,974	97.10%	4,064,764	109,086,738	100.85%
2007-2008	0.092433	104,790,367,164	96,860,880	93,854,407	96.90%	4,164,454	98,018,861	101.20%
2006-2007	0.095175	91,844,567,892	87,413,067	85,811,200	98.17%	3,882,996	89,694,196	102.61%
2005-2006	0.095769	84,801,822,246	81,213,857	79,013,014	97.29%	3,882,996	82,896,010	102.07%
2004-2005	0.095977	80,374,399,473	77,140,937	74,102,498	96.06%	3,110,739	77,213,237	100.09%

* "Collection in Subsequent Years" includes penalties and interest.
Source: Local Tax Assessor/Collector's and District records.

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

Table 9

	For the Year Ended August 31									
	2014	2013	2012**	2011	2010	2009*	2008*	2007*	2006*	2005*
General Obligation Bonds	\$ 568,407,151	\$ 578,139,157	126,509,613	122,965,813	\$ 128,335,993	\$ 133,079,110	\$ 137,982,325	\$ 142,755,540	\$ 147,393,756	\$ 150,308,930
Notes	168,926,738	177,016,887	184,862,037	169,764,659	129,970,994	65,596,500	67,968,928	11,595,000	12,000,000	-
Less: Funds Restricted for Debt Service	-	-	-	-	-	-	-	-	-	-
Net General Bonded Debt	737,333,889	755,156,045	311,371,650	292,730,472	258,306,987	198,675,610	205,951,253	154,350,540	159,393,756	150,308,930
Per Capita	\$ 319.02	\$ 333.59	\$ 139.69	\$ 134.63	\$ 118.77	\$ 92.82	\$ 95.80	\$ 72.86	\$ 76.23	\$ 72.84
Per FTSE	13,732.91	13,921.98	5,511.88	5,104.01	4,723.11	4,153.09	4,711.77	3,593.56	3,904.89	3,579.55
As a Percentage of Taxable Assessed Value	0.50%	0.57%	0.24%	0.23%	0.20%	0.17%	0.20%	0.17%	0.19%	0.19%
Revenue Bonds	\$ 306,455,246	\$ 323,322,694	342,071,187	341,086,330	\$ 356,162,958	\$ 338,468,001	\$ 352,607,948	\$ 304,517,738	\$ 163,843,158	\$ 151,122,041
Notes	-	-	-	691,584	1,383,167	2,074,750	-	631,285	29,912,400	5,882,947
Capital Lease Obligations	-	-	-	1,304,824	3,914,472	6,524,120	-	34,395,970	35,436,616	37,523,860
Total Outstanding Debt	\$ 1,043,789,133	\$ 1,078,478,740	\$ 653,442,837	\$ 635,813,210	\$ 619,767,584	\$ 545,742,481	\$ 558,559,201	\$ 493,895,533	\$ 388,585,930	\$ 344,837,778
Per Capita	\$ 452	\$ 476	\$ 293	\$ 292	\$ 285	\$ 255	\$ 260	\$ 233	\$ 186	\$ 167
Per FTSE	19,441	19,883	11,567	11,086	11,332	11,408	12,779	11,499	9,520	8,212
As a Percentage of Taxable Assessed Value	0.71%	0.81%	0.51%	0.50%	0.48%	0.47%	0.53%	0.54%	0.46%	0.43%

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

**Restated to exclude advance funding valuation debit of \$7,963,767 - reclassified as deferred outflow of resources per GASB 65

Source: HCCOIR_DataMart.

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

Table 10

	For the Year Ended August 31			
	2014	2013	2012	2011
TAXABLE ASSESSED VALUE	\$ 146,520,086,977	\$ 132,984,326,927	\$ 127,412,325,392	\$ 125,975,478,092
GENERAL OBLIGATION BONDS:				
Statutory Tax Levy Limit for Debt Service	735,016,644	664,921,635	637,061,627	629,877,207
Less: Funds Restricted for Repayment of General Obligation Bonds	-	-	-	-
Total Net General Obligation Debt	735,016,644	664,921,635	637,061,627	629,877,207
Current Year Debt Service Requirements	28,852,217	22,600,842	18,904,514	20,616,717
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 706,164,427	\$ 642,320,793	\$ 618,157,113	\$ 609,260,490
Net Current Requirements as a % of Statutory Limit	3.93%	3.40%	2.97%	3.27%
				2.57%
TAXABLE ASSESSED VALUE	\$ 117,021,714,313	\$ 104,790,367,164	\$ 91,844,567,892	\$ 84,801,822,246
GENERAL OBLIGATION BONDS:				
Statutory Tax Levy Limit for Debt Service	585,108,572	523,951,836	459,222,839	424,009,111
Less: Funds Restricted for Repayment of General Obligation Bonds	-	-	-	-
Total Net General Obligation Debt	585,108,572	523,951,836	459,222,839	424,009,111
Current Year Debt Service Requirements	11,034,759	11,059,125	11,069,990	10,258,879
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 574,073,813	\$ 512,892,711	\$ 448,152,849	\$ 413,750,232
Net Current Requirements as a % of Statutory Limit	1.89%	2.11%	2.41%	2.42%
				2.91%

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

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

Table 11

Fiscal Year Ended August 31	Pledged Revenues										
	Total	Tuition	Technology Fee	Registration Fees	Laboratory Fees	Education Fees	Other Fees	Interest Income	Vending Commission	Bookstore Commission	Rental Revenue
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
2007	63,047,174	6,782,289	3,322,933	33,609,081	2,185,444	7,320,576	2,251,444	2,321,875	180,620	1,190,950	3,881,962
2006	57,789,907	6,013,923	3,173,494	32,368,441	2,026,721	5,287,298	1,297,184	2,697,279	181,235	1,345,057	3,399,274
2005	57,041,008	5,782,906	3,139,240	32,197,058	2,451,068	5,659,908	1,369,459	1,472,249	101,290	1,095,268	3,772,562

Fiscal Year Ended August 31	Debt Service Requirements			Coverage Ratio
	Principal	Interest	Total	
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
2007	7,015,000	6,608,404	13,623,404	4.63
2006	5,750,000	6,867,244	12,617,244	4.58
2005	5,500,000	7,316,450	12,816,450	4.45

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

Table 12

<u>Calendar Year</u>	<u>Service Area Population</u>	<u>Service Area Personal Income</u>	<u>Service Area Personal Income Per Capita</u>	<u>Service Area Unemployment Rate</u>
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%
2006	2,091,041	51,383,150,493	24,573	4.7%
2005	2,063,673	45,089,191,377	21,849	4.8%
2004	2,052,110	50,424,446,920	24,572	4.6%

Sources: HCCS MapInfo Files with 2011 Board Redistricted Boundaries, Service Area additions per HB 3659, Northwest & Southwest College Boundary changes per exec. team, Sept. 2013; and Census and BLS data from Applied Geographic Solutions (AGS) on PCensus CD-ROM, TETRAD Computer Applications, Inc., Oct. 2013 (with 2013 AGS for Business/Occupation info.), May 2014.

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HOUSTON COMMUNITY COLLEGE SYSTEM
 PRINCIPAL EMPLOYERS
 Fiscal Years 2011-2014
 (Unaudited)

Table 13

Houston-Sugar Land-Baytown MSA (Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty Montgomery, San Jacinto, Waller)	June 2013 (p)	June 2013*	June 2012	June 2011
	Number of Employees			
Total Nonagricultural				
Trade, Transportation, & Utilities	\$ 581,400	\$ 564,300	\$ 547,800	\$ 527,800
Professional, & Business Services	442,200	429,700	410,900	383,900
Government	374,500	364,500	359,300	372,400
Education & Health Services	348,400	335,900	327,000	314,700
Mining/Logging & Construction	310,400	298,100	279,600	261,000
Manufacturing	259,700	252,800	244,600	228,200
Leisure & Hospitality	289,400	277,500	264,300	250,400
Financial Activities	145,500	143,200	141,000	137,100
Other Services	101,800	100,300	96,900	93,600
Information	33,200	32,700	31,500	31,900
Total	<u>\$ 2,886,500</u>	<u>\$ 2,799,000</u>	<u>\$ 2,702,900</u>	<u>\$ 2,601,000</u>
	Percent of Employees			
Total Nonagricultural				
Trade, Transportation, & Utilities	20.14%	20.16%	20.27%	20.29%
Professional, & Business Services	15.32%	15.35%	15.20%	14.76%
Government	12.97%	13.02%	13.29%	14.32%
Education & Health Services	12.07%	12.00%	12.10%	12.10%
Natural Resources, Mining & Construction	10.75%	10.65%	10.34%	10.03%
Manufacturing	9.00%	9.03%	9.05%	8.77%
Leisure & Hospitality	10.03%	9.91%	9.78%	9.63%
Financial Activities	5.04%	5.12%	5.22%	5.27%
Other Services	3.53%	3.58%	3.59%	3.60%
Information	1.15%	1.17%	1.17%	1.23%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(p) preliminary

* Revise: use actuals.

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

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

See Independent Auditor's Report

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

Table 14

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Faculty										
Full-Time	759	789	809	910	848	829	821	810	814	799
Part-Time	1,742	1,715	2,781	2,921	2,345	2,049	2,499	2,513	2,391	2,329
Total	2,501	2,504	3,590	3,831	3,193	2,878	3,320	3,323	3,205	3,128
Percent										
Full-Time	30.3%	31.5%	22.5%	23.8%	26.6%	28.8%	24.7%	24.4%	25.4%	25.5%
Part-Time	69.7%	68.5%	77.5%	76.2%	73.4%	71.2%	75.3%	75.6%	74.6%	74.5%
Staff and Administrators										
Full-Time	1,323	1,350	1,327	1,272	1,185	1,102	1,079	1,080	1,053	1,049
Part-Time	1,413	1,443	1,088	1,169	1,323	1,259	1,504	1,408	1,226	1,288
Total	2,736	2,793	2,415	2,441	2,508	2,361	2,583	2,488	2,279	2,337
Percent										
Full-Time	48.4%	48.3%	54.9%	52.1%	47.2%	46.7%	41.8%	43.4%	46.2%	44.9%
Part-Time	51.6%	51.7%	45.1%	47.9%	52.8%	53.3%	58.2%	56.6%	53.8%	55.1%
Students per Full-time**										
Faculty	72.0	71.0	71.2	62.2	57.1	53.6	53.0	55.3	51.6	55.1
Staff Member	41.3	41.5	43.4	44.5	40.9	40.3	40.3	41.5	39.9	42.0
Average Annual 9/12 Month Faculty Salary*	\$ 64,962	\$ 63,366	\$ 63,473	\$ 62,533	\$ 62,833	\$ 60,378	\$ 56,047	\$ 54,766	\$ 55,228	\$ 54,264

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

See Independent Auditor's Report

HOUSTON COMMUNITY COLLEGE SYSTEM
Annual Student Enrollment Trends by Residency Code
Semester Credit Hour (SCH)
Fiscal Years 2010 Through 2014 (End of Term)
(Unaudited)

Table 15

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
In-District	54,460	58,898	59,567	57,745	56,732
Out-of-District	23,502	23,265	22,674	21,263	21,468
Out-of-State	10,333	10,399	10,104	9,139	9,259
Unduplicated Enrollment	88,295	92,562	92,345	88,147	87,459

Annual Student Enrollment Trends by Career Type
Fiscal Years 2014, 2013, 2012 (End of Term)

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Semester Credit Hour (SCH)	88,295	92,562	92,345	88,147	87,459
Workforce Continue Education Unit (CEU)	18,197	17,134	16,971	17,705	16,344
Non Funded Continue Education	2,502	1,673	1,265	1,116	4,708
Adult Literacy / High School	11,732	10,801	10,062	9,749	7,992
Unduplicated Enrollment *	118,844	120,805	119,185	115,534	113,688

Note:

* The unduplicated enrollment total cannot be arrived at by summing the columns. This is because students may take courses in multiple career types. Students with Qatar or Saigon Tech tuition residency codes are not included.

Source: HCC OIR DataMart Files, End of Term, FY10 - FY14.

See Independent Auditor's Report

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

Table 16

Student Classification*	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Freshman	28,599	52.36%	29,955	53.48%	32,304	57.71%	32,660	58.23%	28,401	58.78%	25,883	57.95%	25,559	58.17%	25,959	55.99%
Sophomore	14,414	26.39%	14,380	25.67%	14,529	23.76%	13,447	22.24%	10,695	20.14%	9,883	19.67%	8,756	20.63%	8,812	20.26%
Unclassified	4,904	8.98%	4,677	8.35%	4,437	5.99%	3,390	4.59%	2,374	4.31%	2,042	4.15%	1,872	4.38%	1,859	4.04%
Assoc. Degree	37	0.07%	53	0.09%	64	0.21%	120	0.40%	165	0.39%	177	0.37%	168	0.45%	164	0.43%
BS & Above	152	0.28%	171	0.31%	279	0.64%	361	1.45%	514	1.38%	644	1.40%	601	1.63%	627	1.82%
Continuing Ed. Only	6,515	11.93%	6,778	12.10%	6,002	11.69%	6,614	13.09%	6,256	15.01%	5,817	16.47%	6,528	14.75%	7,378	17.46%
Total	54,621	100.00%	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%
Semester Hour Load**	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006	
Less than 3	652	1.19%	660	1.18%	835	1.32%	748	1.38%	624	0.71%	613	1.51%	310	0.64%	677	0.65%
3-5 semester hrs	12,363	22.63%	13,116	23.42%	13,153	23.88%	13,516	23.01%	10,755	23.45%	10,229	23.48%	10,198	22.86%	10,519	21.69%
6-8 Semester hrs	13,915	25.48%	13,433	23.98%	14,622	24.35%	13,781	23.70%	11,575	23.69%	10,532	23.08%	10,301	22.86%	10,338	21.88%
9-11 semester hrs	9,717	17.79%	9,999	17.85%	10,856	18.30%	10,359	17.07%	8,750	16.00%	7,589	15.82%	6,956	16.25%	7,088	15.66%
12-14 semester hrs	9,933	18.19%	10,438	18.63%	10,645	17.60%	9,958	18.40%	8,950	17.92%	8,176	16.75%	7,791	19.11%	7,505	19.14%
15-17 semester hrs	1,381	2.53%	1,470	2.62%	1,364	2.55%	1,443	2.97%	1,341	2.91%	1,318	2.54%	1,264	3.12%	1,308	3.02%
18 & over	145	0.27%	120	0.21%	138	0.31%	173	0.39%	154	0.31%	172	0.35%	136	0.41%	156	0.50%
Continuing Ed. Only	6,515	11.93%	6,778	12.10%	6,002	11.69%	6,614	13.09%	6,256	15.01%	5,817	16.47%	6,528	14.75%	7,378	17.46%
Total	54,621	100.00%	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%
Average course load	7.7 SCH		7.8 SCH		7.8 SCH		7.8 SCH		7.9 SCH		7.8 SCH		7.7 SCH		7.7 SCH	
Tuition Status***	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006	
Texas Resident (in-District)	31,806	58.23%	32,735	58.44%	32,896	55.25%	31,267	49.86%	26,003	50.18%	22,159	49.87%	21,820	51.14%	22,343	47.87%
Texas Resident (out-of-District)	10,592	19.39%	10,821	19.32%	12,056	21.73%	12,298	25.32%	10,446	24.67%	11,254	25.20%	10,728	26.00%	11,289	26.58%
Non-Resident Tuition	5,124	9.38%	5,302	9.47%	6,332	10.90%	6,170	11.39%	5,528	9.81%	5,061	8.07%	4,264	7.67%	3,615	7.59%
Tuition Waiver	584	1.07%	378	0.67%	329	0.43%	243	0.35%	172	0.33%	155	0.39%	144	0.45%	174	0.50%
Other	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	-	0.00%	-	0.00%
Not Applicable (Cont. Ed.)	6,515	11.93%	6,778	12.10%	6,002	11.69%	6,614	13.09%	6,256	15.01%	5,817	16.47%	6,528	14.75%	7,378	17.46%
Total	54,621	100.00%	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%

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

See Independent Auditor's Report

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

Table 17

Gender	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Female	29,652	54.29%	30,881	55.13%	31,985	55.52%	30,865	54.54%	26,452	54.65%	24,173	54.39%	23,603	54.28%	23,825	53.18%
Male	24,969	45.71%	25,133	44.87%	25,630	44.48%	25,727	45.46%	21,953	45.35%	20,273	45.61%	19,881	45.72%	20,974	46.82%
Total	54,621	100.00%	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%
Ethnic Origin	Fall 2013*		Fall 2012*		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	9,564	17.51%	10,242	18.28%	10,912	20.13%	11,393	19.40%	9,506	21.40%	8,623	23.80%	9,307	24.26%	10,663	27.73%
African American	15,631	28.62%	16,085	28.72%	17,346	27.72%	15,685	22.85%	11,558	22.85%	10,156	23.18%	9,938	22.56%	10,386	22.82%
Hispanic	18,346	33.59%	18,266	32.61%	17,812	31.31%	17,721	29.83%	14,160	28.45%	13,257	27.94%	12,371	26.98%	12,518	28.03%
Asian	5,542	10.15%	5,641	10.07%	6,107	10.39%	5,881	10.52%	4,832	10.85%	4,676	10.63%	4,718	12.17%	4,762	10.53%
Native American	118	0.22%	110	0.20%	131	0.24%	138	0.23%	121	0.21%	101	0.24%	91	0.24%	108	0.30%
Foreign	3,830	7.01%	3,884	6.93%	4,086	7.55%	4,270	8.22%	3,875	7.34%	3,654	6.40%	3,190	10.77%	2,867	8.43%
Unknown	1,590	2.91%	1,786	3.19%	1,221	2.66%	1,504	8.95%	4,353	8.90%	3,979	7.80%	3,869	3.02%	3,495	2.16%
Total	54,621	100.00%	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%
Age	Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008		Fall 2007		Fall 2006	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 18	3,962	7.25%	4,639	8.28%	2,908	5.38%	3,046	4.00%	1,886	6.50%	1,778	6.00%	2,826	4.94%	2,687	4.02%
18 - 21	16,041	29.37%	16,027	28.61%	17,222	30.40%	17,205	31.93%	15,275	30.26%	14,191	29.03%	13,157	28.68%	13,007	27.19%
22 - 24	8,849	16.20%	8,962	16.00%	9,760	16.48%	9,328	17.43%	8,303	16.56%	7,745	16.62%	7,203	17.24%	7,444	17.44%
25 - 35	15,741	28.82%	15,842	28.28%	17,194	29.28%	16,569	28.49%	14,186	27.91%	12,663	28.05%	12,137	29.14%	12,564	29.93%
36 - 50	7,477	13.69%	7,862	14.04%	8,055	14.06%	7,957	13.99%	6,749	14.25%	6,219	15.57%	6,198	15.61%	6,974	16.80%
51 & over	2,531	4.63%	2,664	4.76%	2,464	4.36%	2,468	4.01%	1,967	4.24%	1,783	4.40%	1,842	4.06%	1,973	4.39%
Unknown	20	0.04%	18	0.03%	12	0.03%	19	0.15%	39	0.28%	67	0.33%	121	0.34%	150	0.24%
Total	54,621	100.00%	56,014	100.00%	57,615	100.00%	56,592	100.00%	48,405	100.00%	44,446	100.00%	43,484	100.00%	44,799	100.00%
Average Age	27.4 **		27.4 **		27.5 **		27.4		27.3		27.2		27.2		28.4	

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

** Remove 'Unknown' age before calculating average.

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

See Independent Auditor's Report

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

Table 18

Funded Contact Hours				
Fiscal Year	Academic	Voc Tech	Total	CEU
2013-2014	15,931,744	5,822,268	21,754,012	1,579,145
2012-2013	16,237,296	5,744,810	21,982,106	1,933,271
2011-2012	17,354,256	5,822,072	23,176,328	1,798,940
2010-2011	17,802,080	5,924,078	23,726,158	1,914,445
2009-2010	16,652,752	5,680,164	22,332,916	1,880,857
2008-2009	14,345,992	4,883,890	19,229,882	1,810,761
2007-2008	12,739,232	4,422,336	17,161,568	1,847,195
2006-2007	12,077,904	4,378,250	16,456,154	2,091,365
2005-2006	11,487,128	4,260,486	15,747,614	1,974,799
2004-2005	11,406,432	4,613,888	16,020,320	2,118,738

Note:

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

Source: Certified CBM004 & CBM00C.

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

Table 19

	Total Student Count Academic	Total Student Count Technical	Total Student Count Tech-Prep	Total of all Sample Transfer Students	% of all Sample Transfer Students
1 Angelo State University	5			5	0.04%
2 Baylor College of Medicine	4			4	0.03%
3 Lamar University	168	8	2	178	1.56%
4 Midwestern State University	13	3		16	0.14%
5 Prairie View A&M University	300	17	3	320	2.80%
6 Sam Houston State University	348	13	1	362	3.16%
7 Stephen F. Austin State University	178	8		186	1.63%
8 Sul Ross State University	5			5	0.04%
9 Tarleton State University	9	2		11	0.10%
10 Texas A&M International University	5			5	0.04%
11 Texas A&M University	962	14	2	978	8.55%
12 Texas A&M University - Central Texas	1	1		2	0.02%
13 Texas A&M University - Commerce	14	2		16	0.14%
14 Texas A&M University - Corpus Christi	58	1		59	0.52%
15 Texas A&M University - Kingsville	37	1		38	0.33%
16 Texas A&M University at Galveston	33		1	34	0.30%
17 Texas A&M University System Health Science Center	11	1		12	0.10%
18 Texas Southern University	644	45	3	692	6.05%
19 Texas State University - San Marcos	347	10	1	358	3.13%
20 Texas Tech University	314	6	1	321	2.80%
21 Texas Tech University Health Sciences Center	31			31	0.27%
22 Texas Tech University Health Sciences Center - El Paso	1			1	0.01%
23 Texas Woman's University	159	5	1	165	1.44%
24 The University of Texas - Pan American	7			7	0.06%
25 The University of Texas at Arlington	115	5		120	1.05%
26 The University of Texas at Austin	1,180	16		1,196	10.45%
27 The University of Texas at Brownsville	4			4	0.03%
28 The University of Texas at Dallas	67	1		68	0.59%
29 The University of Texas at El Paso	8	2		10	0.09%
30 The University of Texas at San Antonio	246	4		250	2.18%
31 The University of Texas at Tyler	50	1		51	0.45%
32 The University of Texas Health Science Center at	144	9		153	1.34%
33 The University of Texas Health Science Center at San	11			11	0.10%
34 The University of Texas M.D. Anderson Cancer Center	56	9		65	0.57%
35 The University of Texas Medical Branch at Galveston	67	9		76	0.66%
36 The University of Texas of the Permian Basin	17			17	0.15%
37 University of Houston	3,254	109	9	3,372	29.47%
38 University of Houston - Clear Lake	182	9	1	192	1.68%
39 University of Houston - Downtown	1,458	109	9	1,576	13.77%
40 University of Houston - Victoria	322	30		352	3.08%
41 University of North Texas	114	1	1	116	1.01%
42 University of North Texas at Dallas	1			1	0.01%
43 University of North Texas Health Science Center	3	1		4	0.03%
44 West Texas A&M University	4			4	0.03%
	<u>10,957</u>	<u>452</u>	<u>35</u>	<u>11,444</u>	<u>100.00%</u>

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

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HOUSTON COMMUNITY COLLEGE SYSTEM
CAPITAL ASSET INFORMATION
FISCAL YEARS 2011 - 2014
(Unaudited)

Table 20

	<u>Fiscal Year</u> 2014	<u>Fiscal Year</u> 2013	<u>Fiscal Year</u> 2012	<u>Fiscal Year</u> 2011
<u>Academic buildings *</u>				
Number of Academic Buildings	56	56	56	63
Square footage	3,141,592	3,100,787	3,117,169	3,164,033
<u>Libraries</u>				
Number of Libraries	15	15	15	15
Square footage	168,020	148,020	148,020	148,020
Number of Volumes				
Circulating books	248,133	241,382	231,099	206,784
Reference books	24,799	24,299	24,190	24,553
Media items	24,356	28,016	21,886	27,471
Magazines, Journals, Newspapers	589	230	210	276
Electronic books (Digital video)	186,540	69,609	46,195	60,897
Electronic Journals	48,758	23,535	19,136	21,935
Total	<u>533,175</u>	<u>387,071</u>	<u>342,716</u>	<u>341,916</u>
<u>Administrative and support buildings</u>				
Number of Administrative and support buildings	4	4	4	3
Square footage	656,124	656,124	656,124	628,674
<u>Transportation</u>				
Bus	2	2	2	2
Cars	35	31	31	31
Golf Cart	23	28	29	19
Motorcycle/Segway	4	4	4	5
Motor Home/Mobile Unit	3	3	3	2
SUV	2	2	2	4
Tank	2	2	2	2
Tractors	33	29	29	35
Trailers	50	49	49	45
Truck	16	14	13	11
Truck, Heavy (Fire Truck)	4	4	4	6
Vans	21	21	20	23
Utility Vehicles	6	1	1	6
Total	<u>201</u>	<u>190</u>	<u>189</u>	<u>191</u>

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

SINGLE AUDIT



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

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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 net position as of August 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2014.

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 opinion 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 Entity'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency in the System's internal control.

Compliance and Other Matters

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

System's Response to Findings

The System's response to our findings, 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.

Grant Thornton LLP

Houston, Texas
December 17, 2014



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133 AND STATE OF TEXAS SINGLE AUDIT CIRCULAR**

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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 Circular A-133 Compliance Supplement* and *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, 2014. 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 the requirements of laws, regulations, contracts, and grants 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and *The State of Texas Single Audit Circular*.

The above-mentioned standards, OMB Circular A-133 and State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state programs occurred. An audit includes examining, on a test basis, evidence about the System’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on each major federal program

In our opinion, the Entity complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

Instances of noncompliance

The results of our audit procedures disclosed instances of noncompliance, described in the accompanying schedule of findings and questioned costs as items 2014-002, 2014-003, and 2014-004 that are required to be reported in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular. Our opinion on each major federal and state program is not modified with respect to these matters.

System's response to findings

The System's response to our noncompliance findings, 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 designing, implementing, 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 OMB Circular A-133 and 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 and 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 and 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 and 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. Given these limitations, during our audit we did not identify any deficiencies in the System's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2014-002, 2014-003, and 2014-004 that we consider to be significant deficiencies in the System's internal control over compliance.

The System's response to our findings on internal control over compliance, 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 OMB Circular A-133 and State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Houston, Texas
December 17, 2014

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2014

Schedule E

Federal Grantor Pass-through Grantor Program Title	DRAFT	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U. S. Department of Education				
Direct Programs:				
Student Financial Assistance Cluster				
Federal Supplemental Educational Opportunity Grants		84.007		\$ 1,251,784
Federal Work-Study Program		84.033		982,194
Federal Pell Grant Program		84.063		92,838,014
Federal Direct Student Loans		84.268		109,889,158
Academic Competitiveness Grant		84.375		3,000
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)		84.379		22,016
Total Student Financial Assistance Cluster				<u>204,986,166</u>
TRIO Cluster				
TRIO - Student Support Services		84.042		406,017
TRIO - Upward Bound		84.047		849,134
Higher Education - Institutional Aid		84.031A		357,375
Minority Science and Engineering Improvement		84.120A		158,070
Transition Programs for Students with Intellectual Disabilities into Higher Education		84.407A		511,555
Pass-Through From:				
Texas Education Agency				
Adult Education - Basic Grants to States		84.002A	134100017110481	145,494
Adult Education - Basic Grants to States		84.002A	134100087110487	8,323
Total Texas Education Agency, Adult Education - Basic Grants to States				<u>153,817</u>
Texas Workforce Commission				
Adult Education - Basic Grants to States		84.002A	2814ABE005	4,967,029
Adult Education - Basic Grants to States		84.002A	2814ELC002	110,895
Total Texas Workforce Commission, Adult Education - Basic Grants to States				<u>5,077,924</u>
Total Adult Education - Basic Grants to States				5,231,741
University of St. Thomas				
Higher Education - Institutional Aid		84.031C	Art# 1- HCCS	589,919
Texas Higher Education Coordinating Board (THECB)				
Career and Technical Education - Basic Grants to States		84.048	134206712000001	4,773
Career and Technical Education - Basic Grants to States		84.048	14041	827,039
Total Career and Technical Education - Basic Grants to States				<u>831,812</u>
College Access Challenge Grant Program		84.378A	11253	142,145
Total U.S. Department of Education				<u>\$ 214,063,934</u>

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, 2014

Schedule E

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U.S. Department of Agriculture			
Direct Programs:			
Hispanic Serving Institutions Education Grants	10.223		\$ 77,506
Hispanic Serving Institutions Education Grants	10.223		18,107
Hispanic Serving Institutions Education Grants	10.223		<u>(12,158)</u>
Total Hispanic Serving Institutions Education Grants			83,455
Pass-Through From:			
Texas A&M University - Corpus Christi Hispanic Serving Institutions Education Grants	10.223	10-035	9,163
University of Houston Hispanic Serving Institutions Education Grants	10.223	R. 14-0006	7,958
Sam Houston State University Capacity Building for Non-Land Grant College of Agriculture	10.326	22062A	<u>13,811</u>
Total U.S. Department of Agriculture			114,387
U.S. Department of Commerce			
Direct Programs:			
Minority Business Development Agency - Business Center	11.805		<u>174,024</u>
Total U.S. Department of Commerce			174,024
U.S. Department of Justice			
Direct Programs:			
Bulletproof Vest Partnership Program	16.607		<u>9,350</u>
Total U.S. Department of Justice			9,350
U.S. Department of Labor			
Direct Programs:			
SER Jobs for Progress - Youthbuild	17.274		3,523
Pass-Through From:			
North Central Texas Council of Government and Workforce Solutions for North Central Texas Community Based Job Training Grants	17.269	FY10-DOLCBJT-04	<u>93,291</u>
Total U.S. Department of Labor			96,814
U.S. Department of State			
Pass-Through From:			
Northern Virginia Community College Academic Exchange Programs- Undergraduate Programs	19.009	S-ECAGD-13-CA-088(CB)	<u>154,986</u>
Total U.S. Department of State			\$ 154,986

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, 2014

Schedule E

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U.S. Department of Transportation			
Direct Programs:			
Commercial Motor Vehicle Operator Training Grants	20.235		\$ 131,123
Total U.S. Department of Transportation			131,123
National Endowment for the Humanities			
Pass-Through From:			
American Library Association Promotion of the Humanities Public- Programs	45.164	2219	1,546
Total National Endowment for the Humanities			1,546
Institute of Museum & Library Services			
Pass-Through From:			
Texas State Library Archive Commission Grants to States	45.310	479-13004	4,436
Total Institute of Museum & Library Services			4,436
National Science Foundation			
Pass-Through From:			
University of Houston Education and Human Resources	47.076	R-09-0170	25,128
Total National Science Foundation			25,128
U. S. Department of Veterans Affairs			
Direct Programs:			
Post 9/11 Veterans Educational Assistance	64.028		2,161,898
Total U.S. Department of Veterans Affairs			2,161,898
U.S. Department of Energy			
Direct Programs:			
Renewable Energy Research and Development	81.087		174,883
Pass-Through From:			
Houston - Galveston Area Council Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis Assistance	81.117	UDOE.13.0103-02	34,806
Total U.S. Department of Energy			\$ 209,689

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, 2014

Schedule E

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through Disbursements and Expenditures
U. S. Department of Health and Human Services			
Direct Programs:			
Head Start Cluster			
Head Start	93.600		\$ 39,013
Pass-Through From:			
University of Texas at Austin			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	UTA12-001074	12,057
Texas Education Agency			
TANF Cluster			
Temporary Assistance for Needy Families	93.558	113625017110454	6,899
Temporary Assistance for Needy Families	93.558	2814ABE005	245,506
Total Temporary Assistance for Needy Families			<u>252,405</u>
YMCA of Greater Houston			
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	529-08-0181-00010D	190,159
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	529-14-0009-00036	66,743
Total Refugee and Entrant Assistance - Targeted Assistance Grants			<u>256,902</u>
Pitt Community College			
ARRA - Health Information Technology Professionals in Health Care	93.721	90CC0078/02-05	40,444
Total U.S. Department of Health and Human Services			600,821
Corporation for National and Community Service			
Direct Programs:			
AmeriCorps			
	94.006		<u>178,336</u>
Total Corporation for National and Community Service			178,336
U.S. Department of Homeland Security			
Direct Programs:			
Scientific Leadership Awards			
	97.062		<u>1,674</u>
Total U.S. Department of Homeland Security			1,674
Total Federal Financial Assistance			<u>\$ 217,928,146</u>

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, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations, and includes awards received directly from federal agencies as well as federal awards passed through other government agencies.

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

NOTE 2 – FEDERAL ASSISTANCE RECONCILIATION

Federal Grants and Contracts Revenue – per Schedule A	\$ 13,946,190
Reconciling items:	
Schedule C – Title IV Grants	94,092,798
Federal Direct Student Loans	<u>109,889,158</u>
 Total Federal Revenues per Schedule of Expenditures of Federal Awards	 <u>\$ 217,928,146</u>

NOTE 3 – SUBRECIPIENTS

The following were subrecipients of the 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	\$ 193,887
Association for the Advance of Mexican Americans	813,405
AVANCE	145,493
Chinese Community Center	158,261
Community Family Center	1,003,770
Gulf Coast Community Services	21,179
Harris County Community Supervision and Correction	49,304
Houston Center for Literacy	648,046
Houston International University	94,565
Neighborhood Centers, Inc.	<u>225,231</u>
 Total Passed-through to Subrecipients	 <u>\$ 3,353,141</u>

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

NOTE 3 – SUBRECIPIENTS - CONTINUED

The following was a subrecipient of the Minority Science and Engineering Improvement Grant, CFDA 84.120A. This amount is included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

Rice University	\$	5,162
Total Passed-through to Subrecipients	\$	5,162

The following was a subrecipient of the Hispanic Serving Institutions Grant, CFDA 10.223. This amount is included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

University of Houston	\$	40,578
Total Passed-through to Subrecipients	\$	40,578

The following was a subrecipient of the Department of Commerce Minority Business Development Agency Business Center grant, CFDA 11.805. This amount is included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

Houston Minority Supplier Development Council	\$	5,235
Total Passed-through to Subrecipients	\$	5,235

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

Central New Mexico State University	\$	2,537
Janet Hughes Solar Consulting		47,775
Sam Houston State University		4,750
SUL Ross State University		2,116
Total Passed-through to Subrecipients	\$	57,178

HOUSTON COMMUNITY COLLEGE SYSTEM
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014

State Grantor Program Title	Grantor's Number	Schedule F Pass-Through Disbursements and Expenditures
Texas Education Agency		
ABE - GED	130100017110481	\$ 120,280
Dropout Recovery Pilot Program Cycle	101045587110008	23,494
Dropout Recovery Pilot Program Cycle	111045477110007	33,433
Temporary Assistance for Needy Families	133625017110454	12,330
Total Texas Education Agency		189,537
Texas Higher Education Coordinating Board		
Adult Basic Education Innovation Grant		99,886
Community in School (CIS) Counselor	N/A	7,000
Collegiate G-Force Work-Study Mentorship Program	N/A	12,517
Houston Pathways Initiative - College for Readiness	N/A	9,790
Nursing Shortage Reduction Program	N/A	75,108
Nursing Shortage Under 70 Program	N/A	96,225
Texas College Work Study Program	N/A	217,770
Texas Educational Opportunity Grant	N/A	1,332,555
Texas Grant Program	N/A	1,646,280
Total Texas Higher Education Coordinating Board		3,497,131
Texas Workforce Commission		
ABE - GED	2814ABE005	1,276,530
Temporary Assistance for Needy Families	2814ABE005	135,567
SDF - The Methodist Hospital	2812SDF006	276,108
SDF- VITAS	2813SDF002	187,737
SDF - Ben E. Keith Co.	2813SDF003	36,534
SDF - Fugro	2813SDF006	97,472
Governor's Summer Merit Program	2814TAN003	73,586
Pass-Through From:		
Texas State Technical College		
TYCO Valves and Controls GP Holdings Inc.		8,733
Total Texas Workforce Commission		2,092,267
Texas State Board of Public Accountancy	N/A	9,626
TOTAL EXPENDITURES OF STATE OF TEXAS AWARDS		\$ 5,788,561

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 – BASIS OF PRESENTATION

The Schedule of Expenditures of State of Texas Awards presents the activity of State of Texas awards programs of Houston Community College System (the “System”) for the year ended August 31, 2014. State of Texas awards received directly from State agencies, as well as State of Texas awards passed-through other government agencies, are included in this schedule.

NOTE 2 – BASIS OF ACCOUNTING

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

NOTE 3 – STATE ASSISTANCE RECONCILIATION

State Grants and Contracts revenue – per Schedule A	\$	5,617,228
Reconciling items:		
Schedule C – Other Non-Operating Revenue		171,333
Total State revenues per Schedule of Expenditures of State of Texas Awards	\$	5,788,561

NOTE 4 – SUBRECIPIENTS

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

Alliance for Multicultural Community Services	\$	16,327
Association for the Advancement of Mexican Americans		5,860
Bethel's Place		627
Chinese Community Center		1,176
Community Family Center		6,271
Houston Center for Literacy		4,606
Houston International University		535
Meadowbrook Learning Center		1,685
Mission Milby Community Development		7,458
Neighborhood Centers, Inc.		1,537
Research and Development Institute		4,188
Somali Community Development		2,182
Tejano Center for Community Concerns		1,815
Total Passed-through to Subrecipients	\$	54,267

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

NOTE 4 – SUBRECIPIENTS - CONTINUED

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

Technology for All Houston	<u>\$</u>	14,200
Total Passed-through to Subrecipients	<u>\$</u>	<u>14,200</u>

The following was a subrecipient of the Temporary Assistance for Needy Families (TANF) Grant Program. This amount is included as expenditures in the accompanying Schedule of Expenditures of State of Texas Awards.

El Mesias United Methodist Church	<u>\$</u>	647
Total Passed-through to Subrecipients	<u>\$</u>	<u>647</u>

The following was a subrecipient of the Texas Higher Education Coordinating Board CIS Counselor Grant. This amount is included as expenditures in the accompanying Schedule of Expenditures of State of Texas Awards.

Communities in Schools in Houston	<u>\$</u>	7,000
Total Passed-through to Subrecipients	<u>\$</u>	<u>7,000</u>

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

Council Development Company, LLC	<u>\$</u>	355
The Methodist Hospital		147,046
Vitas Healthcare of Texas		<u>71,250</u>
Total Passed-through to Subrecipients	<u>\$</u>	<u>218,651</u>

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2014

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?	_____ <u>X</u> _____	yes	_____ 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?	_____	yes	_____ <u>X</u> _____ 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: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 and the <i>State of Texas Single Audit Circular</i> ?	_____ <u>X</u> _____	yes	_____ no
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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
84.375	Academic Competitiveness Grants
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)

HOUSTON COMMUNITY COLLEGE SYSTEM
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
 FOR THE YEAR ENDED AUGUST 31, 2014

SECTION I – SUMMARY OF AUDITOR’S RESULTS – CONTINUED

<u>Federal - CFDA Number</u>	<u>Name of Federal Programs</u>
84.048	Career and Technical Education Basic Grants to State
64.028	Post 9/11 Veterans Educational Assistance

<u>State - Contract Number</u>	<u>Program Title</u>
2814ABE005/13010017110481	Adult Basic Education - GED Skills Development
Various	Texas Educational Opportunity Grant

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

Federal	\$388,250
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

2014-001 - Misapplication of GAAP

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

As a result of various adjustments, it was noted that the College was not properly following certain generally accepted accounting principles. These matters are noted as follows:

1. Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB* establishes guidance on capitalizing interest cost as part of the historical costs of acquiring certain assets. The historical costs of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use. Interest shall be capitalized for assets that are constructed or otherwise produced for an entity's own use, including assets constructed or produced for the entity by others for which deposits or progress payments have been made. It was noted that the College did not compute and properly record the capitalized interest associated with the General Obligation Bonds issued for the use in capital related projects. The College adjusted the financial statements to properly record capitalized interest and we recommend the College formulate a process to compute and record the capitalized interest in accordance with the standards and create a written policy to include the capitalization of interest related to capital related debt and the method(s) of which it will be determined in accordance with GASB 62.

2. Debt Advance Refunding: Although the College complied with GASB No. 23: “*Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*”, we noted that the deferred inflow of resources charge on refunding calculation was not computed correctly. The College adjusted the financial statements to properly record the deferred inflow of resources and we recommend the College ensure that on all future refunding bonds the determination is made and recorded.
3. Generally accepted accounting principles (GAAP) requires a debt issuance discount or premium to be amortized as interest expense or income over the life of the debt using the “interest” method. However, other methods of amortization may be used if the results obtained are not materially different from those which would result from the “interest” method. During the course of the audit, it was noted that discounts and premiums were calculated on a straight-line amortization method instead of the effective interest method. The College completed an analysis for its largest bond issuance and it was noted that the straight-line method used and the effective interest method calculated resulted in a difference. The College had not performed a recent evaluation to determine if there would be a difference in the method being utilized. The College has adjusted the financial statements to appropriately reflect the financial statements in accordance with GAAP for the one issuance and we recommend that the College change its practices so as to utilize the effective interest method prospectively.
4. Generally accepted accounting principles defines *liabilities* as present obligations to sacrifice resources that the government has little or no discretion to avoid. Retainage payable represents a liability attributable to the acquisition, construction, or improvement of capital assets (in this case, construction in progress). During the course of the audit, it was noted that retainage payable was not being recorded. The College has adjusted the financial statements to appropriately reflect retainage payable and we recommend that the College recognize retainage payable on a prospective basis and include in its policies procedures to calculate retainage payable.

Views of responsible officials and planned corrective actions:

The following responses correspond to the above numbered recommendations:

1. Based upon a different interpretation of GASB No. 62, HCC did not capitalize interest cost on the Limited Tax General Obligation Bonds, Series 2013 for fiscal years 2013 and 2014. Grant Thornton interpreted GASB No. 62 to mean that all interest cost must be capitalized and required an adjustment of \$24,861,616. This adjustment was recorded in the financial statements for fiscal year 2014. In future years, HCC will capitalize all interest cost on the Limited Tax General Obligation Bonds, Series 2013 until the construction projects are completed. Written procedures will be developed to insure the correct recording of capitalized interest.
2. HCC recorded a net gain to the fund balance of \$511,912 on the advance funding valuation for the defeasance of the Senior Lien Revenue Bonds, Series 2005 versus Grant Thornton’s calculation of \$874,770. The financial statements have been adjusted to reflect the \$874,770.
3. HCC has historically chosen to use the straight-line method of amortization of bond discounts and premiums and has consistently applied this method throughout the life of the various bond issues. Over the life of any bond issue, the effective interest rate method and the straight-line method produce identical results. HCC management recalculated the amortization of bond premiums for the Limited Tax General Obligation Bonds, Series 2013. The difference between the effective interest rate method and the straight-line method totaled \$358,008 for fiscal years 2013 and 2014. An audit adjustment was made to correct the financial statements by \$358,008. In the future, HCC will use the effective interest rate method for the Limited Tax General Obligations Bonds, Series 2013 and will consider the recalculation of amortization of bond discounts and premiums using the effective interest rate method on the remaining bond issues.
4. HCC management concurs with Grant Thornton’s recommendation and will record in the financial statements retainage payable on construction contracts.

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

Finding #: 2014 - 002

Program Title: Post 9/11 Veterans Educational Assistance

CFDA Number: 64.028

Federal Award Number: N/A

Federal Award Year: 2014

Federal Agency: U.S. Department of Veterans Affairs

Pass-through Entity: N/A

Type of Finding: Significant Deficiency and Noncompliance

Reporting

Criteria or Specific Requirement:

Per the School Certifying Official Handbook, enrollment reporting is done through the One VA website and must be within 30 days of any change (for both graduation and probations/suspension).

Condition:

HCC did not meet the reporting requirement of reporting enrollment status changes of graduated students to the Department of Veterans Affairs within 30 days of HCC being aware of the graduation, as outlined in the School Certifying Official Handbook.

Questioned Costs:

None reported.

Context:

8 of the 12 sample enrollment status changes for students who graduated were not reported to the Department of Veterans Affairs within 30 days.

Effect:

HCC's lack of adhering to the reporting requirement could result in student receiving additional Post 9/11 funding from other institutions.

Cause:

The HCC Department of Veterans Affairs responsible for managing the Post 9/11 Veterans Educational Assistance program was not aware of the 30 day reporting compliance requirement for graduated students. Additionally, the department does not have proper policies and procedures in place to ensure the enrollment status changes are reported timely.

Recommendation:

We recommend Houston Community College Department of Veterans Affairs establish policies and procedures to ensure compliance with the reporting requirement. The policy and procedures should include when the enrollment status changes will be submitted, who will perform the changes in the VA Once system, and how the enrollment status changes will be documented.

Views of responsible officials and planned corrective actions:

In reporting graduation status to the VA regarding any VA Educational Benefits which include, but not limited to Post 911(Chapter 33), Montgomery GI Bill (Chapter 30), Vocational Rehabilitation (Chapter 31), Dependents' Educational Assistance (Chapter 35), Selected Reserve (Chapter 1606), and Reserve Educational Assistance Program (Chapter 1607), the District Office of Veterans Affairs added a comment at the bottom of the certification when a student's certification was completed to indicate the student will be graduating or in other terms (rounding out). Later, the VA changed its procedures and in March of 2014, our VA Counselor attended a conference along with other representatives from other colleges and universities, new information was given on how to report graduation. After receiving this information, and as the Director of Veterans Affairs in an effort to remain in compliance with the VA guidelines, I requested that the VA Counselor report graduation for our veterans and/or dependents in the VA system to be consistent with the new information which was recommended.

Graduation currently falls under the auspices of the Registrar's Office at Houston Community College (HCC). Graduation is currently entered in PeopleSoft Student Administration on a manual basis, therefore, a student may graduate in May of 2014, but the graduation award may not be posted on the student's records until several months later. At the point of notice, the District Office of Veterans Affairs will report graduation in the VA system. Until there is full automation for the graduation process at HCC with reporting graduation at its actual award date in real time, the District Office of Veterans Affairs will continue to report when the award is indicated in the PeopleSoft Administration system when made aware.

The District Office of Veterans Affairs currently has policies and procedures in place, but have recently updated and added these business processes to include the new rules and regulations as mandated by the United States Department of Veterans Affairs. In May of 2014, a routine compliance survey was conducted by Texas Veterans Commission and 45 VA supported students who were currently enrolled or who were recently enrolled at HCC were audited. On May 29, 2014, the findings were indicated in a letter to our Chancellor to include the records were found to be in good order and no discrepancies were found in the student's record.

Finding #: 2014 - 003

Program Title: Student Financial Assistance Cluster

CFDA Number: 84.007, 84.038, 84.063,
84.268, 84.379

Federal Award Number: N/A

Federal Award Year: 2014

Federal Agency: U.S. Department of Education

Pass-through Entity: N/A

Type of Finding: Significant Deficiency and Noncompliance

Return of Title IV Funds

Criteria or Specific Requirement:

Per 34 CFR sections 668.22 (a) (1) through (a) (5) When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. Per 34 CFR section 668.173(b) the institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew.

Condition:

HCC did not meet the requirement of returning the Title IV funds to the Title IV program within the 45 day requirement.

Questioned Costs:

None reported.

Context:

11 of the 40 sample Title IV refunds for students were submitted after the due date.

Effect:

Failure to return the Title IV funds within 45 days could cause the College System to be in noncompliance with federal regulations, which could potentially lead to loss or return of funding.

Cause:

The policies and procedures surrounding the Return of Title IV funds was not consistently followed to ensure funds were remitted within the prescribed time frame.

Recommendation:

We recommend the institution initiate policies and procedures to ensure that the Title IV funds be remitted no later than 45 days after the date it determines that the student withdrew.

Views of responsible officials and planned corrective actions:

HCC concurs with the finding and has instituted various internal controls to prevent future occurrences.

Procedures Implemented:

- In July, 2013, under new leadership in the Student Financial Aid Department, a review was performed to identify effectiveness of processes and accuracy of content in policy.
- In November, 2013, Houston Community College contracted with an outside Financial Aid organization to review the accuracy and timeliness for all Return to Title IV calculations.
- In Spring, 2014, Houston Community College implemented an extensive training program for all staff on the Return to Title IV process.
- Effective Spring, 2014, all official withdrawals and students with grades reported as “FX” are automatically disseminated into the workflow the following day and are given priority processing. Implementation of the new process has reduced processing delays/ errors and has significantly reduced the time period in which funds are returned to the U.S. Department Education (DOE) significantly eliminating noncompliance of the 45 day requirement.
- In May, 2014, Houston Community College hired a Compliance Manager to ensure regulatory oversight of all Federal Title IV and state programs. The Compliance Manager will periodically (45 day intervals) audit files throughout the year identifying deficiencies, training needs and accountability standards for the financial aid staff to ensure compliance. Any deficiencies will be immediately resolved.

As a result of the above, the Policy and Procedures Manual has been updated to reflect the changes.

Finding #: 2014 - 004

Program Title: Student Financial Assistance Cluster

CFDA Number: 84.063, 84.268

Federal Award Number: N/A

Federal Award Year: 2014

Federal Agency: U.S. Department of Education

Pass-through Entity: N/A

Type of Finding: Significant Deficiency and Noncompliance

Enrollment Reporting

Criteria or Specific Requirement:

Under the Pell grant and loan program, institutions must complete and return within 30 days the Enrollment Reporting roster file formally the Student Status Confirmation Report (SSCR) placed in the Student Aid Internet Gateway mailboxes sent by the Department of Education via NSLDS.

Condition:

HCC did not meet the requirement of reporting student status changes within the 30 day requirement.

Questioned Costs:

None reported.

Context:

2 of the 40 sample enrollment status changes for students were submitted after the due date.

Effect:

Failure to report the student status changes timely and accurately could cause the College System to be in noncompliance with federal regulations, which could potentially lead to loss or return of funding.

Cause:

The policies and procedures surrounding reporting student status changes was not consistently followed to ensure changes were reported within the deadline.

Recommendation:

We recommend the institution initiate policies and procedures to ensure the student status changes are reported no later than 30 days.

Views of responsible officials and planned corrective actions:

Houston Community College concurs with the finding. Two records on the graduated students fell out of compliance for the 60 day time frame.

Procedures Implemented:

Future status changes for graduated students will be monitored more closely by newly implemented procedures. Effective Spring, 2014, the PeopleSoft graduation process was updated to allow the approving, applying and awarding of students to be automated. This allows for faster returns on necessary reporting and an adjusted submission schedule for the NSLDS. After working with our IT department in correcting initial issues with the procedure, we have been able to submit timely reports that can meet the requirements.