



# **Comprehensive Annual Financial Report and Single Audit Reports**

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August 31, 2016 and 2015



**HOUSTON COMMUNITY COLLEGE**

**Houston, Texas**

HOUSTON COMMUNITY COLLEGE SYSTEM  
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HOUSTON COMMUNITY COLLEGE SYSTEM  
ORGANIZATIONAL DATA  
FOR THE YEAR ENDED AUGUST 31, 2016

**BOARD OF TRUSTEES**

OFFICERS OF THE BOARD OF TRUSTEES

Dr. Adriana Tamez	Chair
Robert Glaser	Vice Chair
Dr. Carolyn Evans-Shabazz	Secretary

MEMBERS OF THE BOARD OF TRUSTEES

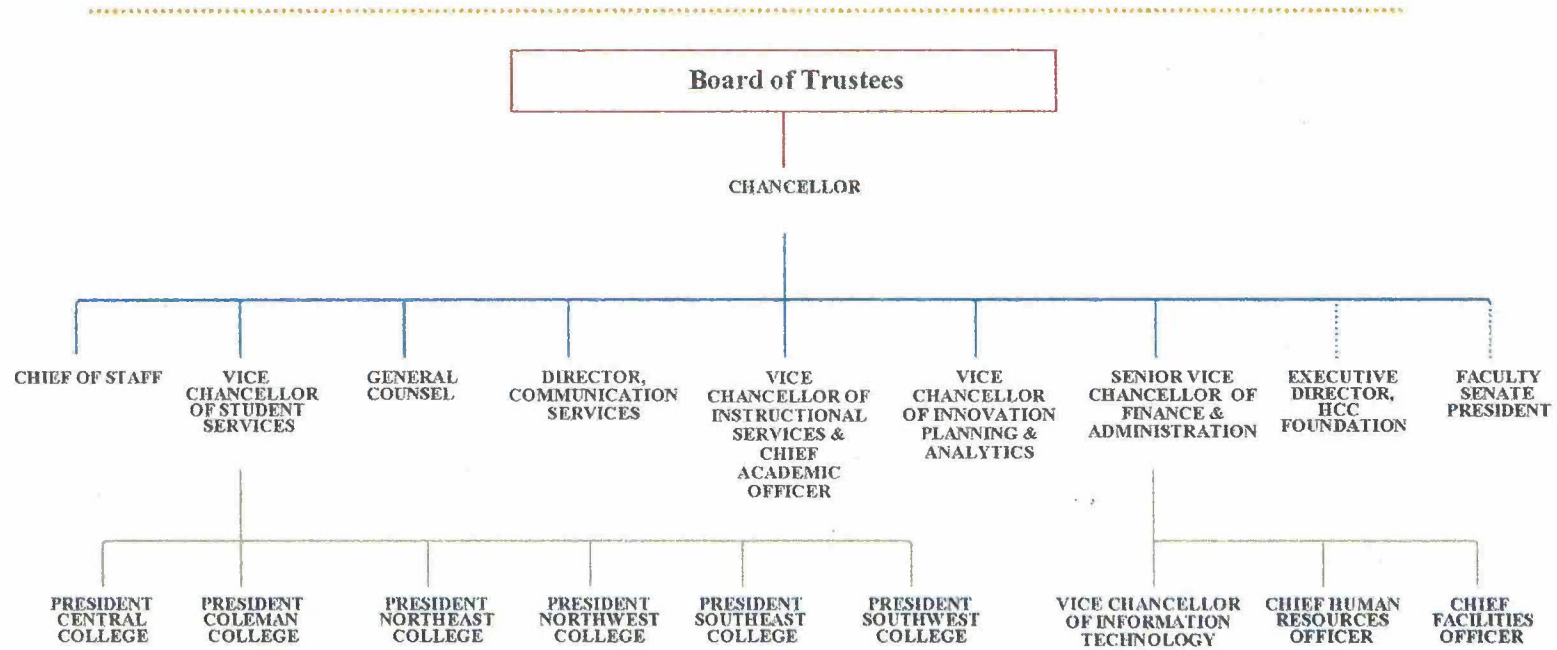
Term Expires  
December 31,

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

PRINCIPAL ADMINISTRATIVE OFFICERS

Cesar Maldonado, Ph.D., P.E.	Chancellor
Melissa N. Gonzalez, Ph.D.	Chief of Staff
Teri Zamora, MACC	Sr. Vice Chancellor, Finance & Administration and CFO
Kimberly Beatty, Ph.D.	Vice Chancellor, Instructional Services & Chief Academic Officer
William Carter, Ph.D.	Vice Chancellor, Information Technology
Athos Brewer, Ph.D.	Vice Chancellor, Student Services
Irene Porcarello, Ed.D.	President, Southeast College
William Harmon, Ph.D.	President, Central College
Phillip Nicotera, MD	President, Coleman College
Margaret Ford Fisher, Ed.D.	President, Northeast College
Zachary Hodges, Ed.D.	President, Northwest College
Madeline Burillo, Ed.D.	President, Southwest College
Janet May, M.A.	Chief Human Resources Officer
Charles Smith, P.E.	Chief Facilities Officer
Karla Bender, Ed.D.	Controller
Ronald Defalco, CPA	Treasurer

Organizational Chart





December 15, 2016

Honorable Chairman, Board of Trustees and Chancellor  
The Citizens of the Houston Community College System

Dear Board Members and Chancellor:

Respectfully submitted for your review is the Comprehensive Annual Financial Report of the Houston Community College System (HCCS) for the fiscal years ended August 31, 2016 and August 31, 2015. The purpose of this report is to provide detailed information about the financial condition and performance of the College. This is management's report of the financial position and results of operations to the Board of Trustees, taxpayers, Texas Higher Education Coordinating Board, grantor agencies, employees and other interested parties. Management assumes responsibility for the completeness and reliability of the information contained in this report based upon a comprehensive framework of internal control. The objective of internal control is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. The concept of reasonable assurance ensures that the costs of the controls do not exceed the benefits derived.

#### ***Comprehensive Annual Financial Report***

Houston Community College's comprehensive annual financial report (CAFR) is prepared by the Division of Finance and Administration. The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as established by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) and comply with Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges as set forth by the Texas Higher Education Coordinating Board (THECB). The Notes to the Financial Statements are provided in the financial section and are considered essential for fair and adequate disclosure of all information presented in this financial report. The notes include the Summary of Significant Accounting Policies, Authorized Investments and other necessary disclosures of important matters relating to the financial position of HCCS. Notes are meant to supplement the information in the financial statements and should be read in conjunction with them.

#### ***Reporting Entity***

HCCS is reporting as a special purpose government engaged solely in business-type activity (BTA). This presentation of financial reporting combines all fund groups into a single column and resembles the format of the corporate presentation, thus complying with GASB Statements 34 and 35.

#### ***Governmental Structure***

The Houston Community College System was established as a public community college by voters of the Houston Independent School District (HISD) in an election held in Houston, Texas in 1971. HCCS separated from HISD and established its own board in 1989 and restructured into a multi-



college system in 1992. The Houston Community College System operates under the Constitution of the State of Texas and the Texas Education Code. The Board of Trustees is the official governing body of the Houston Community College System. The Board of Trustees is composed of nine members who are elected from single-member Districts and who serve without remuneration. The Board of Trustees is elected to staggered six-year terms and has final authority to determine and interpret the policies that govern HCCS. As part of their duties, the Board of Trustees maintains a full schedule of community services, public appearances, speaking engagements and legislative affairs on behalf of HCCS. The Board of Trustees represents an impressive mix of individual talents and professional backgrounds enabling them to provide governance of the highest quality.

Regular meetings of the Board of Trustees are held on the third Thursday of each month at the System Administrative Building, 3100 Main Street, 2nd Floor Auditorium, Houston, Texas 77002, unless otherwise announced. Other meetings such as committees, workshops and special meetings are held on an as-needed basis. Public notices of all meetings are posted at the Administrative Building and on HCC's web-site.

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

### ***College Profile***

As one of the largest community colleges in the nation, Houston Community College has served the Greater Houston area for over four decades. We deliver instruction to nearly 70,000 students each semester in more than 300 associate degree and certificate programs. We strive to provide superior academic and technical programs, and our Centers of Excellence focus on being leaders in their disciplines.

Since its opening in 1971, more than 2.1 million students have improved their lives through education and training obtained from Houston Community College. An open-admission public institution, HCCS awards associate degrees and certificates in academic studies and career and technology programs. HCCS is committed to meeting the needs of its diverse communities, providing academic courses for transfer to four-year institutions, terminal degrees and certificates in more than 70 fields of work; as well as, continuing education and corporate training, lifelong learning and enrichment programs, and adult education.

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



Walls in 2004. By Fall 2014, HCC had nearly 70,000 students enrolled, and consisted of 23 campuses with a service area of 631.3 square miles.

### ***Economic Condition and Outlook***

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 2.4 million, Houston is the fourth largest city in America and the largest city in Texas. The community is about one hour from the Texas gulf coast. HCC students are served by nearly 2,500 full and part-time faculty members. HCCS enrolls more international students than any community college in the country.

The service delivery area (SDA) of HCCS includes the school districts of Houston, Stafford, Katy, Spring Branch, Alief, and portions of Fort Bend ISD located in Houston, Pearland, and Missouri City. The area is economically, educationally and ethnically diverse. While the average household income is \$82,848, more than 25% of the households in the SDA have an income less than \$25,000. While 39% of the population has some type of college degree, 21% of the population has no high school degree or GED. The population's ethnicity is 41% Hispanic, 26% white, 23% African American and 10% other. There is a relatively large young population, with 606,576 individuals, or 25%, under the age of 18 years old. These factors give HCCS the potential of providing a large workforce pool for the service delivery area, the state and the nation's economic growth, and the energy and healthcare sectors in particular.

Houston Community College System 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, HCCS assures the vitality of its programs for today's academic and industrial demands and tomorrow's opportunities.

### ***Strategic Plan – Imagine HCC 2019***

Houston Community College System continues to improve its outcomes. HCCS is among the top in the nation for preparing students for jobs. Community College Week ranks HCCS fourth nationally among two-year institutions in the number of Associate Degrees produced in 2015. Including Associates Degrees, Certificates, Core Completers, and Marketable Skills Achievers, HCCS's total awards for 2015 were 12,949 compared to 9,055 during 2011. The focus on student retention and completion continues through a variety of initiatives outlined in the strategic plan – Imagine HCC 2019.

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

Houston Community College System has undergone an extensive strategic planning effort to lay the groundwork for an ambitious plan to reimagine HCCS four years into the future. The result is Imagine HCC 2019, a bold plan for transforming one of the nation's largest community college



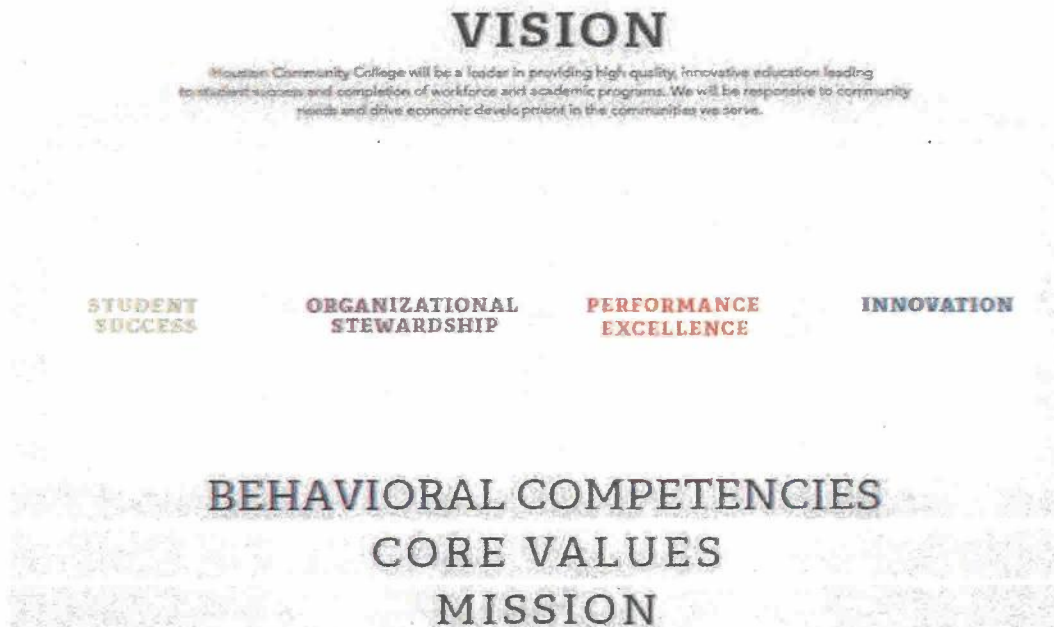
systems and improving the value it provides to students, faculty and staff, and the Houston community.

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

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

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

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



**Mission**

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

**Vision**

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

**Core Values**

Set and maintain high Academic Standards	Student Commitment
Collaboration	Give the community an Educated Workforce
Commitment to Student Success	Culture of Trust – demonstrate integrity and ethics
Demonstrate Passion	Innovation
Accountability	Consistency across the institution

**Behavioral Competencies**

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

**Strategic Goals**

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

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

### ***Financial Information***

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

#### **Single Audit:**

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

#### **Budget Control:**

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

The Office of Fiscal Planning and Budget monitors the overall budget activities. Internal controls have been implemented to ensure that expenses fall within the budget and purchasing guidelines. An encumbrance accounting system is utilized to help maintain budgetary control. An Encumbrance is the name given to funds that have been reserved when a purchase requisition is finalized and encumbered. When a requisition is processed, funds are placed aside for that transaction and are no longer available for use in other transactions. The primary purpose of tracking encumbrances is to avoid overspending a budget. Encumbrances can also be used to predict cash outflow and as a general planning tool.

Periodic financial and budget reports are submitted to the Board of Trustees to report on the status of all HCCS funds and accounts. Annual financial reports are prepared in accordance with relevant



law. In addition, internal and external audits are periodically conducted to evaluate the financial operations of HCCS.

In accordance with HCCS budgeting control policy, intra-fund transfers of budgets are allowed and must go through the approval process. The transfer must be approved by the budget authority of the requesting department, and then forwarded to the Office of Fiscal Planning and Budget for processing. Funds cannot be transferred from restricted budgets that are set up for salaries and fixed expenses. The transfer of budget between different fund groups is not allowed. For example, budgets cannot be transferred from unrestricted to restricted and vice versa.

The management discussion and analysis references topics pertaining to Houston Community College's major initiatives, future outlook and financial information.

#### ***Independent Audit***

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

#### ***Awards***

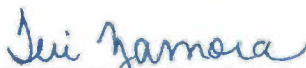
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Houston Community College System for its comprehensive annual financial report for the fiscal year ended August 31, 2015. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

#### ***Acknowledgements***

We would like to thank the Board of Trustees for its guidance and direction. It is with special appreciation that we acknowledge the Finance and Administration Division and all members of the staff for their support, hard work and dedication. We would like to also thank Grant Thornton LLP for their assistance with the audit.

Respectively Submitted,



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



Karla Bender, Ed.D.  
Controller



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Houston Community College System**

**Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**August 31, 2015**

Executive Director/CEO





## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Houston Community College System  
Houston, TX

**Grant Thornton LLP**  
700 Milam Street, Suite 300  
Houston, TX 77002-2848  
  
T 832.476.3600  
F 713.655.8741  
GrantThornton.com  
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)  
[twitter.com/GrantThorntonUS](https://twitter.com/GrantThorntonUS)

We have audited the accompanying financial statements of Houston Community College System (the “System”), which comprise the statements of net position as of August 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### Management's responsibility for the financial statements

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

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 through 30, the Schedule of Houston Community College System Share of Net Pension Liability and Schedule of Houston Community College Contributions on pages 67 and 68, 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 70 through 73 and the schedule of expenditures of federal awards and schedule of expenditures of State of Texas awards, as required by the Title 2 *U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State of Texas Single Audit Circular on pages 108 through 111 and 115, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### Other information

The introductory and statistical section on pages 1 through 9 and 75 through 101, respectively, 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 15, 2016, 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 15, 2016

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, 2016 and 2015. Since management's discussion and analysis is designed to focus on current activities, and currently known facts, please read this in conjunction with the System's basic financial statements and the notes thereto. Responsibility for the completeness and fairness of this information rests with the management of the System.

## FINANCIAL 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, liabilities and deferred outflows and inflows of resources. Net position, the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 inflows of resources and serves as a general indicator of financial stability. When permanent endowments (those that must be maintained in perpetuity) are included in this component, restricted net position must be further divided and displayed in two sub-components, expendable and non-expendable.

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.

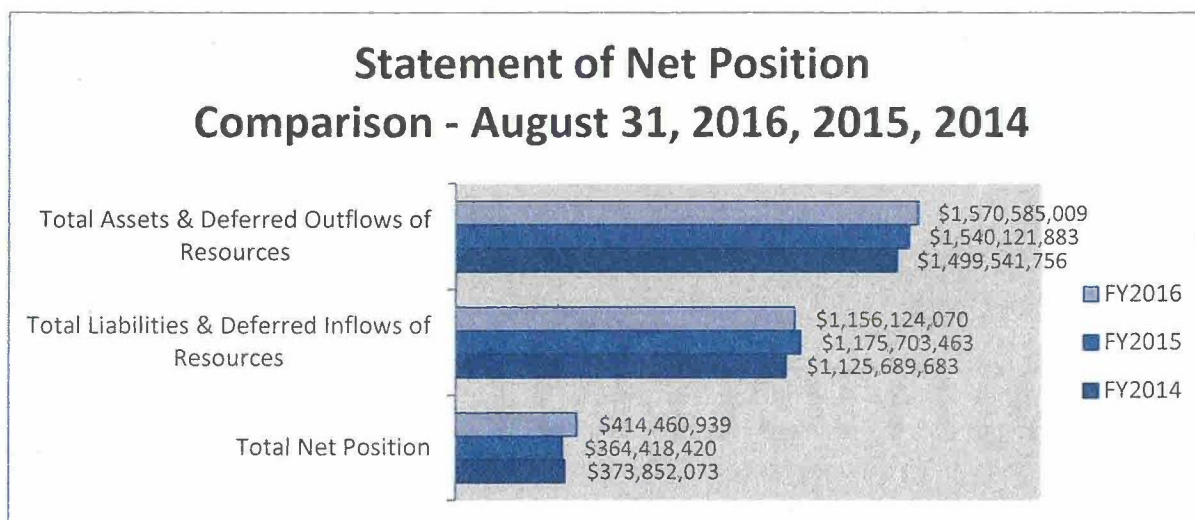
This statement defines the financial position of the System and includes a comparison for fiscal years 2016, 2015 and 2014.



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

**Statement of Net Position**

	2016	2015	2014	Change	
				2015 to 2016	2014 to 2015
<b>ASSETS:</b>					
Current Assets	\$ 226,568,759	\$ 189,609,236	\$ 125,749,264	\$ 36,959,523	\$ 63,859,972
Non-current Assets	217,642,922	379,628,703	495,063,620	(161,985,781)	(115,434,917)
Capital Assets	1,087,835,890	950,841,107	870,756,195	136,994,783	80,084,912
	<u>1,532,047,571</u>	<u>1,520,079,046</u>	<u>1,491,569,079</u>	<u>11,968,525</u>	<u>28,509,967</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Advance Funding Valuation	7,936,830	8,743,822	7,972,677	(806,992)	771,145
Pension	30,600,608	11,299,015	-	19,301,593	11,299,015
	<u>38,537,438</u>	<u>20,042,837</u>	<u>7,972,677</u>	<u>18,494,601</u>	<u>12,070,160</u>
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 1,570,585,009</u>	<u>\$ 1,540,121,883</u>	<u>\$ 1,499,541,756</u>	<u>\$ 30,463,126</u>	<u>\$ 40,580,127</u>
<b>LIABILITIES:</b>					
Current Liabilities	131,506,813	119,251,143	113,335,339	12,255,670	5,915,804
Non-current Liabilities	995,483,558	1,035,030,536	1,011,479,574	(39,546,978)	23,550,962
	<u>1,126,990,371</u>	<u>1,154,281,679</u>	<u>1,124,814,913</u>	<u>(27,291,308)</u>	<u>29,466,766</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Advance Funding Valuation	722,950	795,245	874,770	(72,295)	(79,525)
Pension	28,410,749	20,626,539	-	7,784,210	20,626,539
	<u>29,133,699</u>	<u>21,421,784</u>	<u>874,770</u>	<u>7,711,915</u>	<u>20,547,014</u>
<b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 1,156,124,070</u>	<u>\$ 1,175,703,463</u>	<u>\$ 1,125,689,683</u>	<u>\$ (19,579,393)</u>	<u>\$ 50,013,780</u>
<b>NET POSITION:</b>					
Net Investment in Capital Assets	318,343,549	290,770,960	244,073,582	27,572,589	46,697,378
Restricted-Expendable	14,035,601	13,290,548	14,803,614	745,053	(1,513,066)
Unrestricted	82,081,789	60,356,912	114,974,877	21,724,877	(54,617,965)
<b>TOTAL NET POSITION</b>	<u>\$ 414,460,939</u>	<u>\$ 364,418,420</u>	<u>\$ 373,852,073</u>	<u>\$ 50,042,519</u>	<u>\$ (9,433,653)</u>



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

Assets

**Fiscal Year 2016:**

In comparing fiscal year 2016 to fiscal year 2015, overall assets increased by \$11.9 million. Current assets increased by \$36.9 million. This was due to increases in short-term securities of \$53.3 million and decreases in cash and cash equivalents (Note 4), accounts receivable and prepaid charges of \$16.3 million. Noncurrent assets decreased by \$24.9 million. This was comprised of a decrease of \$161.9 million in restricted cash and long-term investments and an increase in capital assets of \$137.0 million. The increase in capital assets consisted of real estate improvements of \$14.2 million, capitalized interest of \$17.2 million, and other capital expenditures of \$139.7 million net of depreciation of \$20 million. The increase is offset by the sales of land \$3.8 million and the sales of a building of \$10.3 million.

Overall returns on investments decreased by \$197 thousand in fiscal year 2016 due to the \$117.7 million decrease in cash and investments from fiscal 2015. The investment portfolio is highly liquid with 75% 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 2015:**

In comparing fiscal year 2015 to fiscal year 2014, overall assets increased by \$28.5 million. Current assets increased by \$63.9 million, due to increases in cash and cash equivalents (Note 4). Noncurrent assets decreased by \$35.3 million. This was comprised of a decrease of \$115.4 million in restricted cash and long-term investments and an increase in capital assets of \$80.1 million (Note 6). The increase in capital assets consisted of land purchases of \$12.5 million, building purchases of \$22.2 million and other capital expenditures of \$69.3 million, net of depreciation of \$21.5 million.

Overall returns on investments decreased by \$754 thousand in fiscal year 2015 due to the \$51.8 million decrease in cash and investments from fiscal 2014. The investment portfolio is highly liquid with 76% 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 2016:**

Overall liabilities decreased by \$27.2 million from fiscal year 2015 to fiscal year 2016. Net pension liability increased by \$10.8 million for FY 2016. General Obligation bonds decreased by \$12.2 million due to principal payments. Notes payable decreased by \$9.5 million due to principal payments. Revenue bonds decreased by \$17.0 million due to principal payments. PFC lease revenue bonds decreased by \$10.4 million due to bond calls of \$7.9 million and principal payments. Accounts payable increased by \$6.3 million, of which \$4.7 million was attributable to an increase in retainages on construction contracts. Accrued liabilities increased by \$12.6 million, of which \$10.3 million was attributable to an increase in accounts payable on construction contracts and \$2.3 million was related to additional year-end accruals. Unearned revenues decreased by \$8.2 million. This was due to an accounting change in fiscal 2016 whereby the System reduced unearned income and student receivables by \$6.7 million for those accounts where there was no cash collected nor payment arrangement.

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

**Fiscal Year 2015:**

Overall liabilities increased by \$29.5 million from fiscal year 2014 to fiscal year 2015. Net pension liability increased by \$67.4 million for FY 2015 due the implementation of GASB 68. This is offset by a decrease in General Obligation bonds of \$16.0 million due to principal payments. Notes payable decreased by \$6.8 million due to principal payments. Revenue bonds of \$77.8 million were issued which defeased \$34.7 million of System revenue bonds and \$42.3 million in PFC lease revenue bonds. There were principal payments made on all revenue bonds of \$12.5 million and principal payments of \$4.2 million were made on PFC lease revenue bonds. Accounts payable and accrued liabilities increased by \$2.8 million.

**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.

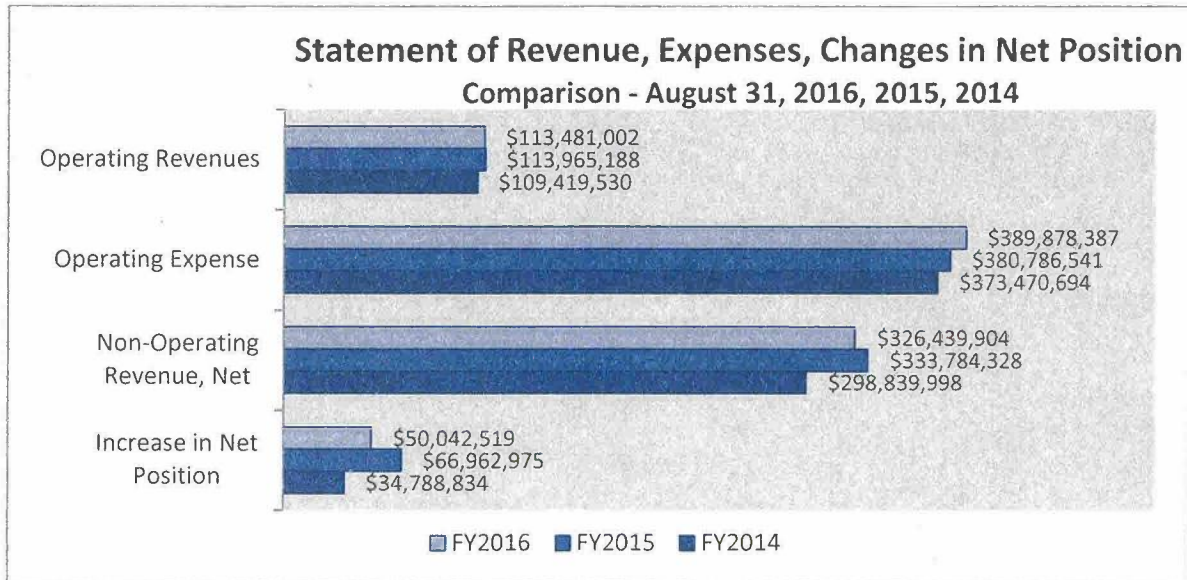
A summarized comparison of the System's revenues, expenses and changes in net position for the years ended August 31, 2016, 2015, and 2014 is presented in table below.

**Statement of Revenues, Expenses, and Changes in Net Position**

	2016	2015	2014	Change	
				2015 to 2016	2014 to 2015
Operating Revenues	\$ 113,481,002	\$ 113,965,188	\$ 109,419,530	\$ (484,186)	\$ 4,545,658
Operating Expenses	389,878,387	380,786,541	373,470,694	9,091,846	7,315,847
Operating Loss	(276,397,385)	(266,821,353)	(264,051,164)	(9,576,032)	(2,770,189)
Nonoperating Revenue, Net	326,439,904	333,784,328	298,839,998	(7,344,424)	34,944,330
Increase in Net Position	\$ 50,042,519	\$ 66,962,975	\$ 34,788,834	\$ (16,920,456)	\$ 32,174,141
Beginning Net Position	364,418,420	373,852,073	339,063,239	(9,433,653)	34,788,834
Cumulative Effect for Changes in Accounting Principle	-	(76,396,628)	-	76,396,628	(76,396,628)
Ending Net Position	\$ 414,460,939	\$ 364,418,420	\$ 373,852,073	\$ 50,042,519	\$ (9,433,653)



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



**Revenues**

**Fiscal Year 2016**

Overall, operating revenues decreased by \$0.5 million or 0.4% in fiscal year 2016 as compared to fiscal year 2015 (Exhibit 2). The System experienced an increase of 6.1% or \$ 4.5 million in tuition and fee revenue; an increase of 0.5% or \$0.06 million in federal grants and contracts; and a decrease of 27.3% in state grants and contract revenue. Title IV funds decreased from \$94 million in FY2015 to \$86 million in FY2016 due to a decrease in Pell awards. Also, there was a decrease in funding of Texas Grant and TEOG from \$6.5 million in FY2015 to \$4.6 million in FY2016.

Non-operating revenues decreased by 1.5% or \$5.6 million over the previous year, mainly due to a decrease in Title IV Grant revenue, along with a decrease in other non-operating revenue (Schedule C). The total tax base in the System's taxing district increased from 2015 to 2016 by approximately 9.6%, resulting in an increase in the Maintenance & Operation portion of ad valorem taxes of \$8.5 million. A decrease in debt service needs resulted in a corresponding decrease in the Debt Service portion of ad valorem taxes in the amount of \$2 million. There was a decrease of \$197 thousand in investment income in fiscal 2016 versus 2015 due to a decrease of \$117.7 million in cash and investments from fiscal 2015. Other non-operating revenue decreased by \$4.1 million over the prior year. In fiscal 2015, the System issued Combined Fee Revenue Refunding Bonds which defeased a portion of the System's outstanding 2006 Junior Lien Revenue Bonds and the outstanding bonds for the PFC Public Safety Institute and Alief projects, which created non-operating revenue of \$1.4 million. There was a decrease of \$1.5 million from 2015 to 2016 related to amortizations of PFC balances. Additionally, in 2015 the System recorded non-operating income of \$936 thousand related to a funding from the State of Texas in connection with the implementation of GASB No. 68.

**Fiscal Year 2015**

Overall, operating revenues increased by \$4.5 million or 4.2% in fiscal year 2015 as compared to fiscal year 2014 (Exhibit 2). The System experienced an increase of 6.2% or \$ 4.4 million in tuition and fee revenue; a decrease of 1.7% or \$0.2 million in federal grants and contracts; and an increase of 58.2% in state grants and contract revenue. Tuition and fees increased due to an increase in workforce continuing education enrollment. Increases in state grant revenue are due to an increase in financial aid awards of the Texas Education Opportunity Grant.

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

Non-operating revenues increased by 11.5% or \$37.4 million over the previous year, mainly due to an increase in ad valorem tax revenue, along with an increase in other non-operating revenue (Schedule C). The total tax base in the System's taxing district increased from 2014 to 2015 by approximately 10%, resulting in an increase in the Maintenance & Operation portion of ad valorem taxes of \$11.1 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 \$19 million. Other Non-Operating Revenues increased by \$5.8 million due to the gain realized on the defeasance of the 2006 Junior Lien Revenue Bonds and the 2005C and 2006 PFC Lease Revenue Bonds.

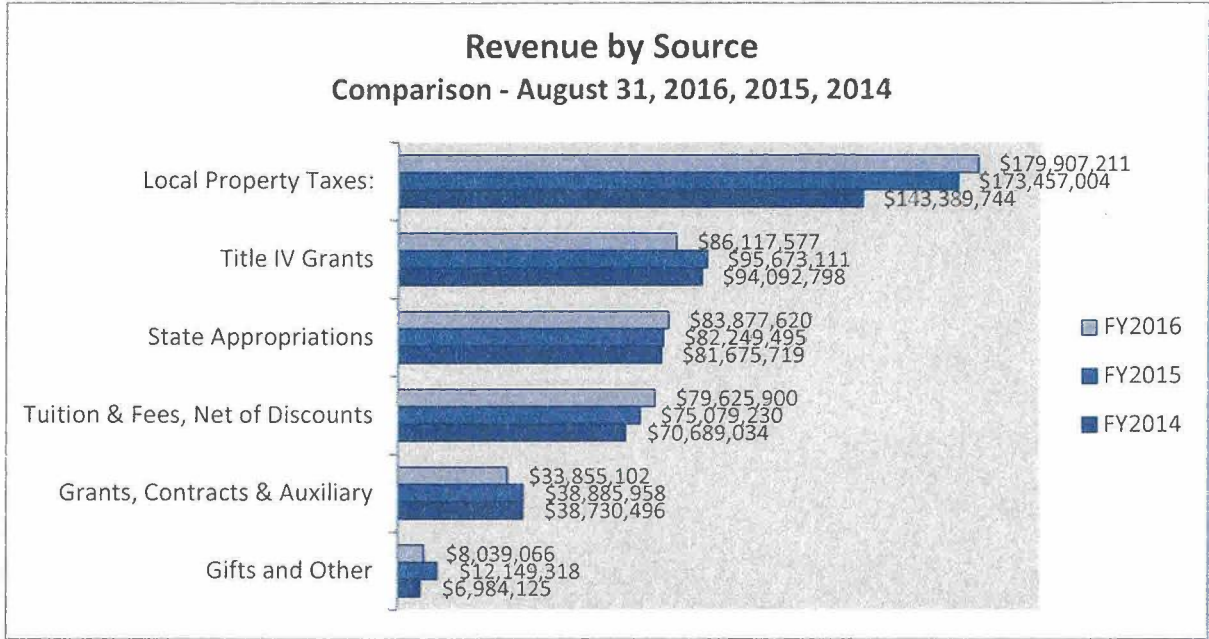
**Revenue by Source**

	2016	2015	2014	Change	
				2015 to 2016	2014 to 2015
<b><u>OPERATING REVENUES:</u></b>					
Tuition & Fees, Net of Discounts	\$ 79,625,900	\$ 75,079,230	\$ 70,689,034	\$ 4,546,670	\$ 4,390,196
Grants, Contracts & Auxiliary:					
Federal	13,844,635	13,782,110	14,019,776	62,525	(237,666)
State	6,378,317	8,772,358	5,543,642	(2,394,041)	3,228,716
Local, Private & Non-Governmental	3,491,066	2,786,499	2,747,018	704,567	39,481
Auxiliary	10,141,084	13,544,991	16,420,060	(3,403,907)	(2,875,069)
Total Grants, Contracts & Auxiliary	33,855,102	38,885,958	38,730,496	(5,030,856)	155,462
<b>TOTAL OPERATING REVENUES</b>	<b>113,481,002</b>	<b>113,965,188</b>	<b>109,419,530</b>	<b>(484,186)</b>	<b>4,545,658</b>
<b><u>NONOPERATING REVENUES:</u></b>					
State Appropriations:					
Unrestricted	70,168,777	69,155,893	69,148,935	1,012,884	6,958
Restricted	13,708,843	13,093,602	12,526,784	615,241	566,818
Total State Appropriations	83,877,620	82,249,495	81,675,719	1,628,125	573,776
Local Property Taxes:					
M & O	133,580,908	125,073,172	113,987,287	8,507,736	11,085,885
Debt	46,326,303	48,383,832	29,402,457	(2,057,529)	18,981,375
Total Local Property Taxes	179,907,211	173,457,004	143,389,744	6,450,207	30,067,260
Title IV Grants	86,117,577	95,673,111	94,092,798	(9,555,534)	1,580,313
Gifts and Others:					
Gifts	2,025,562	1,260,854	1,436,292	764,708	(175,438)
Other	6,013,504	10,888,464	5,547,833	(4,874,960)	5,340,631
Total Gifts and Other	8,039,066	12,149,318	6,984,125	(4,110,252)	5,165,193
<b>TOTAL NONOPERATING REVENUES</b>	<b>357,941,474</b>	<b>363,528,928</b>	<b>326,142,386</b>	<b>(5,587,454)</b>	<b>37,386,542</b>
<b>TOTAL REVENUES</b>	<b>\$471,422,476</b>	<b>\$477,494,116</b>	<b>\$435,561,916</b>	<b>\$ (6,071,640)</b>	<b>\$ 41,932,200</b>



HOUSTON COMMUNITY COLLEGE SYSTEM  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Revenue by Source

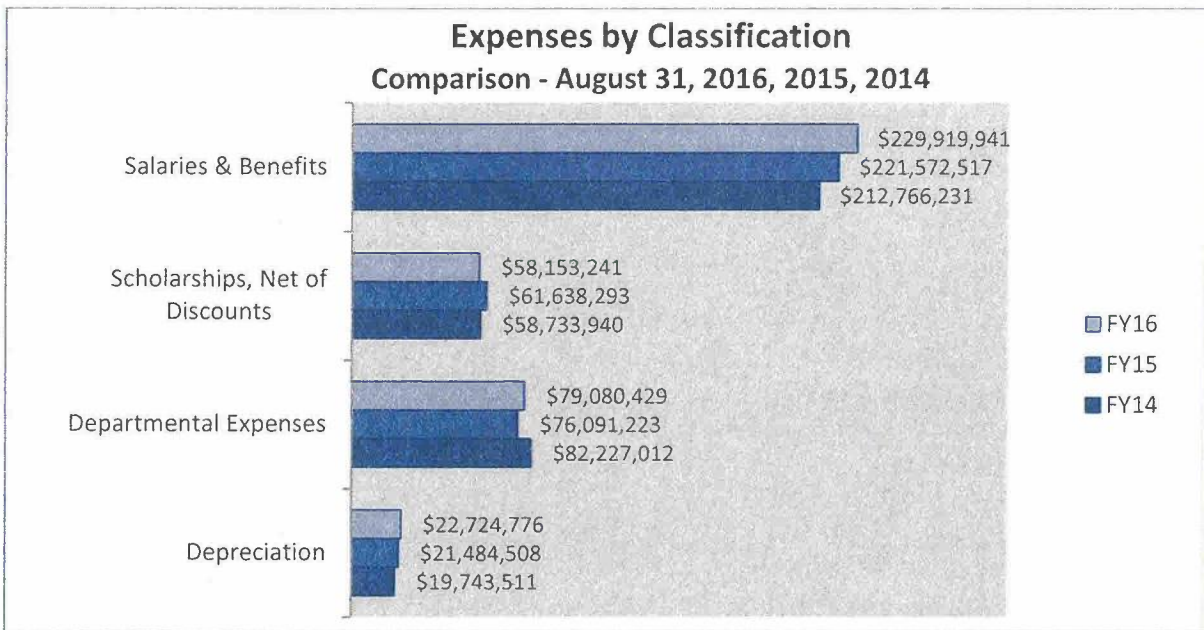


HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Expenses**

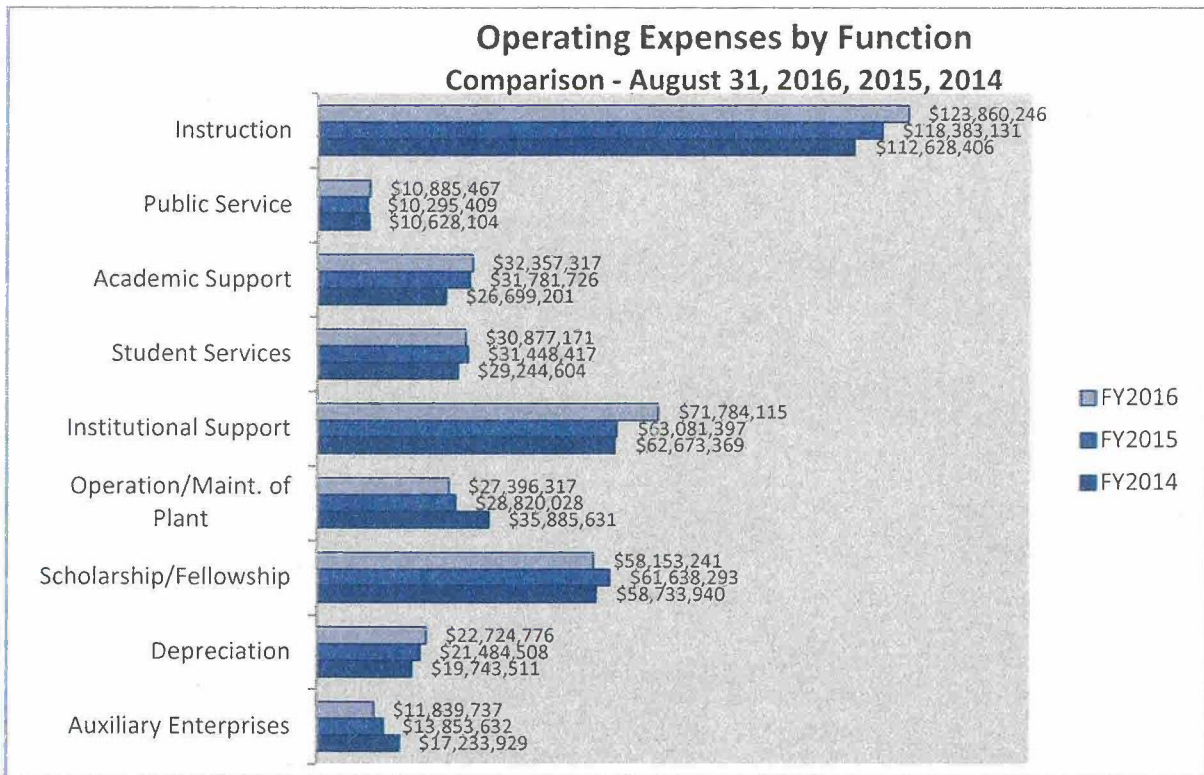
The schedules below provide a three-year historical record of the use of funds by functionality and natural classification. The expenses reported include both restricted and unrestricted funds, and are on the accrual basis.

	Operating Expenses by Natural Classification						Change	
	2016	% of Total	2015	% of Total	2014	% of Total	2015 to 2016	2014 to 2015
Salaries & Benefits	\$229,919,941	59.0%	\$221,572,517	58.2%	\$ 212,766,231	57.0%	\$ 8,347,424	\$ 8,806,286
Scholarships, Net of Discounts	58,153,241	14.9%	61,638,293	16.2%	58,733,940	15.7%	(3,485,052)	2,904,353
Departmental Expenses	79,080,429	20.3%	76,091,223	20.0%	82,227,012	22.0%	2,989,206	(6,135,789)
Depreciation	22,724,776	5.8%	21,484,508	5.6%	19,743,511	5.3%	1,240,268	1,740,997
	<u>\$389,878,387</u>	100%	<u>\$380,786,541</u>	100%	<u>\$ 373,470,694</u>	100%	<u>\$ 9,091,846</u>	<u>\$ 7,315,847</u>



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

	Operating Expenses by Functional Classification						Change	
	2016	% of Total	2015	% of Total	2014	% of Total	2015 to 2016	2014 to 2015
Instruction	123,860,246	31.8%	118,383,131	31.1%	112,628,406	30.2%	5,477,115	5,754,725
Public Service	10,885,467	2.8%	10,295,409	2.7%	10,628,104	2.8%	590,058	(332,695)
Academic Support	32,357,317	8.3%	31,781,726	8.3%	26,699,201	7.1%	575,591	5,082,525
Student Services	30,877,171	7.9%	31,448,417	8.3%	29,244,604	7.8%	(571,246)	2,203,813
Institutional Support	71,784,115	18.4%	63,081,397	16.6%	62,673,369	16.8%	8,702,718	408,028
Operation/Maint. of Plant	27,396,317	7.0%	28,820,028	7.6%	35,885,631	9.6%	(1,423,711)	(7,065,603)
Scholarship/Fellowship	58,153,241	14.9%	61,638,293	16.2%	58,733,940	15.7%	(3,485,052)	2,904,353
Depreciation	22,724,776	5.8%	21,484,508	5.6%	19,743,511	5.3%	1,240,268	1,740,997
Auxiliary Enterprises	11,839,737	3.0%	13,853,632	3.6%	17,233,929	4.6%	(2,013,895)	(3,380,297)
<b>Total Expense</b>	<b>\$ 389,878,387</b>	<b>100%</b>	<b>\$ 380,786,541</b>	<b>100%</b>	<b>\$ 373,470,694</b>	<b>100%</b>	<b>\$ 9,091,846</b>	<b>\$ 7,315,847</b>



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

**Fiscal Year 2016**

An analysis of operating expenses indicates an increase in fiscal year 2016 by \$9.1 million or 2.4% compared to fiscal year 2015. The increases are namely in the instructional and institutional support functional areas as a result of the continued initiatives begun in the recent years that align with the colleges transformation activities. The major increases and decreases in expenses are as follows:

- The number of full time faculty positions increased in 2016.
- As a result of the compensation study, salary increases were implemented to remain competitive and to attract and retain talented faculty and staff.
- Faculty Salary Increase – 6% or \$3.2 million
- Professional Technical Increase – 3.5% or \$2 million
- Secretarial Clerical – 4% Increase or \$430 thousand
- The increase in faculty salaries is off-set by a corresponding decrease in part-time faculty salaries of \$1.8 million.
- The System utilized budget savings from operations to pay off a portion of its debt. The increase in institutional support expenses is the result of a transfer of funds from the operational budget to pay for the redemption of the PFC Westgate Bonds Series 2005A in the amount of \$8.1M.
- These increases are also offset by reductions in insurance expense of \$1.8M.

**Fiscal Year 2015**

An analysis of operating expenses indicates an increase in fiscal year 2015 by \$7.3 million or 2% compared to fiscal year 2014. The increases are namely in the instruction and academic support functional areas due to the following:

- Increase in employee salaries and benefits costs related to general 2% raise and the increased costs of health benefits;
- Increase in compensation of lab hours for faculty;
- Increase in academic support function due to increase in IT projects.

**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 2016:**

There was a significant increase in net capital assets of approximately \$136.9 million from fiscal year 2015 to fiscal year 2016. This increase was due primarily to a \$91.3 million net increase in construction in progress. Also, there is a \$49.1 million increase in buildings, real estate improvements, equipment and assets under capital lease (net of accumulated depreciation). There also was a \$3.4 million decrease in land. See Footnote 6 of the financial statements.



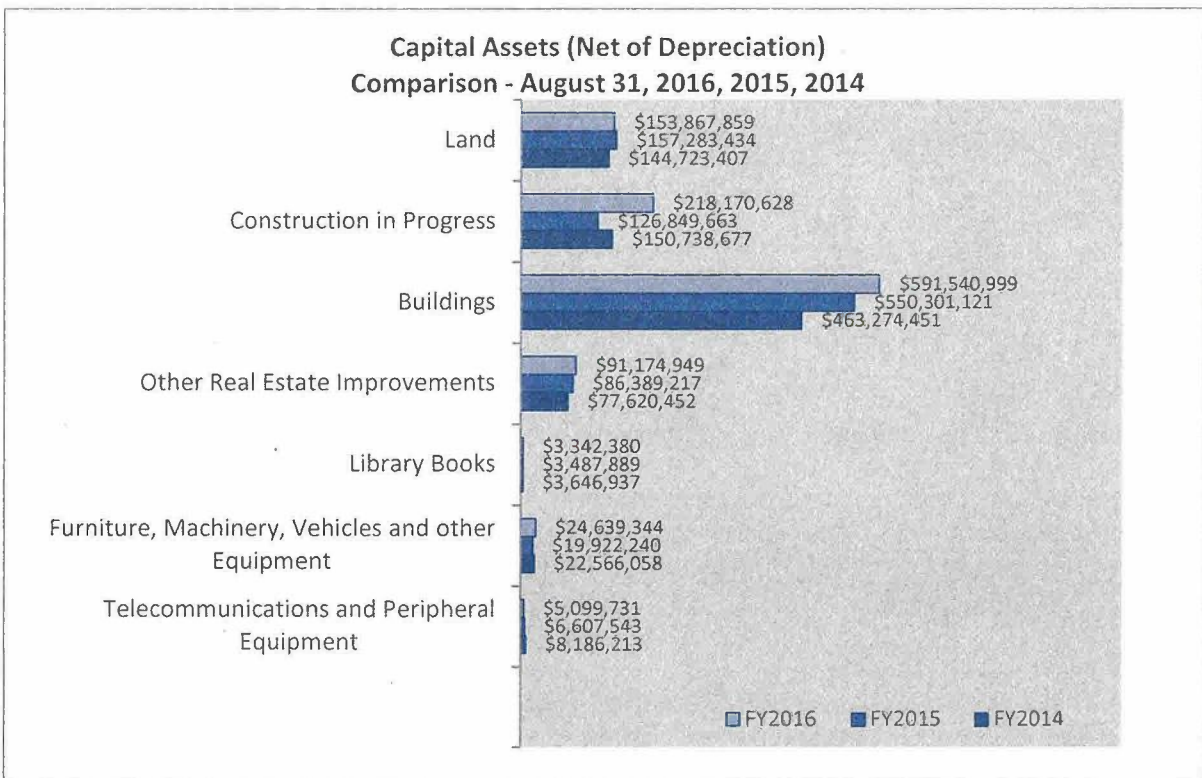
HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

**Fiscal Year 2015:**

There was a significant increase in net capital assets of approximately \$80.1 million from fiscal year 2014 to fiscal year 2015. This increase was due primarily to a \$91.4 million net increase in buildings, real estate improvements, equipment (net of accumulated depreciation). There also was a \$12.6 million increase in land acquisitions, and a net decrease in construction in progress of \$23.9 million which were funded from various bond proceeds. See Footnote 6 of the financial statements.

**Capital Assets (Net of Depreciation)**

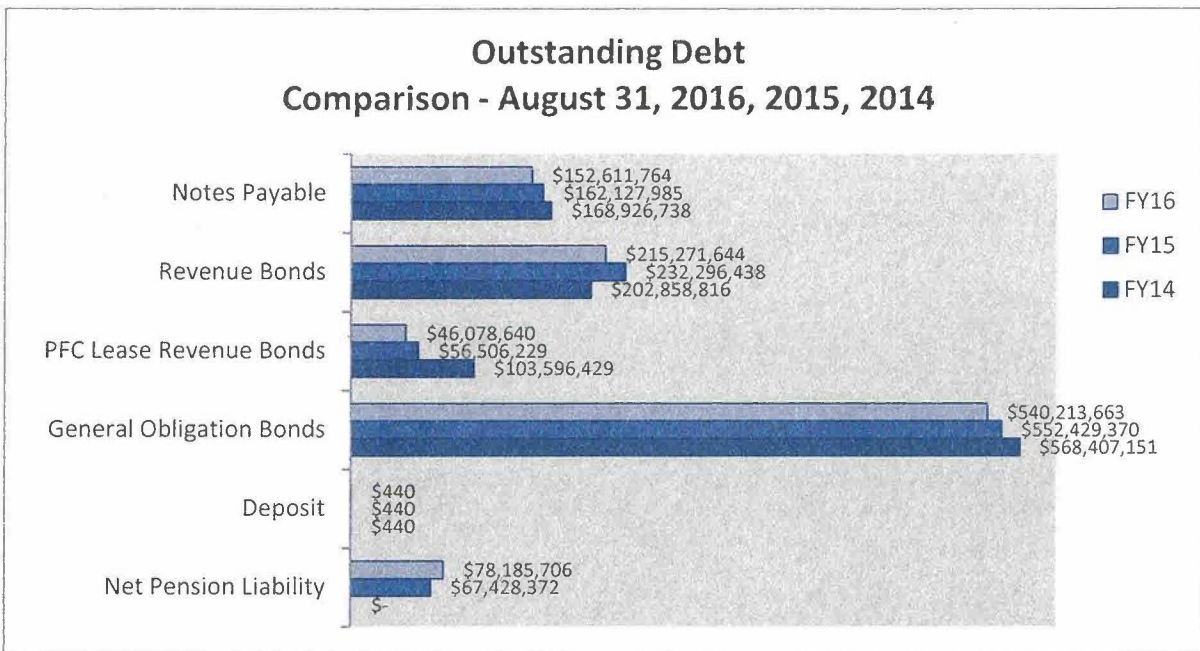
Capital Assets:	2016	2015	2014	Change	
				2015 to 2016	2014 to 2015
Land	\$ 153,867,859	\$157,283,434	\$144,723,407	\$ (3,415,575)	\$ 12,560,027
Construction in Progress	218,170,628	126,849,663	150,738,677	91,320,965	(23,889,014)
Buildings	591,540,999	550,301,121	463,274,451	41,239,878	87,026,670
Other Real Estate Improvements	91,174,949	86,389,217	77,620,452	4,785,732	8,768,765
Library Books	3,342,380	3,487,889	3,646,937	(145,509)	(159,048)
Furniture, Machinery, Vehicles and other Equipment	24,639,344	19,922,240	22,566,058	4,717,104	(2,643,818)
Telecommunications and Peripheral Equipment	5,099,731	6,607,543	8,186,213	(1,507,812)	(1,578,670)
<b>Total Capital Assets, Net</b>	<b>\$ 1,087,835,890</b>	<b>\$950,841,107</b>	<b>\$870,756,195</b>	<b>\$ 136,994,783</b>	<b>\$ 80,084,912</b>



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

**Outstanding Debt**

Outstanding debt:	2016	2015	2014	Change	
				2015 to 2016	2014 to 2015
Notes Payable	\$ 152,611,764	\$ 162,127,985	\$ 168,926,738	\$ (9,516,221)	\$ (6,798,752)
Revenue Bonds	215,271,644	232,296,438	202,858,816	(17,024,794)	29,437,621
PFC Lease Revenue Bonds	46,078,640	56,506,229	103,596,429	(10,427,589)	(47,090,200)
General Obligation Bonds	540,213,663	552,429,370	568,407,151	(12,215,707)	(15,977,781)
Deposits	440	440	440	-	-
Net Pension Liability	78,185,706	67,428,372	-	10,757,334	67,428,372
<b>Total Outstanding Debt</b>	<b>\$ 1,032,361,857</b>	<b>\$ 1,070,788,834</b>	<b>\$ 1,043,789,574</b>	<b>\$ (38,426,977)</b>	<b>\$ 26,999,259</b>



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

**Fiscal Year 2016:**

Bonds and notes payable decreased as follows:

- Decrease of \$9,516,221 for principal payments on Maintenance Tax Notes and amortization of bond premiums.
- Decrease of \$17,024,794 for principal payments on Revenue Bonds and amortization of bond premiums.
- PFC Lease Revenue Bonds decreased by \$10,427,589 due to principal payments of \$9,895,000 and amortization of bond premiums.
- Decrease of \$12,215,707 for principal payments on Limited Tax General Obligation Bonds and amortization of bond premiums.

**Fiscal Year 2015:**

Bonds and notes payable decreased as follows:

- Decrease of \$6,798,752 for principal payments on Maintenance Tax Notes.
- Net increase of \$29,437,621 due to issuance of \$77,851,896 in bonds, defeasance of \$34,695,000 and principal payments of \$12,545,000 and amortization of bond premiums.
- PFC Lease Revenue Bonds decreased by \$47,090,200 due to defeasance of \$42,325,000 and principal payments of \$4,240,000 and amortization of bond premiums.
- Decrease of \$15,977,781 for principal payments on Limited Tax General Obligation Bonds and amortization of bond premium.

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

**Future Outlook**

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

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

*Capital Improvement Program (CIP)*

HCCS continues to expand to align our instructional ability with the skill gaps in Houston area industry needs. Through our 2013 bond-funded Capital Improvement Program (CIP), there are significant facility additions that will help HCCS with its alignment:

- **Brays Oaks:**  
This project is creating a two-story, 28,268 square foot, basic skills and work force training facility. The project occupies 12.8 acres on West Bellfort Street between Gessner and Riceville Roads. The new facility will have academic classrooms, labs, and student spaces to support Adult Education, Continuing Education, and targeted workforce programs.
- **Missouri City:**  
Project includes construction of a new 69,340 square foot facility. The new building will include classrooms, laboratories, exhibition space, a student lounge, administration and faculty offices, conference rooms, server room, multipurpose rooms, security and facilities maintenance areas. Construction will also include site parking, detention and linkages to the existing Missouri City Hall and Community Center, as well as to an expanded Fort Bend County library to create a unique campus environment.
- **Acres Homes:**  
This project includes a 25,120 square foot basic skills and work force training facility. The new building will have academic classrooms, labs, and student spaces to support Adult Education, Continuing Education, and targeted workforce programs. The site includes ample parking with high visibility from Interstate 45 and access from Victory Drive and North Shepherd Drive.
- **Enhancement Projects:**  
The enhancements to existing campuses include additional academic and workforce spaces to support HCC's Centers of Excellence in Advanced Manufacturing, Business, Consumer Arts & Sciences, Engineering, Health Sciences, Logistics, Material Science, and Media Arts & Technology. Additional enhancements have included parking and student collaboration space across the district.

Through this bond program, HCCS is also providing hands-on learning experience for interns and apprentices through the HCCS Groundbreaker Project Internship Program. As of this writing, more than fifty interns and at least 30 apprentices have participated in building the HCCS of tomorrow.



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

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

We have identified our four Strategic Goals and have defined objectives and initiatives within each goal to focus the institution's efforts. Collectively, these elements of the plan also align our completion goals with the Texas Higher Education Coordinating Board's 60x30TX Plan. This alignment allows us to be responsive to the State's plan to ensure that 60% of all Texans ages 25-34 will achieve a postsecondary award by the year 2030. Further, *Imagine HCC 2019* aligns with the State's goals of balancing student debt with each graduate's earning potential.

*K-16 Pathways*

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

*Transformation*

Phase I of the transformation is substantially completed. Guided by a vision of student success via high quality and innovative education, the transformation began with Instructional Services. The implementation was successful, but we are far from finished. HCCS has transformed to include 13 instructional Centers of Excellence. Currently, we are taking the time to evaluate aspects of the implementation that may have been imperfect and taking the opportunity to improve. Also, we are transforming other areas within Instructional Services to include Libraries, Tutoring Centers, Online Learning, and Continuing Education. There is still much to do.

Only a year and a half into the transformative process, HCCS has already seen significant results. Leveraging size and resources has opened many doors to partnering opportunities with business and industry leaders across Houston. Faculty and staff have rallied around the transformation initiative, teaming to redefine approaches to new student orientation, advising, discipline adjacencies, early alert and other student-centered processes. Implementation of these novel approaches and structures is now underway as we continue with Phase II.

Phase II of the transformation concentrates on improving the student services that we provide. A new model is under design to support the success of our students and to enhance the student experience. The model will provide a comprehensive student success and completion model, targeted support services for the Centers of Excellence, and overall consistency across the college.

As part of Phase II, the Financial Aid (FA) Department began its Transformation Plan effective January 8, 2016. Helping our students obtain funding to finance their education is of utmost importance to all of us. Without the help of federal and state financial aid, supplemented by scholarships and other private funding, many of our students would not be able to attend college. This FA plan is in line with HCC's Transformation Plan and is focused on student success, and the enhancement of the College's ability to more efficiently and effectively serve this large segment of students.

Houston Community College has achieved many amazing things in its 45-year history. As one of the nation's largest community college systems, we have set the standard for others to follow and have been regarded as an innovator in the ways we provide for the critical education and workforce needs of our city. Our results paint a picture of success among national peers. These accolades are remarkable and a testament to the hard work and dedication of our faculty and staff. But an institution like HCCS cannot rest on the laurels of past achievements. It must always be looking towards the future and answering the question, "What's next?" As Houston's Community College, we are taking strategic steps to serve Houston better!

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

**State Appropriations**

Texas Association of Community College's (TACC) model for funding community college instruction was initially adopted by the 83<sup>rd</sup> Texas Legislature for the 2014-2015 biennium. The 84<sup>th</sup> Legislature continued this pattern of funding instruction at community colleges in the 2016-2017 biennium. Overall, community college appropriations funded totaled \$1.745 billion in instructional funds. The Core Operations-Student Success Points-Contact Hour Funding methodology includes the following:

- \$50 million for core operations (\$1 million for the biennium to each community college)
- 10% set-aside, about \$169.2 million total, for Student Success Points (based on outcome versus inputs)
- 90% distribution, based on contact hours: about \$1.52 billion in general revenue for the biennium.

The cost sharing agreement established during the 83<sup>rd</sup> legislative session for employee benefits remains as established with the state funding 50 percent of the costs and community colleges paying the remaining 50 percent of the costs.

The State contributions to TRS and ORP are as follows:

- TRS Retirement Rate: Employer share is 6.8 percent for FY 2016 and FY 2017 (same rate as the previous rate for FY2014 and FY2015). The state share is 3.4 percent; the community college share is 3.4 percent.
- ORP Retirement Rate: Employer share is 6.6 percent for FY 2016 and FY 2017 (same rate as for FY 2014 and FY 2015). The state share is 3.3 percent; the community college share is 3.3 percent.

**Ad Valorem Taxes**

The ad valorem tax rate for calendar year 2016 was decreased to \$0.100263 from the calendar year 2015 rate of \$0.101942. The tax rate for Maintenance & Operations (M&O) decreased from the prior year's rate and the rate for Debt Service also decreased due to the decrease in funding needed to cover debt payments in FY 2016-2017. The Maintenance and Operations tax rate for 2016 is \$0.075277 per \$100 of assessed valuation. The debt service tax rate is \$0.024986 per \$100 of assessed valuation. These adopted rates are in line with the Board's policy to minimize the tax burden on its constituents and provide for sufficient tax funds to support the fiscal year 2016-2017 operating budget and debt service.

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 Sr. Vice Chancellor of Finance and Administration's office at 3100 Main, Houston, Texas 77002.

HOUSTON COMMUNITY COLLEGE SYSTEM  
STATEMENTS OF NET POSITION  
AUGUST 31, 2016 AND 2015

Exhibit 1

ASSETS	2016	2015
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents (Note 4)	\$ 92,484,429	\$ 101,545,222
Accounts Receivable and Other Receivable, Net (Note 5)	31,436,399	41,434,134
Prepaid Charges	7,373,856	4,659,249
Restricted Short - Term Securities (Note 4)	70,022,515	28,990,315
Other Short - Term Securities (Note 4)	25,251,560	12,980,316
Total Current Assets	226,568,759	189,609,236
<b>NONCURRENT ASSETS:</b>		
Restricted Cash and Cash Equivalents (Note 4)	121,496,272	85,872,540
Other Long-Term Investments (Note 4)	30,966,351	37,279,806
Restricted Long Term Investment (Note 4)	65,180,299	256,476,357
Capital Assets Net (Note 6)	1,087,835,890	950,841,107
Total Noncurrent Assets	1,305,478,812	1,330,469,810
<b>TOTAL ASSETS</b>	<b>1,532,047,571</b>	<b>1,520,079,046</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension	30,600,608	11,299,015
Advance Funding Valuation	7,936,830	8,743,822
Total Deferred Outflows of Resources	38,537,438	20,042,837
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable (Note 5)	16,092,590	9,804,298
Accrued Liabilities	26,568,653	14,004,739
Compensated Absences (Note 16)	2,919,816	2,526,083
Funds Held for Others	890,680	830,289
Unearned Revenues	48,156,775	56,327,435
Notes Payable - Current Portion (Note 7 and 11)	9,143,299	8,783,299
Bonds Payable - Current Portion (Note 7 and 8)	27,735,000	26,975,000
Total Current Liabilities	131,506,813	119,251,143
<b>NONCURRENT LIABILITIES:</b>		
Deposits	440	440
Net Pension Liability (Note 7 and 14)	78,185,706	67,428,372
Notes Payable (Note 7 and 11)	143,468,465	153,344,687
Bonds Payable (Note 7 and 8)	773,828,947	814,257,037
Total Noncurrent Liabilities	995,483,558	1,035,030,536
<b>TOTAL LIABILITIES</b>	<b>1,126,990,371</b>	<b>1,154,281,679</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension	28,410,749	20,626,539
Advance Funding Valuation	722,950	795,245
Total Deferred Inflows of Resources	29,133,699	21,421,784
<b>NET POSITION</b>		
Net Investment in Capital Assets	318,343,549	290,770,960
Restricted for		
Expendable		
Loans	208,895	480,121
Debt Service	13,826,706	12,810,427
Unrestricted	82,081,789	60,356,912
<b>TOTAL NET POSITION</b>	<b>\$ 414,460,939</b>	<b>\$ 364,418,420</b>

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, 2016 AND 2015

Exhibit 2

	2016	2015
<b>OPERATING REVENUES:</b>		
Tuition and Fees, Net of Discounts	\$ 79,625,900	\$ 75,079,230
Federal Grants and Contracts	13,844,635	13,782,110
State Grants and Contracts	6,378,317	8,772,358
Local Grants and Contracts	157,041	162,920
Non-Governmental Grants and Contracts	3,060,584	2,446,357
Sales and Services of Educational Activities	273,441	177,222
Auxiliary Enterprises	10,141,084	13,544,991
Total Operating Revenues (Schedule A)	113,481,002	113,965,188
<b>OPERATING EXPENSES:</b>		
Instruction	123,860,246	118,383,131
Public Service	10,885,467	10,295,409
Academic Support	32,357,317	31,781,726
Student Services	30,877,171	31,448,417
Institutional Support	71,784,115	63,081,397
Operations and Maintenance	27,396,317	28,820,028
Scholarships and Fellowships	58,153,241	61,638,293
Auxiliary Enterprises	11,839,737	13,853,632
Depreciation	22,724,776	21,484,508
Total Operating Expenses (Schedule B)	389,878,387	380,786,541
<b>OPERATING LOSS</b>	<b>(276,397,385)</b>	<b>(266,821,353)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
State Appropriations	83,877,620	82,249,495
Maintenance Ad Valorem Taxes	133,580,908	125,073,172
Debt Service Ad Valorem Taxes	46,326,303	48,383,832
Gifts	2,025,562	1,260,854
Investment Income, Net	2,752,692	2,950,156
Interest on Capital Related Debt	(19,535,342)	(23,766,809)
Title IV Grants	86,117,577	95,673,111
Nursing Shortage Reduction	412,665	478,272
Loss on Sale of Fixed Assets	(5,517,511)	-
Other Nonoperating Revenues	2,848,147	6,913,970
Other Nonoperating Expenses	(6,448,717)	(5,431,725)
Net Nonoperating Revenues (Schedule C)	326,439,904	333,784,328
Increase In Net Position	50,042,519	66,962,975
Net Position, Beginning of Year	364,418,420	373,852,073
Cumulative Effect for Changes in Accounting Principle	-	(76,396,628)
Net Position, End of Year	\$ 414,460,939	\$ 364,418,420

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, 2016 AND 2015

Exhibit 3

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from students and other customers	\$ 81,221,479	\$ 88,139,957
Receipts from grants and contracts	22,618,033	22,598,284
Payments to suppliers for goods and services	(75,991,377)	(69,694,738)
Payments to or on behalf of employees	(230,420,761)	(220,218,443)
Payments for scholarships and fellowships	(58,037,094)	(61,659,242)
Other Non-Operating Revenue	1,350,610	1,292,453
Net cash used in operating activities	(259,259,110)	(239,541,730)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Receipts from ad valorem taxes	178,753,952	172,098,474
Receipts from state allocations	83,877,620	82,249,495
Receipts from private gifts	2,025,562	1,260,854
Received Federal Direct Student Loans ( SA: Federal note 3)	77,814,345	87,452,991
Disbursement of Federal Direct Student Loans ( SA: Federal note 3)	(77,814,345)	(87,466,957)
Receipts from Title IV	87,558,798	99,329,674
Receipts from Nursing	1,124,128	478,272
Net cash provided by noncapital financing activities	353,340,061	355,402,803
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Receipts from the issuance of capital debt	-	77,851,897
Bond issue cost paid on new capital debt issue	-	(534,300)
Proceeds from sale of Capital Assets (Land)	10,519,795	-
Purchase of Capital Asset	(135,035,686)	(81,350,578)
Payments of expenses relating to capital assets in Plant Funds	(4,723,893)	(4,161,937)
Payments on capital debt and leases - principal	(43,198,299)	(114,068,299)
Payments on capital debt and leases - interest and fees	(41,338,299)	(47,118,694)
Net cash used in financing activities	(213,776,382)	(169,381,910)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	162,617,208	120,928,229
Interest on investments	3,515,104	1,736,878
Purchase of investments	(19,873,941)	(147,960,133)
Net cash provided/(used) by investing activities	146,258,370	(25,295,026)
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	26,562,939	(78,815,863)
<b>CASH AND RESTRICTED CASH EQUIVALENTS - END OF YEAR (EXHIBIT 1)</b>	187,417,762	266,233,625
<b>CASH AND RESTRICTED CASH EQUIVALENTS - END OF YEAR (EXHIBIT 1)</b>	\$ 213,980,701	\$ 187,417,762

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, 2016 AND 2015

Exhibit 3

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

Operating loss	\$ (276,397,385)	\$ (266,821,353)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	22,724,776	21,484,508
Deferred outflows/inflows resources	10,782,586	8,476,854
Bad debt expense	2,049,712	2,063,172
Changes in assets and liabilities:		
Accounts receivables and other receivables	(9,997,735)	(844,511)
Prepaid charges	2,714,607	(1,717,555)
Accounts payables and accruals	(19,245,938)	(1,678,947)
Unearned revenues	8,170,658	(481,868)
Funds held for others	(60,392)	(22,030)
 Total adjustments	 <u>17,138,275</u>	 <u>27,279,623</u>
 Net cash used in operating activities	 <u>(259,259,110)</u>	 <u>(239,541,730)</u>
 <b>Schedule of non-cash investing, capital and financing activities:</b>		
Payments made directly by state for benefits	13,708,843	13,093,602
Increase in fair value of investments	18,230	(329,006)
Amortization of premium on bonds	5,453,423	4,642,430
Amortization of deferred charges on bonds refunding	806,992	708,359
Net non-cash investing, capital and financing activities	<u>\$ 19,987,488</u>	<u>\$ 18,115,385</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 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, 2016 and 2015 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*

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 an obligation has been incurred.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

When an expense is incurred that can be paid using either restricted or unrestricted resources, the System's policy is to first apply the expense towards restricted resources and then towards unrestricted resources. 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.

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



HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

to bond issues set aside for construction of capital assets are classified as restricted investments. TexPool and Lone Star are valued at amortized cost.

Prepaid Charges

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

Capital Assets

Capital assets are stated at cost at the date of acquisition, or fair value at the date of donation. 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 \$36,746,728 and \$40,713,255 for fiscal years 2016 and 2015, respectively. Of these amounts, \$17,211,387 and \$16,946,447 was capitalized to construction in process for fiscal years 2016 and 2015, respectively, in accordance with provisions of GASB Statement No. 62.

Unearned Revenues

Tuition, fees, and other revenues received and/or covered by payment arrangements during the current fiscal year but related to the period after August 31 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 Organizations, etc.* The System had no unrelated business income tax liability for the years ended August 31, 2016 and 2015.

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.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of tuition and taxes receivable, the useful lives of property and equipment, certain accrued liabilities, and the allocation of expenses among functional areas. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Operating and Non-operating Revenues and Expenses

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

Federal Financial Assistance Programs

The System participates in several federal-funded programs. Federal programs are audited in accordance with the Single Audit Act, as amended in 1996, and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Prior Year Reclassifications

Certain reclassifications have been made to the prior year to conform with the current year presentation.

Adoption of New Accounting Standards

Effective August 31, 2016, the System adopted GASB Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 became effective for financial statements for fiscal periods beginning after June 15, 2015. With this implementation of GASB 72, "fair value" is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Governments are generally required to measure investments at fair value using one of three techniques 1) Market approach, 2) Cost approach, and 3) Income approach. Very similar to existing guidance for FASB organizations, GASB 72 establishes a three level hierarchy of inputs to valuation techniques used to measure fair value as follows.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security

GASB 72 also requires disclosures to be made about fair value measurement, the level of fair value hierarchy, and valuation techniques. There is no impact on the financial statements for the System due to the adoption of GASB Statement No. 72 however a footnote disclosure has been added to Note 2.

Effective in Fiscal Year 2016 for reporting periods beginning after June 15, 2015, the System adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*. There is no impact on the financial statements for the System due to the adoption of GASB Statement No.76.

In December 2015, GASB issued Statement No 79, *Certain External Investment Pools and Pool Participants*. This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. GASB 79 is effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. The Lone Star Investment Pool (First Public) and Texas Local Government Investment Pool (TexPool) are valued at amortized cost. There is no impact on the financial statements for the System due to the adoption of GASB Statement No. 79.

Pending Pronouncements

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

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). GASB 77 requires state and local governments for the first time to disclose information about tax abatement agreements. GASB 77 requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. This statement is effective for periods beginning after December 15, 2015.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No 14*. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The requirements of this Statement enhance the comparability of financial statements among governments. This Statement is applicable for fiscal years beginning after June 15, 2016.

In March 2016, GASB issued Statement No 82, *Pension Issues – an amendment of GASB Statement No 67, No 68 and No 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for fiscal years beginning after June 15, 2016.

The System has not yet completed the process of evaluating the impact of GASB Statements Nos. 75, 77, 80 and 82 on its financial statements.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE 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, 2016 and 2015 was \$6,330,120 and \$10,127,654; and total bank balances equaled \$17,499,232 and \$24,341,228, respectively. Of the bank balances for fiscal year 2016, \$250,000 is covered by FDIC, and \$17,249,232 is collateralized in the System's name. Of the bank balances for fiscal year 2015, \$250,000 was covered by FDIC and \$24,091,228 was covered by collateral pledged in the System's name. The collateral was held in an account of an independent third party agent.

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

	<u>2016</u>	<u>2015</u>
Bank Deposits:		
Demand Deposits	\$ 6,330,120	\$ 10,127,654
Cash and Cash Equivalents:		
Petty Cash on Hand	50,057	50,083
Cash at Bank	8,489,279	11,773,282
Money Market Funds	30,913,829	153,542,725
High Yield Savings	854,897	1,794,564
TexPool	150,648,395	8,530,991
Lone star	16,694,124	1,598,463
	<u>207,650,581</u>	<u>177,290,108</u>
Total Cash and Deposits	213,980,701	187,417,762
Restricted Cash and Cash Equivalents	<u>(121,496,272)</u>	<u>(85,872,540)</u>
Cash and Cash Equivalents ( Exhibit 1)	<u>\$ 92,484,429</u>	<u>\$ 101,545,222</u>



HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

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

<u>Type of Security</u>	<u>Fair Value at August 31,</u>	
	<u>2016</u>	<u>2015</u>
U.S. Agency Securities	\$ 101,170,725	\$ 138,927,061
Money Market, CD's	90,250,000	196,799,733
Total Investments	191,420,725	335,726,794
Total Cash and Deposits	213,980,701	187,417,762
Total Deposits and Investments	<u>\$ 405,401,426</u>	<u>\$ 523,144,556</u>
Cash and Cash Equivalents (Exhibit 1)	92,484,429	101,545,222
Restricted Cash and Cash Equivalents (Exhibit 1)	121,496,272	85,872,540
Restricted Long-Term Investment (Exhibit 1)	65,180,299	256,476,357
Restricted Short-Term Investment (Exhibit 1)	70,022,515	28,990,315
Other Short-Term Investments (Exhibit 1)	25,251,560	12,980,316
Other Long-Term Investments (Exhibit 1)	30,966,351	37,279,806
Total Deposits and Investments	<u>\$ 405,401,426</u>	<u>\$ 523,144,556</u>

As of August 31, 2016 Houston Community College System had the following investments and maturities:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity(Years)</u>
U.S. Agency Securities	\$ 101,170,725	1.28
Investment Pools	167,342,519	0.00
Certificates of Deposit	90,250,000	1.08
Cash and Money Market Funds	46,638,182	0.00
Total Fair Value	<u>\$ 405,401,426</u>	
Portfolio weighted average maturity		0.57

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.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

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

The credit quality (ratings) and concentration of credit exposure of securities in excess of 5% of total investments as of August 31, 2016 is as follows:

	Credit Rating	Credit Exposure
Freddie Mac (Federal Home Loan Mortgage Corporation)	AAA	8%
FHLB (Federal Home Bank)	AAA	5%
FFCB (Federal Farm Credit Bank)	AAA	6%

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

TexPool operate 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 operates in a manner consistent with the Securities and Exchange Commission’s rule 2a7of the Investment Company act of 1940. Lone Star is governed by trustees comprised of active participants in Lone Star. The board of trustees for Lone Star has the responsibility for adopting and monitoring compliance with the investment policy, of appointing investment officers, of overseeing the selection of an investment advisor, custodian, investment consultant, administrator and other service providers. Lone Star uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in Lone Star is the same as the value in Lone Star shares.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – DEPOSITS AND INVESTMENTS – CONTINUED

**Fair Value of Investment**

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

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

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

<u>Description</u>	Assets at fair value as of August 31, 2015			
	Level 1	Level 2	Level 3	FY 2015
Fannie Mae ARM pool	\$ -	\$ 102,889	\$ -	\$ 102,889
U.S. Government Securities - Treasuries	-	18,980,295	-	18,980,295
U.S. Government Securities - Agency	-	119,843,877	-	119,843,877
Total	<u>\$ -</u>	<u>\$ 138,927,061</u>	<u>\$ -</u>	<u>\$ 138,927,061</u> *

\* This amount excludes investments in local government pools which are recorded at amortized cost. These investments total \$167,342,519 and \$ 10, 129,454 as of August 31, 2016 and August 31, 2015 respectively.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables at August 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Accounts Receivable	\$ 1,430,766	\$ 2,255,539
Grants Receivable:		
Federal Grants	1,472,756	1,523,454
State Grants	401,847	596,121
Local Grants	183,644	183,086
Private Grants	81,983	-
Other Receivables	2,737,457	4,279,643
Student Receivables	36,226,141	42,341,868
Taxes Receivable	7,548,014	6,671,151
Total Receivables	<u>\$ 50,082,608</u>	<u>\$ 57,850,862</u>
Less Allowance for Doubtful Accounts:		
Accounts Receivable	(287,236)	(287,236)
Student Receivables	(13,922,357)	(11,872,646)
Taxes Receivable	<u>(4,436,616)</u>	<u>(4,256,846)</u>
Total Allowance for Doubtful Accounts	<u>\$ (18,646,209)</u>	<u>\$ (16,416,728)</u>
Total Receivables, Net of Allowances	<u><u>\$ 31,436,399</u></u>	<u><u>\$ 41,434,134</u></u>

**Payables**

Payables at August 31, 2016 and 2015, were as follows:

	<u>2016</u>	<u>2015</u>
Vendor Payables	\$ 3,682,689	\$ 3,786,484
Salaries & Benefits Payable	448,117	234,953
Student Payables	4,070,797	3,265,424
Retainage Payable	6,168,499	1,378,233
Other Payables	<u>1,722,487</u>	<u>1,139,205</u>
Total Accounts Payable	<u><u>\$ 16,092,590</u></u>	<u><u>\$ 9,804,298</u></u>



HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS

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

	Balance August 31, 2015	Increases	Decreases	Balance August 31, 2016
Not depreciated:				
Land	\$ 157,283,434	\$ 356,119	\$ (3,771,694)	\$ 153,867,859
Construction in Process	126,849,663	157,094,409	(65,773,445)	218,170,628
Subtotal	284,133,097	157,450,528	(69,545,139)	372,038,487
Depreciable Capital Assets:				
Buildings	646,042,903	60,201,159	(10,362,488)	695,881,574
Other Real Estate Improvements	107,007,742	14,220,724	(4,604,945)	116,623,520
Total Building and Other Real Estate Improvements	753,050,645	74,421,882	(14,967,433)	812,505,094
Library Books	18,052,385	329,920	(103,233)	18,279,072
Furniture, Machinery, Vehicles and Other Equipment	78,062,978	9,366,958	(36,105)	87,393,831
Telecommunications and Perpheral Equipment	37,196,197	-	-	37,196,197
Subtotal	886,362,205	84,118,761	(15,106,771)	955,374,194
Accumulated depreciation:				
Buildings	95,741,778	11,261,640	(2,662,842)	104,340,576
Other Real Estate Improvements	20,618,526	4,830,046	-	25,448,572
Total Building and Other Real Estate Improvements	116,360,304	16,091,686	(2,662,842)	129,789,148
Library Books	14,564,497	475,428	(103,233)	14,936,692
Furniture, Machinery, Vehicles and Other Equipment	58,140,738	4,650,848	(36,105)	62,755,481
Telecommunications and Perpheral Equipment	30,588,654	1,506,814	-	32,095,468
Subtotal	219,654,193	22,724,776	(2,802,180)	239,576,789
Net Depreciable Capital Assets	666,708,011	61,393,983	(12,304,591)	715,797,402
Net Capital Assets	\$ 950,841,107	\$ 218,844,510	\$ (81,849,729)	\$ 1,087,835,890

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS - CONTINUED

Capital asset activity for the year ended August 31, 2015 was as follows:

	Balance August 31, 2014	Increases	Decreases	Balance August 31, 2015
Not Depreciated:				
Land	\$ 144,723,407	\$ 12,560,027	\$ -	\$ 157,283,434
Construction in Process	150,738,677	69,354,716	93,243,730	126,849,663
Subtotal	295,462,084	81,914,743	93,243,730	284,133,097
Depreciable Capital Assets:				
Buildings	548,393,687	97,649,216	-	646,042,903
Other Real Estate Improvements	93,894,458	13,113,284	-	107,007,742
Total Buildings and Other Real Estate Improvements	642,288,145	110,762,500	-	753,050,645
Library Books	17,773,159	349,645	70,419	18,052,385
Furniture, Machinery, Vehicles and Other Equipment	76,276,714	1,786,264	-	78,062,978
Telecommunications and Peripheral Equipment	37,196,197	-	-	37,196,197
Subtotal	773,534,215	112,898,409	70,419	886,362,205
Accumulated Depreciation:				
Buildings	85,119,236	10,622,542	-	95,741,778
Other Real Estate Improvements	16,274,006	4,344,520	-	20,618,526
Total Buildings and Other Real Estate Improvements	101,393,242	14,967,062	-	116,360,304
Library Books	14,126,222	508,694	70,419	14,564,497
Furniture, Machinery, Vehicles and Other Equipment	53,710,656	4,430,082	-	58,140,738
Telecommunications and Peripheral Equipment	29,009,984	1,578,670	-	30,588,654
Subtotal	198,240,104	21,484,508	70,419	219,654,193
Net Depreciable Capital Assets	575,294,112	91,413,899	-	666,708,011
Net Capital Assets	\$ 870,756,195	\$ 173,328,642	\$ 93,243,730	\$ 950,841,107

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – NONCURRENT LIABILITIES

Noncurrent liability activity for the years ended August 31, 2016 and 2015 was as follows:

	Balance as of September 1, 2015	Additions	Reductions	Balance as of August 31, 2016	Current Portion	Noncurrent Portion
Long-Term Notes Payable	\$ 162,127,985	\$ -	\$ (9,516,221)	\$ 152,611,764	\$ 9,143,299	\$ 143,468,465
Bonds:						
Revenue Bonds	232,296,438	-	(17,024,794)	215,271,644	15,480,000	199,791,644
PFC Lease Revenue	56,506,229	-	(10,427,589)	46,078,640	2,110,000	43,968,640
General Obligation Bonds	552,429,370	-	(12,215,707)	540,213,663	10,145,000	530,068,663
Total Bonds	841,232,037	-	(39,668,090)	801,563,947	27,735,000	773,828,947
Deposits	440	-	-	440	-	440
Net Pension Liability	67,428,372	10,757,334	-	78,185,706	-	78,185,706
Total Noncurrent Liabilities	<u>\$ 1,070,788,835</u>	<u>\$ 10,757,334</u>	<u>\$ (49,184,311)</u>	<u>\$ 1,032,361,857</u>	<u>\$ 36,878,299</u>	<u>\$ 995,483,558</u>
	Balance as of September 1, 2014	Additions	Reductions	Balance as of August 31, 2015	Current Portion	Noncurrent Portion
Long-Term Notes Payable	\$ 168,926,738	\$ 2,019,896	(8,818,649)	\$ 162,127,985	\$ 8,783,299	\$ 153,344,687
Bonds:						
Revenue Bonds	202,858,816	77,851,897	(48,414,275)	232,296,438	15,640,000	216,656,438
PFC Lease Revenue	103,596,429	-	(47,090,200)	56,506,229	2,455,000	54,051,229
General Obligation Bonds	568,407,151	-	(15,977,781)	552,429,370	8,880,000	543,549,370
Total Bonds	874,862,396	77,851,897	(111,482,257)	841,232,037	26,975,000	814,257,037
Deposits	440	-	-	440	-	440
Net Pension Liability	-	67,428,372	-	67,428,372	-	67,428,372
Total Noncurrent Liabilities	<u>\$ 1,043,789,574</u>	<u>\$ 147,300,165</u>	<u>\$ (120,300,906)</u>	<u>\$ 1,070,788,835</u>	<u>\$ 35,758,299</u>	<u>\$ 1,035,030,536</u>

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE

*Student Fee Revenue Bonds:*

The System issued several Student Fee Revenue Bonds as Senior Lien Bonds or Junior Lien Bonds during the fiscal years 2006 through 2015 with interest rates ranging from .003% to 5.25% and maturities ranging from 2007 through 2031. Debt service requirements are payable solely from and secured by a first lien on certain pledged revenues which include general fees, out-of-district fees and any other revenues or receipts of the System which may, in the future, be pledged to the payment of the bonds. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indenture. All authorized bonds have been issued. The System has never defaulted on any bond or interest payment.

*Public Facility Corporation Lease Revenue Bonds:*

2007 Issuance

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

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.

2006 Issuance

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 on April 15, 2016 or any date thereafter, prior to their scheduled maturities. 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. These Bonds were defeased on July 22, 2015 with the issuance of the Combined Fee Revenue and Refunding Bonds, Series 2015. See Note 9.

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.

Under terms of the defeasance noted above, the System exercised its Option to Purchase the Alief Campus on April 15, 2016. All liens were released by the PFC and title of all property was transferred to the System.



HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

2005 Issuance

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 on April 15, 2015 or any date thereafter, prior to their scheduled maturities. 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. These Bonds were defeased on July 22, 2015 with the issuance of the Combined Fee Revenue and Refunding Bonds, Series 2015. See Note 9.

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.

Under terms of the defeasance noted above, the System exercised its Option to Purchase the Public Safety Institute on October 15, 2015. All liens were released by the PFC and title of all property was transferred to the System.

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 on April 15, 2015 or any date thereafter, prior to their scheduled maturities. 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.

The System retired the outstanding balance of \$7,885,000 of these Lease Revenue Bonds on October 15, 2015 and exercised its Option to Purchase the property. All liens were released by the PFC and title of all property was transferred to the System.

*Limited Tax Bonds:*

The System issued \$109,490,000 in Limited Tax Refunding Bonds, Series 2011 ("Series 2011 Bonds") on October 12, 2011 with interest rates ranging from 4.00% to 5.00%. The Bonds were issued at a premium of \$16,767,575. Bond maturities range from February 15, 2014 through February 15, 2028. Bonds maturing on or after February 15, 2022 are subject to redemption prior to their scheduled maturities on February 15, 2021. The Series 2011 Bonds 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.

Date Series Issued	Par Value	Maturity Date	Interest Rate	Outstanding Balances at August 31, 2016	Outstanding Balances at August 31, 2015
<b>Student Fee Revenue Bonds:</b>					
2006	72,815,000	04/15/2007 - 2030	4.000% - 5.000%	\$17,890,000	\$18,000,000
2008	54,540,000	04/15/2009 - 2030	4.000% - 5.250%	40,915,000	43,075,000
2010	27,250,000	04/15/2012 - 2031	3.000% - 5.250%	22,525,000	23,550,000
2011	33,940,000	04/15/2012 - 2025	4.000% - 5.250%	20,405,000	23,400,000
2014A	9,210,000	04/15/2015 - 2026	2.000% - 3.250%	7,885,000	8,555,000
2014B	30,900,000	04/15/2015 - 2026	.0031% - 4.070%	24,130,000	30,270,000
2015	68,865,000	04/15/2016 - 2031	2.000% - 5.000%	66,325,000	68,865,000
<b>PFC Lease Revenue Bonds (Blended Component Unit):</b>					
2005A	\$11,605,000	04/15/2006 - 2028	3.500% - 5.000%	-	7,885,000
2007	58,885,000	04/15/2009 - 2031	4.000% - 5.625%	45,160,000	47,170,000
<b>Limited Tax Bonds:</b>					
2011	109,490,000	02/15/14 - 2028	4.000% - 5.000%	91,255,000	97,120,000
2013	398,775,000	02/15/15 - 2043	3.000% - 5.000%	389,565,000	392,580,000
<b>Total Principal Payable</b>				<b>726,055,000</b>	<b>760,470,000</b>
<b>Unamortized Premium and Discount, Net</b>				<b>75,508,947</b>	<b>80,762,037</b>
<b>Total Bonds Payable</b>				<b>\$801,563,947</b>	<b>\$841,232,037</b>

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – BONDS PAYABLE – CONTINUED

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

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

Debt service requirements to maturities as of August 31, 2015 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
2016	\$15,640,000	\$8,560,997	\$24,200,997	\$2,455,000	\$2,708,425	\$5,163,425	\$8,880,000	\$23,220,119	\$32,100,119	\$26,975,000	\$34,489,541	\$61,464,541
2017	15,480,000	9,033,665	24,513,665	2,580,000	2,585,675	5,165,675	10,145,000	22,758,244	32,903,244	28,205,000	34,377,584	62,582,584
2018	15,700,000	8,509,721	24,209,721	2,705,000	2,456,675	5,161,675	10,035,000	22,285,394	32,320,394	28,440,000	33,251,790	61,691,790
2019	16,265,000	7,938,899	24,203,899	2,840,000	2,321,425	5,161,425	11,355,000	21,768,544	33,123,544	30,460,000	32,028,868	62,488,868
2020	17,545,000	7,277,243	24,822,243	2,980,000	2,179,425	5,159,425	11,310,000	21,222,819	32,532,819	31,835,000	30,679,487	62,514,487
2021 - 2025	74,830,000	24,255,629	99,085,629	17,265,000	8,548,900	25,813,900	67,265,000	96,551,969	163,816,969	159,360,000	129,356,498	288,716,498
2026 - 2030	56,525,000	8,836,142	65,361,142	20,110,000	4,022,750	24,132,750	75,245,000	79,845,219	155,090,219	151,880,000	92,704,111	244,584,111
2031 - 2035	3,730,000	160,925	3,890,925	4,120,000	206,000	4,326,000	120,785,000	55,758,734	176,543,734	128,635,000	56,125,659	184,760,659
2036 - 2040	-	-	-	-	-	-	110,055,000	27,362,375	137,417,375	110,055,000	27,362,375	137,417,375
2041 - 2043	-	-	-	-	-	-	64,625,000	4,439,875	69,064,875	64,625,000	4,439,875	69,064,875
	<u>\$215,715,000</u>	<u>\$74,573,222</u>	<u>\$290,288,222</u>	<u>\$55,055,000</u>	<u>\$25,029,275</u>	<u>\$80,084,275</u>	<u>\$489,700,000</u>	<u>\$375,213,291</u>	<u>\$864,913,291</u>	<u>\$760,470,000</u>	<u>\$474,815,787</u>	<u>\$1,235,285,787</u>

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 was 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 were 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 System issued \$68,865,000 in Combined Fee Revenue and Refunding Bonds, Series 2015 on July 22, 2015. The Bonds were used to: (1) partially refund \$34,695,000 in Junior Lien Student Fee Revenue and Refunding Bonds, Series 2006 with interest rates ranging from 4.00% to 5.00% with an optional redemption date of April 15, 2016; (2) refund \$14,115,000 in Public Facility Corporation Lease Revenue Bonds, Series 2005C with interest rates ranging from 3.50% to 5.0% with an optional redemption date of October 15, 2015; and (3) refund \$28,210,000 in Public Facility Corporation Lease Revenue Bonds, Series 2006 with interest rates ranging from 4.0% to 5.0% with an optional redemption date of April 15, 2016.

Proceeds of \$80,089,681 of the Combined Fee Revenue and Refunding Bonds, Series 2015 were placed in an irrevocable trust with an escrow agent and were used to redeem the Junior Lien Student Fee Revenue and Refunding Bonds Series 2006, the PFC Lease Revenue Bonds Series 2005C and the PFC Lease Revenue Bonds Series 2006 on the respective call dates noted above. The liabilities for these refunded bonds and the securities held by the escrow agent have been excluded from the Statement of Net Position.

NOTE 10 – DEFEASED BONDS OUTSTANDING

Bond issue	Year Refunded	Par Value Outstanding	
		August 31, 2016	August 31, 2015
Series 2006 Junior Lien Revenue Bonds	2015	\$0	\$34,695,000
PFC Series 2005C Lease Revenue Bonds	2015	0	14,115,000
PFC Series 2006 Lease Revenue Bonds	2015	0	28,210,000
		<u>\$0</u>	<u>\$77,020,000</u>

NOTE 11 – NOTES PAYABLE

2011 Issuance

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

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



HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – NOTES PAYABLE - CONTINUED

2010 Issuance

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

2009 Issuance

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

2008 Issuance

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

2006 Issuance

The System issued \$12,000,000 in Maintenance Tax Notes, Series 2006 (“Notes”) on February 1, 2006 with interest rates ranging from 3.00% to 4.50%. The Notes were issued at a discount of \$88,756. Note maturities range from February 15, 2007 through February 15, 2026. Notes maturing on or after February 15, 2007 are subject to redemption prior to their scheduled maturities on February 15, 2016. 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.

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

The System entered into a revolving loan agreement on March 22, 2016 for \$5,229,822 with the Texas Comptroller of Public Accounts through its State Energy Conservation Office. The purpose of the loan is to finance energy efficiency projects. Upon completion of the energy projects a final repayment schedule will be determined by the State. The loan is to be repaid over 9.2 years with an annual interest rate of 1%. As of August 31, 2016 the first loan draw request by the System of \$229,066 was pending approval by the State.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – NOTES PAYABLE - CONTINUED

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

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

Maturities of notes payable at August 31, 2015 were as follows:

<u>Year ending August 31</u>	<u>Central Utility Plant</u>	<u>Capital Improvements</u>	<u>Total</u>
2016	\$891,250	\$14,938,281	\$15,829,531
2017	888,050	14,931,256	15,819,306
2018	888,566	14,277,426	15,165,992
2019	887,681	14,259,095	15,146,776
2020	890,244	14,246,045	15,136,289
2021 - 2025	4,441,359	71,213,695	75,655,054
2026 - 2030	889,575	52,623,963	53,513,538
2031	-	4,876,350	4,876,350
Total Payments	9,776,725	201,366,112	211,142,837
Less Amounts Representing Interest	(1,982,812)	(47,032,041)	(49,014,852)
Total Notes Payable	<u>\$7,793,913</u>	<u>\$154,334,071</u>	<u>\$162,127,985</u>

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – OPERATING LEASES

The System leases certain educational facilities, offices and other equipment. Future minimum rental payments under non-cancelable operating leases having remaining terms in excess of one year as of August 31, 2016 for each of the next three years and thereafter, and in the aggregate are as follows:

Year ending August 31	Amount
2017	1,064,524
2018	1,029,371
2019	204,647
Total	\$2,298,542

Rent expense totaled approximately \$1.3 million for the years ended August 31, 2016 and 2015.

NOTE 13 – LEASED FACILITIES

The System leases office space to other entities under operating leases. Minimum lease payments due to the System under these operating leases as of August 31, 2016 are as follows:

The System received approximately \$6.8 million and \$5.0 million in rental income for the years ended August 31, 2016 and 2015.

Year Ending August 31,	Amount
2017	\$ 7,351,678
2018	4,762,629
2019	3,370,538
2020	1,001,290
2021	708,400
Thereafter	4,345,700
Total	\$ 21,540,235

NOTE 14 - RETIREMENT PLANS

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

Teacher Retirement System of Texas

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

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

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 84<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2015.

Contribution Rates

	<u>2016</u>	<u>2015</u>
Member	7.2%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
FY15 Member Contributions		\$5,697,761
FY15 Employer Contributions		\$6,549,362
FY15 State of Texas On-behalf Contributions		\$1,062,183

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

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

**Actuarial Assumptions**

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	29 years
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Inflation	2.5%
Salary Increases*	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefits changes	None

*\*Includes Inflation of 2.5%*

Actuarial methods and assumptions were updated based on a study of actual experience for the four year period ending August 31, 2010 and adopted on September 24, 2011, by the TRS Board of Trustees, who have sole authority to determine the actuarial assumptions used for the plan. The most significant changes were related to the update of the post-retirement mortality rates based on the most recent TRS member experience and the decrease in the assumption for general wage inflation from 3.0% to 2.5%. Other changes to overall assumptions and methods had a minor impact on the results of the actuarial valuation and related pension liability.

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

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



HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

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

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

Source: Teacher Retirement System of Texas 2015 Comprehensive Annual Financial Report

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

**Discount Rate Sensitivity Analysis**

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Houston Community College System proportionate share of the net pension liability:	\$122,502,265	\$78,185,706	\$41,272,767

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2016, the Houston Community College System reported a liability of \$78,185,706 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the Houston Community College System. The amount recognized by the Houston Community College System as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Houston Community College System were as follows:

Houston Community College System Proportionate share of the collective net pension liability	\$ 78,185,706
State's proportionate share that is associated with Houston Community College System	<u>1,062,183</u>
Total	<u>\$ 79,247,889</u>

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

At measurement date of August 31, 2015, the employer's proportion of the collective net pension liability was 0.002211843% which was a decrease of 0.03% from its proportion measured as of August 31, 2014.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

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

For the year ended August 31, 2016, the Houston Community College System recognized pension expense of \$5,873,394 and revenue of \$1,806,195 for support provided by the State.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

At August 31, 2016, the Houston Community College System reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 867,264	\$ 3,004,747
Changes in actuarial assumptions	3,645,128	2,789,324
Difference between projected and actual investment earnings	19,255,398	15,456,648
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	(42)	7,160,030
Contributions paid to TRS subsequent to the measurement date	6,832,860	
Total	\$ 30,600,608	\$ 28,410,749

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

Year ended August 31:	Pension Expense Amount
2017	(\$1,617,744)
2018	(\$1,617,744)
2019	(\$1,617,744)
2020	\$3,534,472
2021	(\$1,333,570)
Thereafter	(\$1,978,897)

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 \$3,306,195, \$3,366,313 and \$3,236,549 for the fiscal years ended August 31, 2016, 2015 and 2014 respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the System.

The total payroll for all System employees was \$191,844,964 and \$183,861,448 for fiscal years 2016 and 2015, respectively. The total payroll of employees covered by the Teacher Retirement System was \$119,277,740 and \$111,189,786 and the total payroll of employees covered by the Optional Retirement Program was \$39,550,238 and \$39,313,810 for fiscal years 2016 and 2015, respectively.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 - DEFERRED COMPENSATION PROGRAM

The System's employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. Both a 403(b) plan and a 457 plan are available. The plan is funded by employee contributions such that the employer is not liable for the diminution in value or loss of all or part of the participating employees' deferred amounts or investment income due to market conditions or the failure, insolvency or bankruptcy of a qualified vendor. The total number of employees participating in the program at August 31, 2016 and 2015 were 623 and 603, respectively.

During fiscal years ended August 31, 2016 and August 31, 2015, employee contributions amounting to \$4,030,814 and \$3,997,037 were invested in the plan respectively.

NOTE 16 - COMPENSATED ABSENCES

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

Employees earn up to 160 vacation hours depending on the number of years employed with the System. Up to 80 earned vacation hours may be carried forward by employees from one fiscal year to another, but must be utilized before the end of August of the following year or be lost. An employee is compensated for any earned but unused vacation hours upon termination of employment with the System. Accrued compensable absences of \$2,919,816 and \$2,526,083 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, 2016 and 2015, respectively.

NOTE 17 - FUNDS HELD IN TRUST BY OTHERS

The balances of funds held in trust by others on behalf of the Public Facility Corporation are reflected in the financial statements as restricted long-term investments. At August 31, 2016 and August 31, 2015, there were three and ten funds, respectively, 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 \$630,858 and \$1,549,733 at August 31, 2016 and August 31, 2015, respectively.

NOTE 18 - COMMITMENTS

The System has entered into contracts for the planning and construction of new facilities, as well as the renovation and repair of existing campuses. Commitments remaining under such contracts were \$150,595,380 at August 31, 2016. The System has also entered into contracts for technology capital projects, with commitments of \$2,224,596 remaining at August 31, 2016. Proceeds from the sales of various bonds and notes will fund the purchase and construction of new facilities and the technology projects.

NOTE 19 - CONTINGENCIES

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

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

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 – 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 table below depicts the cost of providing health care benefits to the System's retired and active employees, and the amount appropriated to the System from the State of Texas. Payments of these benefits by the State were recognized as restricted state appropriations with an equal amount recognized as restricted benefits expenses. These payments do not flow through the System's cash accounts.

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

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

HealthSelect of Texas Plan	2015 State/Employer Contribution
Member Only	\$ 537.66
Member & Spouse	845.54
Member & Child (ren)	743.80
Member & Family	1,051.68

Cost of Providing Health Care Insurance	2016	2015
Number of Retirees	600	582
Cost of Health Benefits for Retirees	\$ 4,226,413	\$ 3,749,647
Number of Activities Full Time Employees	2,530	2,318
Cost of Health Benefits for Active Full Time Employees	\$ 19,221,875	\$ 17,638,468
State Appropriation for Health Insurance	\$ 10,596,777	\$ 9,984,372
System's Expense for Health Insurance	\$ 12,851,511	\$ 11,403,741



HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to providing pension benefits, the state provides certain healthcare and life insurance benefits for retired employees. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the System. 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.

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

The college's contributions to SRHP for the years ended August 31, 2016 and 2015 were \$2,069,314 and \$1,874,721 respectively, which equaled the required contributions each year.

NOTE 22 – PROPERTY TAX

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

At August 31:	2016	2015
Assessed valuation of the System	\$ 221,458,121,257	\$ 198,955,482,183
Less: Exemptions	(42,287,303,553)	(36,077,649,997)
Net Assessed Valuation of the System	\$ 179,170,817,704	\$ 162,877,832,186

Taxes levied for the years ended August 31, 2016 and 2015, based on the certified rolls, as reported by the taxing authorities amounted to \$182,650,315 and \$174,100,115, respectively, which includes any penalty and interest assessed if applicable.

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

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 – PROPERTY TAX CONTINUED

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

	August 31, 2016			August 31, 2015		
	Current	Debt	Total	Current	Debt	Total
	Operations	Service		Operations	Service	
Authorized rate per \$100 valuation	0.50	0.50	1.00	0.50	0.50	1.00
Assessed rate per \$100 valuation	0.075631	0.026311	0.101942	0.077055	0.029835	0.106890

Tax collections for the year ended August 31, 2016 and 2015 were as follows:

	2016	2015
Current Taxes Collected	\$ 179,069,265	\$ 173,168,964
Delinquent Taxes Collected	(99,094)	1,989,360
Penalties and Interest Collected	1,587,072	1,481,775
Total	<u>\$ 180,557,243</u>	<u>\$ 176,640,099</u>

For the years ended August 31, 2016 and 2015 tax collections represent 98.04% and 99.47% of the tax levy, respectively. Taxes assessed are recorded in the System's financial statements net of the related allowance for uncollectable taxes, based upon the System's expected collection experience. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

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

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

NOTE 23 – 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 \$1,189,576 and \$506,709 to the System for scholarship awards during the years ended August 31, 2016 and August 31, 2015, respectively. The Foundation remitted \$905,000 and \$979,366 to the System to fund grant programs during the years ended August 31, 2016 and August 31, 2015, respectively.

During the years ended August 31, 2016 and August 31, 2015, 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, 2016 and August 31, 2015 to be approximately \$1,012,102 and \$904,652, respectively. As of August 31, 2016 and August 31, 2015, 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, 2016 and August 31, 2015.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 –SUBSEQUENT EVENTS

On September 21, 2016 the System issued \$50,345,000 in Combined Fee Revenue Refunding Bonds, Series 2016. These Refunding Bonds defeased the following: 1) \$11,645,000 of the Senior Lien Student Fee Revenue Bonds, Series 2008 with an outstanding balance of \$40,915,000 at August 31, 2016; and 2) \$45,160,000 of the PFC Lease Revenue Bonds, Series 2007 with an outstanding balance of \$45,160,000 at August 31, 2016.

On September 21, 2016 the System issued \$28,870,000 in Maintenance Tax Refunding Bonds, Series 2016. These Refunding Bonds defeased \$33,275,000 of the Maintenance Tax Notes, Series 2008 with an outstanding balance of \$38,365,000 at August 31, 2016.

On September 21, 2016 the System issued \$19,455,000 in Limited Tax Refunding Bonds, Series 2016. These Refunding Bonds defeased \$20,000,000 of the Limited Tax General Obligation Bonds, Series 2013 with an outstanding balance of \$389,565,000 at August 31, 2016.

On September 30, 2016 the System made early calls and paid-off the following bonds and notes: 1) \$2,330,000 of the Junior Lien Student Fee Revenue and Refunding Bonds, Series 2006; and 2) \$1,700,000 of the Maintenance Tax Notes, Series 2006.

On September 22, 2016 the Board of Trustees authorized the borrowing of \$7,056,096 from the Texas Comptroller of Public Accounts through its State Energy Conservation Office. The purpose of the loan is to finance energy efficiency projects. The System will enter into a revolving loan agreement at a fixed interest rate of 1% up to fifteen years.

REQUIRED SUPPLEMENTARY INFORMATION (RSI) SECTION  
(Unaudited)

Schedule of Houston Community College System Share of Net Pension Liability  
For the Year Ended August 31, 2016

Fiscal year ending August 31	2016	2015
TRS net position as percentage of total pension liability	78.43%	83.25%
Houston Community College System proportionate share of collective net pension liability (%)	0.221184300%	0.002524331%
Houston Community College System proportionate share of collective net pension liability (\$)	78,185,706	67,428,372
Portion of NECE's total proportionate share of NPL associated with Houston Community College System	<u>9,346,029</u>	<u>10,129,723</u>
Total	<u>87,531,735</u>	<u>77,558,095</u>
Houston Community College covered employee payroll amount	119,277,740	111,062,958
Ratio of : ER proportionate share of collective NPL/ER's covered employee payroll amounts	65.5%	60.7%

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

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



Schedule of Houston Community College System Contributions  
For the Year Ended August 31, 2016

Fiscal Year Ending August 31st	2016	2015
Legally Required Contributions:	\$ 5,697,761	\$ 7,441,218
Actual Contributions:	<u>5,697,761</u>	<u>7,441,218</u>
Contribution deficiency (excess)	-	-
Houston Community College System covered employee payroll amount	\$ 119,277,740	111,062,958
Ratio of Actual contributions/RE covered employee payroll amount	4.8%	6.7%

\* The amounts presented above are as of Houston Community College System most recent fiscal year-end

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

Houston Community College District

Notes to Required Supplementary Information  
For the Year Ended August 31, 2016

Changes of Assumptions

There were no changes of assumptions for the year ended August 31, 2016

SUPPLEMENTAL SCHEDULES

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF OPERATING REVENUES  
FOR THE YEAR ENDED AUGUST 31, 2016  
With Memorandum Totals for the Year Ended AUGUST 31, 2015

Schedule A

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	August 31, 2016 Total	August 31, 2015 Total
<b>Tuition:</b>						
<b>State Funded Courses:</b>						
In-District Resident Tuition	\$20,108,930	\$ -	\$ 20,108,930	\$ -	\$ 20,108,930	\$ 21,410,311
Out-of-District Resident Tuition	23,366,440	-	23,366,440	-	23,366,440	24,234,641
State Funded Continuing Education:	6,835,839	-	6,835,839	-	6,835,839	7,562,618
TPEG (Credit)	1,954,903	-	1,954,903	-	1,954,903	1,730,840
TPEG (Non-Credit)	345,453	-	345,453	-	345,453	399,839
Non-Resident Tuition	16,827,323	-	16,827,323	-	16,827,323	15,483,171
Non-State Funded Continuing Education	2,721,048	-	2,721,048	-	2,721,048	2,838,943
<b>Total Tuition</b>	<b>72,159,936</b>	<b>-</b>	<b>72,159,936</b>	<b>-</b>	<b>72,159,936</b>	<b>73,660,363</b>
<b>Fees:</b>						
Installment Plan Fees	1,070,785	-	1,070,785	-	1,070,785	997,845
Non-Instructional Contract Training Fees	-	-	-	-	-	453,718
General Fees	34,302,596	-	34,302,596	-	34,302,596	34,915,096
Laboratory Fees	4,504,783	-	4,504,783	-	4,504,783	4,531,903
Other Fees	11,028,158	-	11,028,158	-	11,028,158	11,252,840
Student Service Fees	2,476,499	327,184	2,803,683	1,951,152	4,754,835	4,615,100
<b>Total Fees</b>	<b>53,382,821</b>	<b>327,184</b>	<b>53,710,005</b>	<b>1,951,152</b>	<b>55,661,157</b>	<b>56,766,502</b>
<b>Scholarship Allowances and Discounts:</b>						
Remissions and Exemptions-State	(6,762,316)	-	(6,762,316)	-	(6,762,316)	(6,638,393)
Remissions and Exemptions-Local	(1,650,898)	-	(1,650,898)	(600)	(1,651,498)	(1,953,474)
Title IV Federal Grants	(31,237,906)	-	(31,237,906)	-	(31,237,906)	(37,517,706)
Other Federal Grants	(2,666,133)	-	(2,666,133)	-	(2,666,133)	(2,741,222)
TPEG Awards	(1,549,923)	-	(1,549,923)	-	(1,549,923)	(1,505,558)
Other State Grants	(2,534,272)	-	(2,534,272)	-	(2,534,272)	(3,871,174)
Other Local Grants	(1,793,145)	-	(1,793,145)	-	(1,793,145)	(1,120,108)
<b>Total Scholarship Allowances</b>	<b>(48,194,593)</b>	<b>-</b>	<b>(48,194,593)</b>	<b>(600)</b>	<b>(48,195,193)</b>	<b>(55,347,635)</b>
<b>Total Net Tuition and Fees</b>	<b>77,348,164</b>	<b>327,184</b>	<b>77,675,348</b>	<b>1,950,552</b>	<b>79,625,900</b>	<b>75,079,230</b>
<b>Other Operating Revenues:</b>						
Federal Grants and Contracts	-	13,844,635	13,844,635	-	13,844,635	13,782,110
State Grants and Contracts	-	6,378,317	6,378,317	-	6,378,317	8,772,358
Local Grants and Contracts	-	157,041	157,041	-	157,041	162,920
Non-Governmental Grants and Contracts	-	3,060,584	3,060,584	-	3,060,584	2,446,357
Sales and Services	208,875	64,187	273,062	379	273,441	177,222
<b>Total Other Operating Revenues</b>	<b>208,875</b>	<b>23,504,764</b>	<b>23,713,639</b>	<b>379</b>	<b>23,714,018</b>	<b>25,340,967</b>
<b>Auxiliary Enterprises:</b>						
Bookstore	-	-	-	1,915,983	1,915,983	2,623,595
Long-Term Parking	-	-	-	573,207	573,207	516,962
Qatar	-	-	-	-	-	4,120,662
Rental of Facilities	-	-	-	7,070,652	7,070,652	5,646,222
Restaurant	-	-	-	455,242	455,242	508,050
Vending and Other Commissions	-	-	-	126,000	126,000	129,500
<b>Total Auxiliary Enterprises</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,141,084</b>	<b>10,141,084</b>	<b>13,544,991</b>
<b>Total Operating Revenues</b>	<b>\$77,557,039</b>	<b>\$23,831,948</b>	<b>\$101,388,987</b>	<b>\$12,092,015</b>	<b>\$ 113,481,002</b>	<b>\$ 113,965,188</b>

See Independent Auditor's Report

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF OPERATING EXPENSES BY OBJECT  
FOR THE YEAR ENDED AUGUST 31, 2016  
With Memorandum Totals for the Year Ended AUGUST 31, 2015

Schedule B

	Operating Expenses			2016 Total	2015 Total	
	Salaries and Wages	Benefits				Other Expenses
		State	Local			
Unrestricted Educational Activities						
Instruction	\$99,370,142	\$ -	\$ 12,480,989	\$ 3,158,066	\$ 115,009,197	\$ 109,556,689
Public Service	840,815	-	105,607	721,689	1,668,111	1,551,086
Academic Support	19,469,645	-	2,040,954	8,322,489	29,833,088	28,421,040
Student Services	21,769,447	-	2,564,062	2,222,127	26,555,636	26,290,378
Institutional Support	39,461,136	-	5,531,519	23,452,630	68,445,285	60,347,406
Operation and Maintenance of Plant	1,807,247	-	226,992	25,362,078	27,396,317	28,820,028
Total Unrestricted Educational Activities	<u>182,718,432</u>		<u>22,950,123</u>	<u>63,239,079</u>	<u>268,907,634</u>	<u>254,986,627</u>
Restricted Educational Activities						
Instruction	231,143	7,565,101	24,020	1,030,784	8,851,048	8,826,442
Public Service	4,015,740		576,509	4,625,107	9,217,356	8,744,323
Academic Support	660,167	1,246,620	113,055	504,387	2,524,229	3,360,685
Student Services	2,236,372	1,558,292	43,882	482,989	4,321,535	5,158,039
Institutional Support	-	3,338,831	-	-	3,338,831	2,733,991
Scholarship and Fellowship	-	-	-	58,153,241	58,153,241	61,638,293
Total Restricted Educational Activities	<u>7,143,422</u>	<u>13,708,844</u>	<u>757,466</u>	<u>64,796,508</u>	<u>86,406,240</u>	<u>90,461,773</u>
Total Educational Activities	189,861,854	13,708,844	23,707,589	128,035,587	355,313,874	345,448,400
Auxiliary Enterprises	1,983,110	-	658,544	9,198,083	11,839,737	9,806,510
Auxiliary Enterprises - Qatar Expenses	-	-	-	-	-	4,047,123
Depreciation - Buildings	-	-	-	16,091,686	16,091,686	14,967,062
Depreciation - Equipment	-	-	-	6,157,662	6,157,662	6,008,752
Depreciation - Library Books	-	-	-	475,428	475,428	508,694
Total Operating Expenses	<u>\$ 191,844,964</u>	<u>\$ 13,708,844</u>	<u>\$ 24,366,133</u>	<u>\$ 159,958,446</u>	<u>\$ 389,878,387</u>	<u>\$ 380,786,541</u>
				(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, 2016  
With Memorandum Totals for the Year Ended AUGUST 31, 2015

Schedule C

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>Total 2016</u>	<u>Total 2015</u>
<b>NONOPERATING REVENUES:</b>					
State Appropriations:					
Educational and General State Support	\$ 70,162,218	\$ -	\$ -	\$ 70,162,218	\$ 69,148,935
State Group Insurance	-	10,596,777	-	10,596,777	9,984,372
State Retirement Matching	-	3,112,066	-	3,112,066	3,109,230
Other State Appropriations	6,559	-	-	6,559	6,958
Total State Appropriations	<u>70,168,777</u>	<u>13,708,843</u>	<u>-</u>	<u>83,877,620</u>	<u>82,249,495</u>
Maintenance Ad-Valorem Taxes	133,580,908	-	-	133,580,908	125,073,172
Debt Service Ad-Valorem Taxes	46,326,303	-	-	46,326,303	48,383,832
Gifts	-	2,025,562	-	2,025,562	1,260,854
Investment Income, Net	2,752,692	-	-	2,752,692	2,950,156
Title IV Grants	-	86,117,577	-	86,117,577	95,673,111
Nursing Shortage Reduction	-	412,665	-	412,665	478,272
Other Nonoperating Revenue	2,848,147	-	-	2,848,147	6,913,970
Total Nonoperating Revenues	<u>255,676,827</u>	<u>102,264,647</u>	<u>-</u>	<u>357,941,474</u>	<u>362,982,862</u>
<b>NONOPERATING EXPENSES:</b>					
Interest on Capital-Related Debt	(19,535,342)	-	-	(19,535,342)	(23,766,809)
Loss on Sale of Fixed Assets	(5,517,511)	-	-	(5,517,511)	-
Other Nonoperating Expenses	(6,448,717)	-	-	(6,448,717)	(5,431,725)
Total Nonoperating Expenses	<u>(31,501,570)</u>	<u>-</u>	<u>-</u>	<u>(31,501,570)</u>	<u>(29,198,534)</u>
<b>NET NONOPERATING REVENUES</b>	<u>\$ 224,175,257</u>	<u>\$ 102,264,647</u>	<u>\$ -</u>	<u>\$ 326,439,904</u>	<u>\$ 333,784,328</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, 2016  
 With Memorandum Totals for the Year Ended AUGUST 31, 2015

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	\$ 46,830,713	\$ -	\$ -	\$ -	\$ 46,830,713	\$ 46,830,713	\$ -
Auxiliary enterprises	7,889,208	-	-	-	7,889,208	7,889,208	-
Restricted	-	-	-	-	-	-	-
Loan	-	208,895	-	-	208,895	-	208,895
Endowment:	-	-	-	-	-	-	-
Plant:	-	-	-	-	-	-	-
Unexpended	27,361,868	-	-	-	27,361,868	27,361,868	-
Debt Services	-	13,826,706	-	-	13,826,706	-	13,826,706
Investment in Plant	-	-	-	318,343,549	318,343,549	-	318,343,549
Total Net Position August 31, 2016	82,081,789	14,035,601	-	318,343,549	414,460,939	82,081,789	332,379,150
					<b>Exhibit 1</b>		
Total Net Position August 31, 2015, as restated	60,356,912	13,290,548	-	290,770,960	364,418,420	73,167,339	291,251,081
					<b>Exhibit 1</b>		
Net Increase in Net Position	\$ 21,724,877	\$ 745,053	\$ -	\$ 27,572,589	\$ 50,042,519	\$ 8,914,450	\$ 41,128,069
					<b>Exhibit 2</b>		

See Independent Auditor's Report

STATISTICAL SECTION  
(Unaudited)

## HOUSTON COMMUNITY COLLEGE SYSTEM STATISTICAL SECTION NARRATIVE

### **Statistical Section**

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

### **Financial Trends**

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

### **Revenue Capacity**

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

### **Debt Capacity**

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

### **Economic & Demographic Information**

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

### **Operating information**

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

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

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,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net Investment in Capital Assets	\$ 318,344	\$ 290,771	\$ 244,073	\$ 230,706	\$ 234,825	\$ 207,977	\$ 197,013	\$ 197,253	\$ 190,084	\$ 173,412
Restricted - Expendable	14,035	13,290	14,804	1,216	488	488	449	449	449	449
Unrestricted	82,082	60,357	114,975	107,142	87,004	73,959	70,083	62,731	62,334	55,872
 Total Primary Government, Net Position	 \$ 414,461	 \$ 364,418	 \$ 373,852	 \$ 339,063	 \$ 322,317	 \$ 282,424	 \$ 267,545	 \$ 260,433	 \$ 252,867	 \$ 229,733
 Net Increase/(Decrease) in Net Position	 \$ 50,043	 \$ (9,434)	 \$ 34,789	 \$ 16,746	 \$ 39,893	 \$ 14,879	 \$ 7,112	 \$ 7,566	 \$ 23,134	 \$ 22,567

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

Table 2

	For the Year Ended August 31,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>OPERATING REVENUES:</b>										
Tuition and Fees, Net of Discounts	\$ 79,625,900	\$ 75,079,230	70,689,034	\$ 71,433,953	\$ 71,415,957	\$ 67,907,897	\$ 65,655,752	\$ 64,689,510	\$ 58,939,437	\$ 54,389,997
Federal Grants and Contracts	13,844,635	13,782,110	14,019,776	14,702,419	16,848,269	16,064,089	16,243,394	12,480,512	13,001,562	12,924,612
State Grants and Contracts	6,378,317	8,772,358	5,543,642	6,156,585	5,152,251	6,448,589	5,157,058	3,695,688	2,988,267	2,796,870
Local Grants and Contracts	157,041	162,920	116,899	81,407	95,226	275,085	79,055	77,955	81,761	77,116
Non-Governmental Grants and Contracts	3,060,584	2,446,357	2,441,076	2,413,531	2,497,892	1,283,150	1,286,822	854,759	467,151	605,832
Sales and Services of Educational Activities	273,441	177,222	189,043	193,328	329,382	369,530	315,835	261,861	203,207	208,228
Other Operating Revenues	-	-	-	-	-	-	-	-	-	527,125
Auxiliary Enterprises	10,141,084	13,544,991	16,420,059	16,092,899	16,096,494	14,535,914	10,493,233	8,709,724	7,937,176	7,351,627
<b>Total Operating Revenues</b>	<b>113,481,002</b>	<b>113,965,188</b>	<b>109,419,530</b>	<b>111,074,122</b>	<b>112,435,472</b>	<b>106,884,254</b>	<b>99,231,149</b>	<b>90,770,009</b>	<b>83,618,561</b>	<b>78,881,407</b>
<b>NONOPERATING REVENUES:</b>										
State Appropriations	83,877,620	82,249,495	81,675,719	82,105,228	81,839,826	84,838,315	84,665,409	81,677,836	80,863,825	77,302,202
Ad Valorem Taxes	179,907,211	173,457,004	143,389,744	129,256,277	123,638,019	115,820,065	119,273,809	107,746,487	97,214,316	88,882,876
Gifts	2,025,562	1,260,854	1,436,292	1,591,888	2,053,638	1,573,601	1,555,967	1,115,895	964,033	491,270
Investment Income	2,752,692	2,950,156	3,704,351	(140,747)	789,917	566,945	900,323	4,213,587	11,160,656	17,507,157
Disaster Relief Grants	-	-	-	-	-	-	1,415,592	1,525,611	-	-
Title IV (Pell)	86,117,577	95,673,111	94,092,798	94,423,841	102,023,662	96,171,936	75,639,561	41,239,311	31,591,860	30,325,297
Nursing Shortage Reduction	412,665	478,272	171,333	111,309	14,038	151,786	73,453	19,969	33,974	66,969
Other Non-operating Revenues	2,848,147	7,460,036	1,672,149	6,446,858	9,341,129	6,153,631	3,455,364	2,241,061	7,768,434	3,866,533
<b>Total Non-operating Revenues</b>	<b>357,941,474</b>	<b>363,528,929</b>	<b>326,142,386</b>	<b>313,794,654</b>	<b>319,700,229</b>	<b>305,276,279</b>	<b>286,979,477</b>	<b>239,779,757</b>	<b>229,597,098</b>	<b>218,442,304</b>
<b>TOTAL REVENUES</b>	<b>\$ 471,422,476</b>	<b>\$ 477,494,117</b>	<b>435,561,916</b>	<b>\$ 424,868,776</b>	<b>\$ 432,135,701</b>	<b>\$ 412,160,533</b>	<b>\$ 386,210,626</b>	<b>\$ 330,549,766</b>	<b>\$ 313,215,659</b>	<b>\$ 297,323,711</b>



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

Table 2

	(percentage of total)									
	For the Year Ended August 31,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>OPERATING REVENUES:</b>										
Tuition and Fees, Net of Discounts	16.89%	15.72%	16.23%	16.81%	16.53%	16.48%	17.00%	19.57%	18.82%	18.29%
Federal Grants and Contracts	2.94%	2.89%	3.22%	3.46%	3.90%	3.90%	4.21%	3.78%	4.15%	4.35%
State Grants and Contracts	1.35%	1.84%	1.27%	1.45%	1.19%	1.56%	1.34%	1.12%	0.95%	0.94%
Local Grants and Contracts	0.03%	0.03%	0.03%	0.02%	0.02%	0.07%	0.02%	0.02%	0.03%	0.03%
Non-Governmental Grants and Contracts	0.65%	0.51%	0.56%	0.57%	0.58%	0.31%	0.33%	0.26%	0.15%	0.20%
Sales and Services of Educational Activities	0.06%	0.04%	0.04%	0.05%	0.08%	0.09%	0.08%	0.08%	0.06%	0.07%
Other Operating Revenues	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.18%
Auxiliary Enterprises	2.15%	2.84%	3.77%	3.79%	3.72%	3.53%	2.72%	2.63%	2.53%	2.47%
Total Operating Revenues	24.07%	23.87%	25.12%	26.14%	26.02%	25.93%	25.69%	27.46%	26.70%	26.53%
<b>NONOPERATING REVENUES:</b>										
State Appropriations	17.79%	17.23%	18.75%	19.32%	18.94%	20.58%	21.92%	24.71%	25.82%	26.00%
Ad Valorem Taxes	38.16%	36.33%	32.92%	30.42%	28.61%	28.10%	30.88%	32.60%	31.04%	29.89%
Gifts	0.43%	0.26%	0.33%	0.37%	0.48%	0.38%	0.40%	0.34%	0.31%	0.17%
Investment Income	0.58%	0.62%	0.85%	-0.03%	0.18%	0.14%	0.23%	1.27%	3.56%	5.89%
Disaster Relief Grants	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.37%	0.46%	0.00%	0.00%
Title IV (Pell)	18.27%	20.04%	21.60%	22.22%	23.61%	23.33%	19.59%	12.48%	10.09%	10.20%
Nursing Shortage Reduction	0.09%	0.10%	0.04%	0.03%	0.00%	0.04%	0.02%	0.01%	0.01%	0.02%
Other Nonoperating Revenues	0.60%	1.56%	0.38%	1.52%	2.16%	1.49%	0.89%	0.68%	2.48%	1.30%
Total Nonoperating Revenues	75.93%	76.13%	74.88%	73.86%	73.98%	74.07%	74.31%	72.54%	73.30%	73.47%
<b>TOTAL REVENUES</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

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

Table 3

	For the Year Ended August 31,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>OPERATING EXPENSES:</b>										
Instruction	\$ 123,860,246	\$ 118,383,130	\$ 112,628,406	\$ 111,931,030	\$ 100,319,497	\$ 112,617,877	\$ 113,319,505	\$ 105,158,760	\$ 96,006,367	\$ 92,249,139
Public Service	10,885,467	10,295,409	10,628,104	11,638,013	11,868,925	11,766,675	11,477,787	9,988,399	9,868,651	11,362,415
Academic Support	32,357,317	31,781,726	26,699,201	25,060,153	22,771,173	19,616,391	23,449,473	20,632,551	19,645,603	17,972,637
Student Services	30,877,171	31,448,416	29,244,604	29,165,865	24,906,487	31,901,438	30,902,922	27,473,142	25,822,223	24,659,370
Institutional Support	71,784,115	63,081,396	62,673,369	56,398,020	58,952,631	55,747,071	53,302,151	47,880,656	44,359,869	43,163,084
Operation and Maintenance of Plant	27,396,317	28,820,028	35,885,631	31,438,811	27,969,778	28,350,817	35,937,690	32,628,588	26,917,292	26,782,535
Scholarships and Fellowships	58,153,241	61,638,293	58,733,940	57,092,409	61,504,372	65,346,087	49,920,320	24,796,647	18,201,589	16,474,485
Auxiliary Enterprises	11,839,737	13,853,632	17,233,929	18,760,757	15,736,795	14,607,330	9,740,078	8,718,772	6,698,807	6,726,829
Depreciation	22,724,776	21,484,507	19,743,511	19,492,034	18,848,802	17,067,466	14,832,747	11,098,086	10,096,713	10,524,141
<b>Total Operating Expenses</b>	<b>389,878,387</b>	<b>380,786,541</b>	<b>373,470,694</b>	<b>360,977,093</b>	<b>342,878,460</b>	<b>357,021,152</b>	<b>342,882,673</b>	<b>288,375,601</b>	<b>257,617,114</b>	<b>249,914,635</b>
<b>NON-OPERATING EXPENSES:</b>										
Interest on Capital Related Debt	19,535,342	24,312,876	16,346,638	36,827,644	28,498,392	29,424,886	25,379,834	25,375,863	20,640,888	21,187,768
Loss on Sale of Fixed Assets	5,517,511	-	-	-	-	-	-	-	-	-
Hurricane Ike Expense, Net	-	-	-	12,431	626,194	284,103	561,861	297,616	-	-
Other Non-Operating Expenses	6,448,717	5,431,725	10,955,750	10,305,162	20,240,555	10,550,397	10,274,777	8,934,397	7,768,434	3,682,262
<b>Total Non-Operating Expenses</b>	<b>31,501,570</b>	<b>29,744,601</b>	<b>27,302,388</b>	<b>47,145,237</b>	<b>49,365,141</b>	<b>40,259,386</b>	<b>36,216,472</b>	<b>34,607,876</b>	<b>28,409,322</b>	<b>24,870,030</b>
<b>Total Expenses</b>	<b>\$ 421,379,957</b>	<b>\$ 410,531,142</b>	<b>\$ 400,773,082</b>	<b>\$ 408,122,330</b>	<b>\$ 392,243,601</b>	<b>\$ 397,280,538</b>	<b>\$ 379,099,145</b>	<b>\$ 322,983,477</b>	<b>\$ 286,026,436</b>	<b>\$ 274,784,665</b>

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

Table 3

	(percentage of total)									
	For the Year Ended August 31,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>OPERATING EXPENSES:</b>										
Instruction	29.39%	28.84%	28.10%	27.43%	25.58%	28.35%	29.89%	32.56%	33.57%	33.57%
Public Service	2.58%	2.51%	2.65%	2.85%	3.03%	2.96%	3.03%	3.09%	3.45%	4.14%
Academic Support	7.68%	7.74%	6.66%	6.14%	5.81%	4.94%	6.19%	6.39%	6.87%	6.54%
Student Services	7.33%	7.66%	7.30%	7.15%	6.35%	8.03%	8.15%	8.51%	9.03%	8.97%
Institutional Support	17.04%	15.37%	15.64%	13.82%	15.03%	14.03%	14.06%	14.82%	15.51%	15.71%
Operation and Maintenance of Plant	6.50%	7.02%	8.95%	7.70%	7.13%	7.14%	9.48%	10.10%	9.41%	9.75%
Scholarships and Fellowships	13.80%	15.01%	14.66%	13.99%	15.68%	16.45%	13.17%	7.68%	6.36%	6.00%
Auxiliary Enterprises	2.81%	3.37%	4.30%	4.60%	4.01%	3.68%	2.57%	2.70%	2.34%	2.45%
Depreciation	5.39%	5.23%	4.93%	4.78%	4.81%	4.30%	3.91%	3.44%	3.53%	3.83%
<b>Total Operating Expenses</b>	<b>92.52%</b>	<b>92.75%</b>	<b>93.19%</b>	<b>88.45%</b>	<b>87.41%</b>	<b>89.87%</b>	<b>90.45%</b>	<b>89.28%</b>	<b>90.07%</b>	<b>90.95%</b>
<b>NON-OPERATING EXPENSES:</b>										
Interest on Capital Related Debt	4.64%	5.92%	4.08%	9.02%	7.27%	7.41%	6.69%	7.86%	7.22%	7.71%
Loss on Sale of Fixed Assets	1.31%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hurricane Ike Expense, Net	0.00%	0.00%	0.00%	0.00%	0.16%	0.07%	0.15%	0.09%	0.00%	0.00%
Other Non-Operating Expenses	1.53%	1.32%	2.73%	2.53%	5.16%	2.66%	2.71%	2.77%	2.72%	1.34%
<b>Total Non-Operating Expenses</b>	<b>7.48%</b>	<b>7.25%</b>	<b>6.81%</b>	<b>11.55%</b>	<b>12.59%</b>	<b>10.13%</b>	<b>9.55%</b>	<b>10.72%</b>	<b>9.93%</b>	<b>9.05%</b>
<b>Total Expenses</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

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

Table 4

<b>SEMESTER CREDIT HOUR (SCH)</b>										
<b>IN-DISTRICT</b>										
Academic Year	Semester	Tuition	General Fee	Technology Fee	Student Activity Services Fee	Recreation Fee	Cost for 12 SCH	Increase from Prior Year-Fall		
2015-2016	Fall	\$ 372	\$ 306	\$ 120.00	\$ 12	\$ 6	\$ 816.00	0.15%		
2014-2015	Fall	372	306	118.80	12	6	814.80	0.00%		
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%		

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. This table presents tuition and fees for 12 semester credit hours.

\* 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-DISTRICT									
Academic Year	Semester	Tuition	General Fee/Out-of-District General Fee	Technology Fee	Student Activity Services Fee	Recreation Fee	Cost for 12 SCH	Increase from Prior Year-Fall	
2015-2016	Fall	\$ 1,140	\$ 402	\$ 120.00	\$ 12	\$ 6	\$ 1,680.00	0.07%	
2014-2015	Fall	1,140	402	118.80	12	6	1,678.80	0.00%	
2013-2014	Fall	1,140	402	118.80	12	6	1,678.80	0.07%	
2012-2013	Fall	1,140	402	117.60	12	6	1,677.60	0.07%	
2011-2012	Fall	1,140	402	116.40	12	6	1,676.40	18.29%	
2010-2011*	Summer	1,080	402	115.20	12	6	1,615.20	n/a	
2010-2011	Fall	972	324	103.20	12	6	1,417.20	6.40%	
2009-2010	Fall	948	264	102.00	12	6	1,332.00	0.91%	
2008-2009*	Spring	948	264	96.00	12	6	1,326.00	n/a	
2008-2009	Fall	948	264	96.00	12	---	1,320.00	1.15%	
2007-2008	Fall	948	264	81.00	12	---	1,305.00	1.40%	
2006-2007	Fall	948	264	63.00	12	---	1,287.00	4.13%	

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. This table presents tuition and fees for 12 semester credit hours.

\* Changes to Rates in Semester other than Fall.



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

Table 4

<b>SEMESTER CREDIT HOUR (SCH)</b>									
<b>OUT OF STATE/INTERNATIONAL</b>									
Academic Year	Semester	Tuition	General Fee/Out-of-State General Fee	Technology Fee	Student Activity Services Fee	Recreation Fee	Cost for 12 SCH	Increase from Prior Year-Fall	
2015-2016	Fall	\$ 1,140	\$ 600	\$ 120.00	\$ 12	\$ 6	\$ 1,878.00	0.06%	
2014-2015	Fall	1,140	600	118.80	12	6	1,876.80	0.00%	
2013-2014	Fall	1,140	600	118.80	12	6	1,876.80	0.06%	
2012-2013	Fall	1,140	600	117.60	12	6	1,875.60	0.06%	
2011-2012	Fall	1,140	600	116.40	12	6	1,874.40	10.70%	
2010-2011*	Summer	1,080	600	115.20	12	6	1,813.20	n/a	
2010-2011	Fall	972	600	103.20	12	6	1,693.20	7.71%	
2009-2010	Fall	912	540	102.00	12	6	1,572.00	0.77%	
2008-2009	Spring	912	540	96.00	12	6	1,566.00	n/a	
2008-2009	Fall	912	540	96.00	12	---	1,560.00	0.97%	
2007-2008	Fall	912	540	81.00	12	---	1,545.00	1.18%	
2006-2007	Fall	912	540	63.00	12	---	1,527.00	3.46%	

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. This table presents tuition and fees for 12 semester credit hours.

\* Changes to Rates in Semester other than Fall.

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

Table 5

Fiscal Year	Assessed Valuation of Property	Less: Exemptions & Abatements	Taxable Assessed Value (TAV)	Ratio of Taxable Assessed Value to Assessed Value	Maintenance & Operations	Debt Service	Total Direct Rate (a)
2016	\$ 221,458,121,257	\$ 42,287,303,553	\$ 179,170,817,704	80.91%	0.075631	0.026311	0.101942
2015	198,955,482,183	36,077,649,997	162,877,832,186	81.87%	0.077055	0.029835	0.106890
2014	180,734,029,067	34,213,942,090	146,520,086,977	81.07%	0.077055	0.020118	0.097173
2013	145,875,030,461	12,890,703,534	132,984,326,927	91.16%	0.079673	0.017500	0.097173
2012	159,141,889,758	31,729,564,366	127,412,325,392	80.06%	0.083399	0.013823	0.097222
2011	157,165,651,239	31,190,173,147	125,975,478,092	80.15%	0.074901	0.017319	0.092220
2010	158,860,572,423	28,430,763,993	130,429,808,430	82.10%	0.077839	0.014381	0.092220
2009	141,650,283,263	24,628,568,950	117,021,714,313	82.61%	0.077504	0.014926	0.092430
2008	128,541,398,956	23,751,022,792	104,790,376,164	81.52%	0.077505	0.014926	0.092433
2007	114,880,333,614	23,035,765,722	91,844,567,892	79.95%	0.081333	0.013842	0.095175

Source: Local Appraisal Districts

Notes: Property is assessed at full market value.

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

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

Table 6

Fiscal Year	State Appropriation (Unrestricted)	FTSE*	State Appropriation per FTSE
2015-2016	\$ 70,168,777	48,826	\$ 1,437
2014-2015	69,155,893	50,596	1,367
2013-2014	69,202,364	49,448	1,400
2012-2013	70,014,003	49,824	1,405
2011-2012	70,232,038	52,032	1,350
2010-2011	65,957,104	53,418	1,235
2009-2010	65,791,457	50,445	1,304
2008-2009	63,627,432	43,835	1,452
2007-2008	63,627,433	39,602	1,607
2006-2007	61,312,488	38,641	1,587

Fiscal Year	State Appropriation (Unrestricted)	Academic Contract Hours	Voc/Tech Contract Hours	CEU Contract Hours	Total Funded Contract Hours	State Appropriation per Contact Hour
2015-2016	\$ 70,168,777	15,527,528	5,762,048	2,146,857	23,436,433	\$ 2.99
2014-2015	69,155,893	15,873,248	6,122,448	2,290,228	24,285,924	2.85
2013-2014	69,202,364	15,931,744	5,822,268	1,980,830	23,734,842	2.92
2012-2013	70,014,003	16,237,296	5,744,810	1,933,271	23,915,377	2.93
2011-2012	70,232,038	17,354,256	5,822,072	1,798,940	24,975,268	2.81
2010-2011	65,957,104	17,802,080	5,924,078	1,914,445	25,640,603	2.57
2009-2010	65,791,457	16,652,752	5,680,164	1,880,857	24,213,773	2.72
2008-2009	63,627,432	14,345,992	4,883,890	1,810,761	21,040,643	3.02
2007-2008	63,627,433	12,739,232	4,422,336	1,847,195	19,008,763	3.35
2006-2007	61,312,488	12,077,904	4,378,250	2,091,365	18,547,519	3.31

**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.

\* 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). HCC has high number of students who enroll in Continue Education courses. As a result, state funded CEU contact hour are included in this FTSE in order to provide a more accurate "State Appropriation per FTSE."

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

Table 7

Taxpayer	Industry	Taxable Assessed Value (TAV) by Tax Year									
		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Centerpoint Energy Inc	Utility	\$ 1,626,152,344	\$ 1,418,862,516	\$ 1,362,799,831	\$ 1,382,750,044	\$ 1,153,697,187	\$ 1,119,456,415	\$ 1,122,000,954	\$ 1,155,200,888	\$ 1,039,824,086	\$ 1,020,251,119
Crescent Real Estate	Real Estate	986,583,880	792,215,117	917,216,307	831,337,622	716,169,026	1,129,509,857	1,027,978,140	1,136,315,715	1,378,543,156	1,213,068,497
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
AT&T Mobility LLC	Utility	-	-	-	-	318,206,364	446,070,581	499,096,180	573,892,778	584,854,404	-
Tpg 2101 Citywest 1 & 2 Lp	Real Estate	-	-	-	-	-	497,060,529	469,096,180	520,865,513	576,224,151	-
Chevron Chemical Co	Oil & Gas	1,179,883,292	1,084,645,391	1,066,441,442	982,653,385	724,298,902	627,685,117	469,387,624	460,639,861	478,700,396	407,061,688
Anheuser Busch Inc	Brewery	-	-	-	-	357,792,263	366,424,086	404,399,350	421,420,837	451,539,258	461,994,178
Houston Refining	Oil & Gas	-	-	-	-	-	-	-	407,442,917	-	-
Valero Energy Corp	Oil & Gas	591,345,920	-	418,086,374	426,028,458	363,437,432	-	-	374,025,572	386,831,716	309,554,958
Teachers Insurance	Insurance	-	-	-	-	-	-	-	-	578,530,234	512,401,996
Shell Oil Co	Oil & Gas	-	492,784,337	-	-	334,605,330	331,875,591	-	-	-	-
Southwestern Bell	Utility	-	-	-	-	-	-	-	-	-	529,778,957
HG Galleria I II III LP	Real Estate	687,114,648	508,214,845	475,503,575	385,054,953	363,274,752	319,442,735	315,388,094	-	-	324,487,276
Triachahn Allen Ctr LP	Real Estate	-	-	-	-	-	-	-	-	-	-
Lyondell Chemical Co	Oil & Gas	-	-	-	-	-	-	-	-	-	-
HG Shopping Centers LP	Real Estate	-	-	-	-	-	-	-	-	-	-
Block 98 Partners L I D	Real Estate	-	-	-	-	-	-	-	-	-	-
Exxon Mobil Corp	Oil & Gas	-	-	-	-	317,979,103	305,020,231	305,281,064	-	-	-
Continental Airlines	Airline	-	-	-	-	-	-	-	-	-	-
1000 Louisiana LP	Real Estate	551,072,650	499,000,000	504,063,645	426,551,193	-	-	-	-	-	-
Texas Tower LTD	Real Estate	547,808,760	-	562,735,621	409,839,382	-	-	-	-	-	-
Four Oaks Place Operating	Real Estate	-	-	464,133,747	401,202,733	-	-	-	-	-	-
BG HOLDCO LLC	Real Estate	-	-	444,102,836	398,000,000	-	-	-	-	-	-
BUSYCON Properties LLC	Real Estate	-	505,450,307	536,989,676	453,269,103	-	-	-	-	-	-
Cousins Greenway & POC	Real Estate	1,188,888,678	1,115,262,076	-	-	-	-	-	-	-	-
One, Two & Three Allen	Real Estate	924,339,870	866,158,501	-	-	-	-	-	-	-	-
Southwestern Bell & ATT Mobility	Utility	553,335,269	476,957,952	-	-	-	-	-	-	-	-
<b>Totals</b>		<b>\$ 8,836,525,311</b>	<b>\$ 7,759,551,042</b>	<b>\$ 6,752,073,054</b>	<b>\$ 6,096,686,873</b>	<b>\$ 5,813,209,636</b>	<b>\$ 6,110,183,933</b>	<b>\$ 6,100,339,034</b>	<b>\$ 6,379,075,956</b>	<b>\$ 7,177,533,669</b>	<b>\$ 6,358,677,844</b>
<b>Total Taxable Assessed Value</b>		<b>\$ 179,170,817,704</b>	<b>\$ 162,877,832,186</b>	<b>\$ 146,520,086,977</b>	<b>\$ 132,984,326,927</b>	<b>\$ 127,412,325,392</b>	<b>\$ 125,975,478,092</b>	<b>\$ 130,429,808,430</b>	<b>\$ 117,021,714,313</b>	<b>\$ 104,790,367,164</b>	<b>\$ 91,844,567,892</b>

Source: Local County Appraisal District

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

Table 7

Taxpayer	Industry	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
		% of Taxable Assessed Value (TAV) by Tax Year									
Centerpoint Energy Inc	Utility	0.91%	0.87%	0.93%	1.04%	0.91%	0.89%	0.86%	0.99%	0.99%	1.11%
Crescent Real Estate	Real Estate	0.55%	0.49%	0.63%	0.63%	0.56%	0.90%	0.79%	0.97%	1.32%	1.32%
Cullen Allen Holdings Lp	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.48%	0.58%	0.71%	0.65%
Hines Interests Ltd Ptnrsp	Real Estate	0.00%	0.00%	0.00%	0.00%	0.91%	0.77%	0.66%	0.56%	0.92%	1.07%
AT&T Mobility LLC	Utility	0.00%	0.00%	0.00%	0.00%	0.25%	0.35%	0.38%	0.49%	0.56%	0.00%
Tpg 2101 Citywest 1 & 2 Lp	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.39%	0.36%	0.45%	0.55%	0.00%
Chevron Chemical Co	Oil & Gas	0.66%	0.67%	0.73%	0.74%	0.57%	0.50%	0.36%	0.39%	0.46%	0.44%
Anheuser Busch Inc	Brewery	0.00%	0.00%	0.00%	0.00%	0.28%	0.29%	0.31%	0.36%	0.43%	0.50%
Houston Refining	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.35%	0.00%	0.00%
Valero Energy Corp	Oil & Gas	0.33%	0.00%	0.29%	0.32%	0.29%	0.00%	0.00%	0.32%	0.37%	0.34%
Teachers Insurance	Insurance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.55%	0.56%
Shell Oil Co	Oil & Gas	0.00%	0.30%	0.00%	0.00%	0.26%	0.26%	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%	0.00%	0.00%	0.58%
HG Galleria I II III LP	Real Estate	0.38%	0.31%	0.32%	0.29%	0.29%	0.25%	0.24%	0.00%	0.00%	0.35%
Triachahn Allen Ctr LP	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Lyondell Chemical Co	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
HG Shopping Centers LP	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Block 98 Partners Lt D	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Exxon Mobil Corp	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.25%	0.24%	0.23%	0.00%	0.00%	0.00%
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	0.31%	0.31%	0.34%	0.32%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Texas Tower LTD	Real Estate	0.31%	0.00%	0.38%	0.31%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Four Oaks Place Operating	Real Estate	0.00%	0.00%	0.32%	0.30%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
BG HOLDCO LLC	Real Estate	0.00%	0.00%	0.30%	0.30%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
BUSYCON Properties LLC	Real Estate	0.00%	0.31%	0.37%	0.34%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cousins Greenway & POC	Real Estate	0.66%	0.68%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
One, Two & Three Allen	Real Estate	0.52%	0.53%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Center CO LLC											
Southwestern Bcll & ATT Mobility	Utility	0.31%	0.29%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Totals</b>		<b>4.93%</b>	<b>4.76%</b>	<b>4.61%</b>	<b>4.58%</b>	<b>4.56%</b>	<b>4.85%</b>	<b>4.68%</b>	<b>5.45%</b>	<b>6.85%</b>	<b>6.92%</b>

Source: Local County Appraisal District



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

Table 8

Fiscal Year	Tax Rate Per \$100	Tax Base (Assessed Value)	Total Tax Levy	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years *	Total Collections to Date	
				Actual Collections per AFR	% of Levy		Amount	% of Levy
2015-2016	0.101942	\$ 179,170,817,704	\$ 182,650,315	\$ 179,069,265	98.04%	\$ 1,487,978	\$ 180,557,243	98.85%
2014-2015	0.106890	162,877,832,186	174,100,115	173,168,964	99.47%	3,471,135	176,640,099	101.46%
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%

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

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

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

Table 9

	For the Year Ended August 31									
	2016	2015	2014	2013	2012**	2011	2010	2009*	2008*	2007*
General Obligation Bonds	\$ 540,213,663	\$ 552,429,370	\$ 568,407,151	\$ 578,139,157	126,509,613	122,965,813	\$ 128,335,993	\$ 133,079,110	\$ 137,982,325	\$ 142,755,540
Notes	151,938,465	160,781,387	168,926,738	177,016,887	184,862,037	169,764,659	129,970,994	65,596,500	67,968,928	11,595,000
Less: Funds Restricted for Debt Service	-	-	-	-	-	-	-	-	-	-
<b>Net General Bonded Debt</b>	<b>\$ 692,152,128</b>	<b>713,210,757</b>	<b>737,333,889</b>	<b>755,156,045</b>	<b>311,371,650</b>	<b>292,730,472</b>	<b>258,306,987</b>	<b>198,675,610</b>	<b>205,951,253</b>	<b>154,350,540</b>
Per Capita	\$ 294.53	\$ 293.98	\$ 319.02	\$ 333.59	\$ 139.69	\$ 134.63	\$ 118.77	\$ 92.82	\$ 95.80	\$ 72.86
Per FTSE	\$ 12,929.48	\$ 13,067.73	\$ 13,732.91	\$ 13,921.98	\$ 5,511.88	\$ 5,104.01	\$ 4,723.11	\$ 4,153.09	\$ 4,711.77	\$ 3,593.56
As a Percentage of Taxable Assessed Value	0.39%	0.44%	0.50%	0.57%	0.24%	0.23%	0.20%	0.17%	0.20%	0.17%
Revenue Bonds	\$ 261,350,284	\$ 288,802,667	\$ 306,455,246	\$ 323,322,694	342,071,187	341,086,330	\$ 356,162,958	\$ 338,468,001	\$ 352,607,948	\$ 304,517,738
Notes	673,299	1,346,598	-	-	-	691,584	1,383,167	2,074,750	-	631,285
Capital Lease Obligations	-	-	-	-	-	1,304,824	3,914,472	6,524,120	-	34,395,970
Net Pension Liability	78,185,706	67,428,372	82,796,509	-	-	-	-	-	-	-
<b>Total Outstanding Debt</b>	<b>\$ 1,032,361,417</b>	<b>1,070,788,394</b>	<b>1,126,585,643</b>	<b>1,078,478,739</b>	<b>653,442,837</b>	<b>635,813,210</b>	<b>619,767,584</b>	<b>545,742,481</b>	<b>558,559,201</b>	<b>493,895,533</b>
Per Capita	\$ 439	\$ 441	\$ 487	\$ 476	\$ 293	\$ 292	\$ 285	\$ 255	\$ 260	\$ 233
Per FTSE	\$ 19,285	\$ 19,619	\$ 20,983	\$ 19,883	\$ 11,567	\$ 11,086	\$ 11,332	\$ 11,408	\$ 12,779	\$ 11,499
As a Percentage of Taxable Assessed Value	0.58%	0.66%	0.77%	0.81%	0.51%	0.50%	0.48%	0.47%	0.53%	0.54%

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

(FTSE includes both fundable & non-fundable contact hours) Source: HCCOIR\_DataMart (per FTSE).

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

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

Table 10

	For the Year Ended August 31				
	2016	2015	2014	2013	2012
TAXABLE ASSESSED VALUE	\$ 179,170,817,704	\$ 162,877,832,166	\$ 147,003,328,891	\$ 132,984,326,927	\$ 127,412,325,392
GENERAL OBLIGATION BONDS:					
Statutory Tax Levy Limit for Debt Service	895,854,089	814,389,161	735,016,644	664,921,635	637,061,627
Less: Funds Restricted for Repayment of General Obligation Bonds	-	-	-	-	-
Total Net General Obligation Debt	895,854,089	814,389,161	735,016,644	664,921,635	637,061,627
Current Year Debt Service Requirements	32,100,119	31,529,519	28,852,217	22,600,842	18,904,514
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 863,753,970	\$ 782,859,642	\$ 706,164,427	\$ 642,320,793	\$ 618,157,113
Net Current Requirements as a % of Statutory Limit	3.58%	3.87%	3.93%	3.40%	2.97%
	For the Year Ended August 31				
	2011	2010	2009	2008	2007
TAXABLE ASSESSED VALUE	\$ 125,975,478,092	\$ 130,429,808,430	\$ 117,021,714,313	\$ 104,790,367,164	\$ 91,844,567,892
GENERAL OBLIGATION BONDS:					
Statutory Tax Levy Limit for Debt Service	629,877,207	652,149,042	585,108,572	523,951,836	459,222,839
Less: Funds Restricted for Repayment of General Obligation Bonds	-	-	-	-	-
Total Net General Obligation Debt	629,877,207	652,149,042	585,108,572	523,951,836	459,222,839
Current Year Debt Service Requirements	20,616,717	16,768,273	11,034,759	11,059,125	11,069,990
Excess of Statutory Limit for Debt Service over Current Requirements	\$ 609,260,490	\$ 635,380,769	\$ 574,073,813	\$ 512,892,711	\$ 448,152,849
Net Current Requirements as a % of Statutory Limit	3.27%	2.57%	1.89%	2.11%	2.41%

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

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

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

Fiscal Year Ended August 31	Debt Service Requirements			
	Principal	Interest	Total	Coverage Ratio
2016	\$ 15,640,000	\$ 8,560,997	\$ 24,200,997	3.47
2015	12,545,000	8,421,828	20,966,828	4.67
2014	11,320,000	9,658,049	20,978,049	4.49
2013	13,435,000	10,254,199	23,689,199	4.01
2012	12,715,000	10,579,416	23,294,416	4.22
2011	11,335,000	10,712,486	22,047,486	4.07
2010	10,770,000	10,325,724	21,095,724	3.86
2009	10,430,000	10,408,632	20,838,632	3.55
2008	7,520,000	8,402,868	15,922,868	4.29
2007	7,015,000	6,608,404	13,623,404	4.63

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

Table 12

Calendar Year	Service Area Population	Service Area Personal Income	Service Area Personal Income Per Capita	Service Area Unemployment Rate
2015	2,426,057	\$ 75,280,548,710	31,030	3.4%
2014	2,308,004	68,275,374,328	29,582	3.7%
2013	2,263,741	62,320,789,730	27,530	5.4%
2012	2,228,995	64,750,075,755	29,049	4.8%
2011	2,174,361	61,960,591,056	28,496	5.1%
2010	2,174,919	60,334,427,979	27,741	5.1%
2009	2,140,484	56,172,721,612	26,243	5.1%
2008	2,149,766	51,992,090,710	24,185	5.8%
2007	2,118,315	52,815,947,895	24,933	6.3%
2006	2,091,041	51,383,150,493	24,573	4.7%

**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., Jan. 2016 (with 2015 AGS for Business/Occupation info.), Jan. 2016.

HOUSTON COMMUNITY COLLEGE SYSTEM  
 PRINCIPAL EMPLOYERS  
 Fiscal Years 2013-2016  
 (Unaudited)

Table 13

Houston-Sugar Land-Baytown MSA (Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty Montgomery, San Jacinto, Waller)	June 2016	July 2015	June 2014	June 2013
	<b>Number of Employees</b>			
Trade, Transportation, & Utilities	615,300	611,900	594,900	564,300
Professional, & Business Services	458,600	473,700	466,800	429,700
Government	387,800	365,500	373,900	364,500
Education & Health Services	383,400	366,800	347,400	335,900
Mining/Logging & Construction	302,600	317,400	312,000	298,100
Manufacturing	231,500	245,300	255,300	252,800
Leisure & Hospitality	327,800	305,800	294,100	277,500
Financial Activities	154,500	152,100	148,100	143,200
Other Services	109,200	108,600	105,500	100,300
Information	31,200	32,900	33,300	32,700
<b>Total</b>	<b><u>3,001,900</u></b>	<b><u>2,980,000</u></b>	<b><u>2,931,300</u></b>	<b><u>2,799,000</u></b>

	<b>Percent of Employees</b>			
Trade, Transportation, & Utilities	20.50%	20.53%	20.29%	20.16%
Professional, & Business Services	15.28%	15.90%	15.92%	15.35%
Government	12.92%	12.27%	12.76%	13.02%
Education & Health Services	12.77%	12.31%	11.85%	12.00%
Natural Resources, Mining & Construction	10.08%	10.65%	10.64%	10.65%
Manufacturing	7.71%	8.23%	8.71%	9.03%
Leisure & Hospitality	10.92%	10.26%	10.03%	9.91%
Financial Activities	5.15%	5.10%	5.05%	5.12%
Other Services	3.64%	3.64%	3.60%	3.58%
Information	1.04%	1.10%	1.14%	1.17%
<b>Total</b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>

Source: [http://www.bls.gov/ro6/fax/houston\\_ces.htm](http://www.bls.gov/ro6/fax/houston_ces.htm)

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



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

Table 14

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Faculty</b>										
Full-Time	818	759	759	789	809	910	848	829	821	810
Part-Time	1,717	1,687	1,742	1,715	2,781	2,921	2,345	2,049	2,499	2,513
<b>Total</b>	<b>2,535</b>	<b>2,446</b>	<b>2,501</b>	<b>2,504</b>	<b>3,590</b>	<b>3,831</b>	<b>3,193</b>	<b>2,878</b>	<b>3,320</b>	<b>3,323</b>
<b>Percent</b>										
Full-Time	32.3%	31.0%	30.3%	31.5%	22.5%	23.8%	26.6%	28.8%	24.7%	24.4%
Part-Time	67.7%	69.0%	69.7%	68.5%	77.5%	76.2%	73.4%	71.2%	75.3%	75.6%
<b>Staff and Administrators</b>										
Full-Time	1,465	1,385	1,323	1,350	1,327	1,272	1,185	1,102	1,079	1,080
Part-Time	1,432	1,170	1,413	1,443	1,088	1,169	1,323	1,259	1,504	1,408
<b>Total</b>	<b>2,897</b>	<b>2,555</b>	<b>2,736</b>	<b>2,793</b>	<b>2,415</b>	<b>2,441</b>	<b>2,508</b>	<b>2,361</b>	<b>2,583</b>	<b>2,488</b>
<b>Percent</b>										
Full-Time	50.6%	54.2%	48.4%	48.3%	54.9%	52.1%	47.2%	46.7%	41.8%	43.4%
Part-Time	49.4%	45.8%	51.6%	51.7%	45.1%	47.9%	52.8%	53.3%	58.2%	56.6%
<b>Students per Full-time*</b>										
Faculty	65.4	72.5	72.0	71.0	71.2	62.2	57.1	53.6	53.0	55.3
Staff Member	36.5	39.7	41.3	41.5	43.4	44.5	40.9	40.3	40.3	41.5
<b>Average Annual 9/12 Month</b>										
Faculty Salary**	\$ 70,548	\$ 65,038	\$ 64,962	\$ 63,366	\$ 63,473	\$ 62,533	\$ 62,833	\$ 60,378	\$ 56,047	\$ 54,766

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

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

Source: IPEDS Human Resources Survey.

HOUSTON COMMUNITY COLLEGE SYSTEM  
Annual Student Enrollment Trends by Residency Code  
Semester Credit Hour (SCH)  
Fiscal Years 2012 through 2016 (End of Term)  
(Unaudited)

Table 15

	FY 2015-16	FY 2014-15	FY 2013-14	FY 2012-13	FY 2011-12
In-District	53,646	56,070	56,732	57,745	59,567
Out-of-District	21,006	21,839	21,468	21,263	22,674
Out-of-State	10,653	10,093	9,259	9,139	10,104
<b>Unduplicated Enrollment</b>	<b>85,305</b>	<b>88,002</b>	<b>87,459</b>	<b>88,147</b>	<b>92,345</b>

ANNUAL STUDENT ENROLLMENT TRENDS BY CAREER TYPE  
Fiscal Years 2012 Through 2016 (End of Term)

	FY 2015-16	FY 2014-15	FY 2013-14	FY2012-13	FY2011-12
Semester Credit Hour (SCH)	85,305	88,002	87,459	88,147	92,345
Workforce Continue Education Unit (CEU)	16,753	18,170	16,344	17,705	16,971
Non Funded Continue Education	2,344	2,214	4,708	1,116	1,265
Adult Literacy / High School	11,681	9,167	7,992	9,749	10,062
<b>Unduplicated Enrollment *</b>	<b>114,288</b>	<b>115,575</b>	<b>113,688</b>	<b>115,534</b>	<b>119,185</b>

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, FY12 - FY16.

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

Table 16

Student Classification*	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Freshman	26,282	49.15%	27,504	49.97%	28,599	52.36%	29,955	53.48%	32,304	56.07%	32,660	57.71%	28,401	58.23%	25,883	58.78%
Sophomore	14,734	27.56%	14,681	26.67%	14,414	26.39%	14,380	25.67%	14,529	25.22%	13,447	23.76%	10,695	22.24%	9,883	20.14%
Unclassified	5,221	9.76%	5,213	9.47%	4,904	8.98%	4,677	8.35%	4,437	7.70%	3,390	5.99%	2,374	4.59%	2,042	4.31%
Assoc. Degree	21	0.04%	30	0.05%	37	0.07%	53	0.09%	64	0.11%	120	0.21%	165	0.40%	177	0.39%
BS & Above	117	0.22%	118	0.21%	152	0.28%	171	0.31%	279	0.48%	361	0.64%	514	1.45%	644	1.38%
Continuing Ed. Only	7,093	13.27%	7,495	13.62%	6,515	11.93%	6,778	12.10%	6,002	10.42%	6,614	11.69%	6,256	13.09%	5,817	15.01%
<b>Total</b>	<b>53,468</b>	<b>100.00%</b>	<b>55,041</b>	<b>100.00%</b>	<b>54,621</b>	<b>100.00%</b>	<b>56,014</b>	<b>100.00%</b>	<b>57,615</b>	<b>100.00%</b>	<b>56,592</b>	<b>100.00%</b>	<b>48,405</b>	<b>100.00%</b>	<b>44,446</b>	<b>100.00%</b>
Semester Hour Load**	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than 3	548	1.02%	650	1.18%	652	1.19%	660	1.18%	835	1.45%	748	1.32%	624	1.38%	613	0.71%
3-5 semester hrs	12,312	23.03%	12,503	22.72%	12,363	22.63%	13,116	23.42%	13,153	22.83%	13,516	23.88%	10,755	23.01%	10,229	23.45%
6-8 Semester hrs	13,712	25.65%	14,009	25.45%	13,915	25.48%	13,433	23.98%	14,622	25.38%	13,781	24.35%	11,575	23.70%	10,532	23.69%
9-11 semester hrs	9,694	18.13%	9,791	17.79%	9,717	17.79%	9,999	17.85%	10,856	18.84%	10,359	18.30%	8,750	17.07%	7,589	16.00%
12-14 semester hrs	8,787	16.43%	9,103	16.54%	9,933	18.19%	10,438	18.63%	10,645	18.48%	9,958	17.60%	8,950	18.40%	8,176	17.92%
15-17 semester hrs	1,205	2.25%	1,376	2.50%	1,381	2.53%	1,470	2.62%	1,364	2.37%	1,443	2.55%	1,341	2.97%	1,318	2.91%
18 & over	117	0.22%	114	0.21%	145	0.27%	120	0.21%	138	0.24%	173	0.31%	154	0.39%	172	0.31%
Continuing Ed. Only	7,093	13.27%	7,495	13.62%	6,515	11.93%	6,778	12.10%	6,002	10.42%	6,614	11.69%	6,256	13.09%	5,817	15.01%
<b>Total</b>	<b>53,468</b>	<b>100.00%</b>	<b>55,041</b>	<b>100.00%</b>	<b>54,621</b>	<b>100.00%</b>	<b>56,014</b>	<b>100.00%</b>	<b>57,615</b>	<b>100.00%</b>	<b>56,592</b>	<b>100.00%</b>	<b>48,405</b>	<b>100.00%</b>	<b>44,446</b>	<b>100.00%</b>
Average course load	7.6 SCH		7.7 SCH		7.7 SCH		7.8 SCH		7.8 SCH		7.8 SCH		7.9 SCH		7.8 SCH	
Tuition Status***	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Texas Resident (in-District)	29,791	55.72%	31,296	56.86%	31,806	58.23%	32,735	58.44%	32,896	57.10%	31,267	55.25%	26,003	49.86%	22,159	50.18%
Texas Resident (out-of-District)	10,541	19.71%	10,603	19.26%	10,592	19.39%	10,821	19.32%	12,056	20.93%	12,298	21.73%	10,446	25.32%	11,254	24.67%
Non-Resident Tuition	5,761	10.77%	5,234	9.51%	5,124	9.38%	5,302	9.47%	6,332	10.99%	6,170	10.90%	5,528	11.39%	5,061	9.81%
Tuition Waiver	282	0.53%	413	0.75%	584	1.07%	378	0.67%	329	0.57%	243	0.43%	172	0.35%	155	0.33%
Other	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Not Applicable (Cont. Ed.)	7,093	13.27%	7,495	13.62%	6,515	11.93%	6,778	12.10%	6,002	10.42%	6,614	11.69%	6,256	13.09%	5,817	15.01%
<b>Total</b>	<b>53,468</b>	<b>100.00%</b>	<b>55,041</b>	<b>100.00%</b>	<b>54,621</b>	<b>100.00%</b>	<b>56,014</b>	<b>100.00%</b>	<b>57,615</b>	<b>100.00%</b>	<b>56,592</b>	<b>100.00%</b>	<b>48,405</b>	<b>100.00%</b>	<b>44,446</b>	<b>100.00%</b>

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.

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

Table 17

Gender	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Female	29,248	54.70%	30,007	54.52%	29,652	54.29%	30,881	55.13%	31,985	55.52%	30,865	54.54%	26,452	54.65%	24,173	54.39%
Male	24,220	45.30%	25,034	45.48%	24,969	45.71%	25,133	44.87%	25,630	44.48%	25,727	45.46%	21,953	45.35%	20,273	45.61%
<b>Total</b>	<b>53,468</b>	<b>100.00%</b>	<b>55,041</b>	<b>100.00%</b>	<b>54,621</b>	<b>100.00%</b>	<b>56,014</b>	<b>100.00%</b>	<b>57,615</b>	<b>100.00%</b>	<b>56,592</b>	<b>100.00%</b>	<b>48,405</b>	<b>100.00%</b>	<b>44,446</b>	<b>100.00%</b>

Ethnic Origin	Fall 2015*		Fall 2014*		Fall 2013*		Fall 2012*		Fall 2011*		Fall 2010*		Fall 2009		Fall 2008	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
White	8,781	16.42%	9,302	16.90%	9,564	17.51%	10,242	18.28%	10,912	18.94%	11,393	20.13%	9,506	19.40%	8,623	21.40%
African American	14,695	27.48%	16,079	29.21%	15,631	28.62%	16,085	28.72%	17,346	30.11%	15,685	27.72%	11,558	22.85%	10,156	22.85%
Hispanic	18,336	34.29%	18,368	33.37%	18,346	33.59%	18,266	32.61%	17,812	30.92%	17,721	31.31%	14,160	29.83%	13,257	28.45%
Asian	5,341	9.99%	5,354	9.73%	5,542	10.15%	5,641	10.07%	6,107	10.60%	5,881	10.39%	4,832	10.52%	4,676	10.85%
Native American	104	0.19%	118	0.21%	118	0.22%	110	0.20%	131	0.23%	138	0.24%	121	0.23%	101	0.21%
Foreign	4,655	8.71%	4,040	7.34%	3,830	7.01%	3,884	6.93%	4,086	7.09%	4,270	7.55%	3,875	8.22%	3,654	7.34%
Unknown	1,556	2.91%	1,780	3.23%	1,590	2.91%	1,786	3.19%	1,221	2.12%	1,504	2.66%	4,353	8.95%	3,979	8.90%
<b>Total</b>	<b>53,468</b>	<b>100.00%</b>	<b>55,041</b>	<b>100.00%</b>	<b>54,621</b>	<b>100.00%</b>	<b>56,014</b>	<b>100.00%</b>	<b>57,615</b>	<b>100.00%</b>	<b>56,592</b>	<b>100.00%</b>	<b>48,405</b>	<b>100.00%</b>	<b>44,446</b>	<b>100.00%</b>

Age	Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Under 18	4,283	8.01%	4,031	7.32%	3,962	7.25%	4,639	8.28%	2,908	5.05%	3,046	5.38%	1,886	4.00%	1,778	6.50%
18 -21	14,982	28.02%	15,074	27.39%	16,041	29.37%	16,027	28.61%	17,222	29.89%	17,205	30.40%	15,275	31.93%	14,191	30.26%
22 - 24	8,562	16.01%	8,753	15.90%	8,849	16.20%	8,962	16.00%	9,760	16.94%	9,328	16.48%	8,303	17.43%	7,745	16.56%
25 - 35	15,997	29.92%	16,903	30.71%	15,741	28.82%	15,842	28.28%	17,194	29.84%	16,569	29.28%	14,186	28.49%	12,663	27.91%
36 - 50	7,154	13.38%	7,688	13.97%	7,477	13.69%	7,862	14.04%	8,055	13.98%	7,957	14.06%	6,749	13.99%	6,219	14.25%
51 & over	2,482	4.64%	2,589	4.70%	2,531	4.63%	2,664	4.76%	2,464	4.28%	2,468	4.36%	1,967	4.01%	1,783	4.24%
Unknown	8	0.01%	3	0.01%	20	0.04%	18	0.03%	12	0.02%	19	0.03%	39	0.15%	67	0.28%
<b>Total</b>	<b>53,468</b>	<b>100.00%</b>	<b>55,041</b>	<b>100.00%</b>	<b>54,621</b>	<b>100.00%</b>	<b>56,014</b>	<b>100.00%</b>	<b>57,615</b>	<b>100.00%</b>	<b>56,592</b>	<b>100.00%</b>	<b>48,405</b>	<b>100.00%</b>	<b>44,446</b>	<b>100.00%</b>
Average Age	27.4 **		27.7 **		27.4 **		27.4 **		27.5 **		27.4		27.3		27.2	

\*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.

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

Table 18

Funded Contact Hours				
Fiscal Year	Academic	Voc Tech	Total	CEU
2015-2016	15,527,528	5,762,048	21,289,576	2,146,857
2014-2015	15,873,248	6,122,448	21,995,696	2,290,228
2013-2014	15,931,744	5,822,268	21,754,012	1,980,830
2012-2013	16,237,296	5,744,810	21,982,106	1,933,271
2011-2012	17,354,256	5,822,072	23,176,328	1,798,940
2010-2011	17,802,080	5,924,078	23,726,158	1,914,445
2009-2010	16,652,752	5,680,164	22,332,916	1,880,857
2008-2009	14,345,992	4,883,890	19,229,882	1,810,761
2007-2008	12,739,232	4,422,336	17,161,568	1,847,195
2006-2007	12,077,904	4,378,250	16,456,154	2,091,365

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 year shown.

Source: Certified CBM004 & CBM00C.



HOUSTON COMMUNITY COLLEGE SYSTEM  
TRANSFERS TO SENIOR INSTITUTIONS  
2014-2015 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 Transfer Students	% of all Transfer Students
1 Angelo State University	4	1		5	0.04%
2 Baylor College of Medicine	5			5	0.04%
3 Lamar University	154	8	1	163	1.37%
4 Midwestern State University	13	4		17	0.14%
5 Prairie View A&M University	362	23		385	3.23%
6 Sam Houston State University	371	9		380	3.18%
7 Stephen F. Austin State University	166	4		170	1.42%
8 Sul Ross State University	2	1		3	0.03%
9 Sul Ross State University - Rio Grande College	2			2	0.02%
10 Tarleton State University	16			16	0.13%
11 Texas A&M International University	4			4	0.03%
12 Texas A&M University	1,021	15	1	1,037	8.69%
13 Texas A&M University - Central Texas	4			4	0.03%
14 Texas A&M University - Commerce	11	2		13	0.11%
15 Texas A&M University - Corpus Christi	70	1		71	0.59%
16 Texas A&M University - Kingsville	32			32	0.27%
17 Texas A&M University - San Antonio	3			3	0.03%
18 Texas A&M University - Texarkana	1			1	0.01%
19 Texas A&M University at Galveston	30	3		33	0.28%
20 Texas A&M University System Health Science Center	17			17	0.14%
21 Texas Southern University	619	47	1	667	5.59%
22 Texas State University	350	7		357	2.99%
23 Texas Tech University	380	5		385	3.23%
24 Texas Tech University Health Sciences Center	19	2		21	0.18%
25 Texas Tech University Health Sciences Center - El Paso	2			2	0.02%
26 Texas Woman's University	132	5		137	1.15%
27 The University of Texas - Rio Grande Valley	13	1		14	0.12%
28 The University of Texas at Arlington	140	13		153	1.28%
29 The University of Texas at Austin	1,111	8	1	1,120	9.39%
30 The University of Texas at Dallas	80	1		81	0.68%
31 The University of Texas at El Paso	8	1		9	0.08%
32 The University of Texas at San Antonio	266	4		270	2.26%
33 The University of Texas at Tyler	157	3		160	1.34%
34 The University of Texas Health Science Center at Houston	131	8		139	1.16%
35 The University of Texas Health Science Center at San Antonio	8			8	0.07%
36 The University of Texas M.D. Anderson Cancer Center	41	6		47	0.39%
37 The University of Texas Medical Branch at Galveston	67	3		70	0.59%
38 The University of Texas of the Permian Basin	40	2		42	0.35%
39 The University of Texas Southwestern Medical Center	2			2	0.02%
40 University of Houston	3,490	146	5	3,641	30.51%
41 University of Houston - Clear Lake	208	20	2	230	1.93%
42 University of Houston - Downtown	1,418	122	5	1,545	12.95%
43 University of Houston - Victoria	307	32		339	2.84%
44 University of North Texas	111	2		113	0.95%
45 University of North Texas Health Science Center	6	1		7	0.06%
46 West Texas A&M University	11	2		13	0.11%
	<u>11,405</u>	<u>512</u>	<u>16</u>	<u>11,933</u>	<u>100.00%</u>

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

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



HOUSTON COMMUNITY COLLEGE SYSTEM  
CAPITAL ASSET INFORMATION  
FISCAL YEARS 2012 - 2016  
(Unaudited)

Table 20

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2012
Number of Academic Buildings*	50	50	49	49	51
Square footage	2,938,234	2,925,810	2,921,680	2,880,875	2,897,931
Number of Administrative Building	1	1	1	1	1
Square footage	558,450	558,450	558,450	558,450	558,450
Number of Plant Facilities/Warehouse	6	6	6	6	6
Square footage	180,845	180,845	180,845	180,845	180,845
Number of Parking Structures	6	4	4	4	2
Square footage	1,413,861	1,056,211	1,082,259	996,689	589,565
Number of Libraries**	14	15	16	16	16
Square footage	149,831	149,831	136,741	136,741	136,067

Libraries

Number of Volumes					
Circulating books	255,605	252,646	248,133	241,382	231,099
Reference books	26,202	25,541	24,799	24,299	24,190
Media items	22,492	26,426	24,356	28,016	21,886
Magazines, Journals, Newspapers	527	415	589	230	210
Electronic books (Digital video)	242,580	207,507	186,540	69,699	46,195
Electronic Journals	8,228	23,746	48,758	23,535	19,136
Total	<u>555,634</u>	<u>536,281</u>	<u>533,175</u>	<u>387,161</u>	<u>342,716</u>

Transportation

Bus	0	2	2	2	2
Cars	40	36	35	31	31
Golf Cart	24	24	23	28	29
Motorcycle/Segway	4	4	4	4	4
Motor Home/Mobile Unit	1	2	3	3	3
SUV	3	3	2	2	2
Tank	2	2	2	2	2
Tractors	37	31	33	29	29
Trailers	15	45	50	49	49
Truck	20	9	16	14	13
Truck, Heavy (Fire Truck)	6	6	4	4	4
Vans	20	24	21	21	20
Utility Vehicles	6	7	6	1	1
Total	<u>178</u>	<u>195</u>	<u>201</u>	<u>190</u>	<u>189</u>

Note:

\*Buildings include both capital and operating leases.

\*\*They are not free standing buildings and are already included in Academic Buildings. FY 2016, reflects the change in the Missouri City campus.

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**

**Grant Thornton LLP**

700 Milam Street, Suite 300  
Houston, TX 77002-2848

T 832.476.3600

F 713.655.8741

GrantThornton.com

linkd.in/GrantThorntonUS

twitter.com/GrantThorntonUS

Board of Trustees  
Houston Community College System  
Houston, TX

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 statements of net position as of August 31, 2016 and 2015, 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 15, 2016.

**Internal control over financial reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 2016-001 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*.

#### Entity's response to findings

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

#### Intended purpose

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

*Grant Thornton LLP*

Houston, Texas  
December 15, 2016



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

**Grant Thornton LLP**  
700 Milam Street, Suite 300  
Houston, TX 77002-2848  
T 832.476.3600  
F 713.655.8741  
GrantThornton.com  
[linkd.in/GrantThorntonUS](http://linkd.in/GrantThorntonUS)  
[twitter.com/GrantThorntonUS](https://twitter.com/GrantThorntonUS)

Board of Trustees  
Houston Community College System  
Houston, Texas

**Report on compliance for each major federal and state program**

We have audited the compliance of Houston Community College System (the “System”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Compliance Supplement* and *The State of Texas Single Audit Circular* that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2016. The System’s major federal and state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**Management’s responsibility**

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

**Auditor’s responsibility**

Our responsibility is to express an opinion on compliance for each of the System’s major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and *The State of Texas Single Audit Circular*. Those standards, the Uniform Guidance and State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the 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 program. However, our audit does not provide a legal determination of the System's compliance.

#### Opinion on each major federal and state program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2016.

#### Other matters

The results of our audit procedures disclosed instances of noncompliance, described in the accompanying schedule of findings and questioned costs as items 2016-002 and 2016-003 that are required to be reported in accordance with the Uniform Guidance. Our opinion on each major federal and state program is not modified with respect to these matters.

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

#### Report on internal control over compliance

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

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



Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

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

*Grant Thornton LLP*

Houston, Texas  
December 15, 2016

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2016

Schedule E

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through to Subrecipients	Expenditures and Pass-Through Disbursements
<b>U. S. Department of Education</b>				
Direct Programs:				
Student Financial Assistance Cluster				
Federal Supplemental Educational Opportunity Grants	84.007			\$ 1,224,131
Federal Work-Study Program	84.033			1,067,250
Federal Pell Grant Program	84.063			84,893,446
Federal Direct Student Loans	84.268			77,814,345
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379			16,758
<b>Total Student Financial Assistance Cluster</b>				<b>165,015,930</b>
TRIO Cluster				
TRIO - Student Support Services	84.042			28,472
TRIO - Upward Bound	84.047A			877,289
<b>Total TRIO Cluster</b>				<b>905,761</b>
Minority Science and Engineering Improvement	84.120A		\$ 20,504	261,905
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407A			86,704
Pass-Through From:				
Texas A & M University				
Adult Education - Basic Grants to States	84.002	02-S140283		117,664
Texas Workforce Commission				
Adult Education - State Grant Program	84.002A	2816AEL004	3,746	35,387
Adult Education - State Grant Program	84.002A	2915AEL002		57,886
Houston - Galveston Area Council				
Adult Education - Basic Grants to States	84.002A	213-16	1,851,475	3,555,770
Adult Education - Basic Grants to States	84.002A	213-14	754,369	815,976
Adult Education - Basic Grants to States	84.002A	213-16		474,484
Adult Education - Basic Grants to States	84.002A	213-14		121,624
<b>Total Texas Workforce Commission, Adult Education - Basic Grants to States</b>				<b>5,178,791</b>
University of St. Thomas				
Higher Education - Institutional Aid	84.031C	UST HSI STEM		769,299
Delmar College				
Career and Technical Education - Basic Grants to States	84.048	13529		375
<b>Total Delmar College- Career and Technical Education - Basic Grants to States</b>				<b>375</b>
Texas Higher Education Coordinating Board				
Career and Technical Education - Basic Grants to States	84.048	13253	197,895	403,650
Career and Technical Education - Basic Grants to States	84.048	14884		1,363,752
Career and Technical Education - Basic Grants to States	84.048	14033		2,405
Education Research Development and Dissemination Grant	84.305H	15384		14,805
Education Research Development and Dissemination Grant	84.305H	15526		6,896
<b>Total THECB - Career and Technical Education - Basic Grants to States</b>				<b>1,791,508</b>
<b>Total U.S. Department of Education</b>				<b>\$ 174,010,273</b>

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, 2016

Schedule E

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through to Subrecipients	Expenditures and Pass-Through Disbursements
<b>U.S. Department of Agriculture</b>				
Pass-Through From:				
University of Houston				
Hispanic Serving Institutions Education Grants	10.223	R-14-0006		\$ 32,745
<b>Total U.S. Department of Agriculture</b>				<b>32,745</b>
<b>U.S. Department of Commerce</b>				
Direct Programs:				
Minority Business Development Agency - Business Center	11.805			452,534
<b>Total U.S. Department of Commerce</b>				<b>452,534</b>
<b>U.S. Department of Housing and Urban Development</b>				
Pass-Through From:				
City of Houston/Local Initiative Support Corp.				
Community Development Block Grants/Entitlement Grants	14.218	468730001		68,672
<b>Total U. S. Department of Housing and Urban Department</b>				<b>68,672</b>
<b>U.S. Department of Justice</b>				
Direct Programs:				
Bulletproof Vest Partnership Program	16.607			8,391
<b>Total U.S. Department of Justice</b>				<b>8,391</b>
<b>U.S. Department of Labor</b>				
Direct Programs:				
H-1B Job Training Grants	17.268			265,637
<b>Total U.S. Department of Labor</b>				<b>265,637</b>
<b>U.S. Department of State</b>				
Pass-Through From:				
Northern Virginia Community College				
Academic Exchange Programs - Undergraduate Programs	19.009	SECA GD-16-CA 1061		50,503
Undergraduate Programs	19.009	SECA GD-13-CA 088		86,807
<b>Total U.S. Department of State</b>				<b>137,310</b>
<b>National Endowment for the Humanities</b>				
Direct Programs:				
Promotion of the Humanities Public Programs	45.164			1,860
<b>Total National Endowment for the Humanities</b>				<b>1,860</b>
<b>National Science Foundation</b>				
Direct Programs:				
Mathematical and Physical Sciences	47.049			126,823
Education and Human Resources	47.076			59,377
Pass-Through From:				
Texas Southern University				
Education and Human Resources	47.076	3283-5		43,826
<b>Total National Science Foundation</b>				<b>\$ 230,026</b>

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, 2016

Schedule E

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through to Subrecipients	Expenditures and Pass-Through Disbursements
<b>U. S. Department of Veterans Affairs</b>				
Direct Programs:				
Post 9/11 Veterans Educational Assistance	64.028			\$ 2,052,378
<b>Total Department of Veterans Affairs</b>				<b>2,052,378</b>
<b>U. S. Nuclear Regulatory Commission</b>				
Pass-Through From:				
University of Houston - Downtown NRC Scholarship and Fellowship Program Program	77.008	FY14 NRC HQ84-14-G-0028VI		20,845
<b>Total U.S. Nuclear Regulatory Commission</b>				<b>20,845</b>
<b>U.S. Department of Energy</b>				
Pass-Through From:				
Houston - Galveston Area Council Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis Assistance	81.117	UDOE.13.0103-10		14,747
<b>Total U.S. Department of Energy</b>				<b>14,747</b>
<b>U. S. Department of Health and Human Services</b>				
Pass-Through From:				
University of Texas at Austin				
Substance Abuse and Mental Health Services - Projects	93.243	UTA 12-001074 AMD4		18,377
Substance Abuse and Mental Health Services - Projects	93.243	UTA 12-001074 AMD3		5,926
Total Substance Abuse and Mental Health Services - Projects				24,303
Houston - Galveston Area Council				
TANF Cluster				
Temporary Assistance for Needy Families	93.558	213-16		170,344
Temporary Assistance for Needy Families	93.558	213-14		3,552
Total Temporary Assistance for Needy Families				173,896
Texas Work Force Commission				
Temporary Assistance for Needy Families	93.558	2816SMP003		55,745
Temporary Assistance for Needy Families	93.558	2815SMP002		2
Total Temporary Assistance for Needy Families				55,747
YMCA of Greater Houston				
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	529-14-0009-00036B		154,435
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	529-14-0009-00036A		26,040
Total Refugee and Entrant Assistance - Targeted Assistance Grants				180,475
<b>Total U.S. Department of Health and Human Services</b>				<b>\$ 434,421</b>

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, 2016

Schedule E

Federal Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through to Subrecipients	Expenditures and Pass-Through Disbursements
<b>Corporation for National and Community Service</b>				
Direct Programs:				
AmeriCorps	94.006			\$ 46,718
<b>Total Corporation for National and Community Service</b>				<b>46,718</b>
<b>Total Expenditures of Federal Awards</b>				<b>\$ 177,776,557</b>

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, 2016. The schedule is presented using the accrual basis of accounting. The expenditures reported in the schedule represent funds which have been expended by the System for the purposes of the award. The expenditures reported in the schedule may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the basic financial statements. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The System has followed all applicable guidelines issued by various entities in the preparation of the schedule. Since the System utilizes agency approved Indirect Recovery Rate, it has elected not to use the 10% de minimis cost rate as permitted under the Uniform Guidance, Section 200.414.

NOTE 2 – FEDERAL ASSISTANCE RECONCILIATION

Federal Grants and Contracts Revenue – per Schedule A	\$ 13,844,635
Reconciling items:	
Schedule C – Title IV Grants	86,117,577
Federal Direct Student Loans	<u>\$ 77,814,345</u>
 Total Federal Revenues per Schedule of Expenditures of Federal Awards	 <u><u>\$ 177,776,557</u></u>

NOTE 3 – SUBRECIPIENTS

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

Alliance for Multicultural Community Services	\$ 227,470
Association for the Advance of Mexican Americans	611,491
AVANCE - Houston, Inc.	202,980
Chinese Community Center	207,008
Community Family Center	580,239
Houston Center for Literacy	352,301
Houston International University	59,317
Houston Read Commission	96,983
Neighborhood Centers, Inc.	268,056
South Texas Community College	<u>3,746</u>
 Total Passed-through to Subrecipients	 <u><u>\$ 2,609,590</u></u>



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

NOTE 3 – SUBRECIPIENTS - CONTINUED

The following was subrecipient of the U.S. Department of Education Early College High School Initiative (ECHS) grant, CFDA 84.048. This amount is included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

A lief Independent School District	\$	197,895
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The following was subrecipient of the U.S. Department of Education Minority Science and Engineering Improvement grant, CFDA 84.120A. This amount is included as expenditures in the accompanying Schedule of Expenditures of Federal Awards.

Houston Independent School District	\$	20,504
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NOTE 4 – STUDENT LOANS PROCESSED AND ADMINISTRATIVE COSTS RECOVERED

<u>Federal Grantor/ CFDA Number/Program Name</u>	<u>New Loans Processed</u>	<u>Administrative Cost Recovered</u>	<u>Total Loans Processed &amp; Administrative Cost Recovered</u>
U.S. Department of Education:			
84.268 Direct Loans	\$ 77,814,345	\$ -	\$ 77,814,345

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2016

Schedule F

State Grantor Program Title	Grantor's Number	Expenditures and Pass-Through Disbursements
<b>Texas Education Agency</b>		
Dropout Recovery Performance Pay	101045587110008	\$ 5,455
Dropout Recovery Performance Pay	111045477110007	1,024
<b>Total Texas Education Agency</b>		<u>6,479</u>
<b>Texas Higher Education Coordinating Board</b>		
Accelerate Texas - ABE Scaling & Sustaining Success	14160	165,933
Accelerate Texas - Mentor College	15135	86,246
Work-Study Mentorship Program	15558	18,611
Collegiate G-Force Work-Study Mentorship Program	N/A	2,173
Houston Pathways Initiative - College for Readiness	09928	4,868
Nursing Shortage Under 70 Program	N/A	412,665
Rider 58 ATCP Scholarship Grant	N/A	4,200
Texas College Work Study Program	N/A	246,231
Texas Educational Opportunity Grant	N/A	4,345,727
Texas Grant Program	N/A	43,725
Pass-Through From:		
Austin Community College/United Way of Greater Houston - THRIVE		
Texas Innovative Adult Career Education Program - Round# 1	N/A	(17,890)
Texas Innovative Adult Career Education Program - Round# 2	N/A	96,611
Austin Community College/Houston Center for Literacy		
2015-2016 Texas Innovative Adult Career Education Program	N/A	40,066
<b>Total Texas Higher Education Coordinating Board</b>		<u>5,449,166</u>
<b>Texas Workforce Commission</b>		
Apprenticeship Training Program (Chapter 133)	2816ATP001	272,264
Skills Development - Owens - Coming	2814SDF001	7,223
Skills Development - Schlumberger	2814SDF002	186,943
Pass-Through From:		
Houston - Galveston Area Council		
ABE - GED	213-16	723,762
ABE - GED	213-14	25,138
Temporary Assistance for Needy Families	213-16	27,447
Temporary Assistance for Needy Families	213-14	5,466
Lone Star College		
Veterans & Industry Partnerships	2814SDF005	17,550
College of the Mainland		
GRF COM Texas Fast Start	2814GRF001	46,619
<b>Total Texas Workforce Commission</b>		<u>1,312,412</u>
<b>Texas State Board of Public Accountancy</b>		
Fifth Year Accounting Student	N/A	22,924
<b>Total Texas State Board of Public Accountancy</b>		<u>22,924</u>
<b>Total State Financial Assistance</b>		<u><u>\$ 6,790,981</u></u>

See accompanying notes to Schedule of Expenditures of State Awards.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE

The Schedule of Expenditures of State of Texas Awards presents the activity of State of Texas awards programs of Houston Community College System (the “System”) for the year ended August 31, 2016. The accompanying Schedule of Expenditures of State of Texas Awards is presented using the accrual basis of accounting. See Note 2 in the Notes to Basic Financial Statements for the System’s significant accounting policies. The expenditures included in the schedule are reported for the System’s fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.

NOTE 2 – STATE ASSISTANCE RECONCILIATION

State Grants and Contracts revenue – per Schedule A	\$ 6,378,317
Reconciling items:	
Schedule C – Nursing Shortage Reduction	412,665
Total State revenues per Schedule of Expenditures of State of Texas Awards	\$ 6,790,982

NOTE 3 – SUBRECIPIENTS

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

Association for the Advance of Mexican Americans	\$ 143,361
Chinese Community Center	54,938
Houston International University	4,603
Neighborhood Centers, Inc.	52,927
Total Passed-through to Subrecipients	\$ 255,829

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

Del Mar College	\$ 40,410
Galveston College	82,722
Total Passed-through to Subrecipients	\$ 123,132

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

Joint Apprenticeship Training Committee	\$ 263,949
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HOUSTON COMMUNITY COLLEGE SYSTEM  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED AUGUST 31, 2016

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	X
			no
Significant deficiencies identified that are not considered to be material weaknesses?	X	yes	_____
			none reported
Noncompliance material to financial statements noted?	_____	yes	X
			no

Federal and State of Texas Awards

Internal control over major programs:			
Material weakness(es) identified?	_____	yes	X
			no
Significant deficiencies identified that are not considered to be material weaknesses?	_____	yes	X
			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:

Uniform Guidance and State of Texas Single Audit Circular	X	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, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS – CONTINUED

<u>Federal - CFDA Number</u>	<u>Name of Federal Programs</u>
84.042	TRIO - Student Support Services
84.047	TRIO - Upward Bound
84.31C	Higher Education Institutional Aid
<u>State - Contract Number</u>	<u>Program Title</u>
N/A	Nursing Shortage Under 70
N/A	Texas Educational Opportunity Grant

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

Federal	\$3,000,000
State of Texas	\$300,000

Auditee qualified as low-risk auditee?

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

SECTION II – FINANCIAL STATEMENT FINDINGS

**2016-001 – Misapplication of GAAP**

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

**Criteria:**

Per Generally Accepted Accounting Principles, receivables are short-term amounts due from buyers to a seller who have purchased goods or services from the seller on credit. For grant receivables, the buyer would be the System and the seller would be the Federal Government. When cash is received against a receivable, the cash should be recorded in the time period received and the related receivable should be credited.

**Condition and Context:**

During the audit, it was noted a grant receivable in the amount of \$486,593 was recorded for the fiscal year ending August 31, 2016 and the related cash receipt was not applied against the receivable. However, upon further review, it was noted the cash related to this receivable was received by the bank (via wire transfer) on August 22, 2016. The receivable and the corresponding related cash receipt was not properly accounted for prior to year-end. This receipt was included as a reconciling item on the System’s bank reconciliation but the System erroneously recorded the cash in the incorrect accounting period. The System has adjusted the financial statements to appropriately reflect the cash.

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED AUGUST 31, 2016

**Cause:**

The cash receipt related to several outstanding receivables and management was identifying the proper allocation of the cash receipt to the correct receivables.

**Effect:**

The potential exists for the accounting records to be misstated due to not properly reflecting the accounting transactions as of year-end.

**Recommendation:**

We recommend that the System review their internal controls related to recording wire transfers received to ensure cash amounts are recorded properly and timely in the general ledger.

**View of responsible officials:**

Management has reviewed the internal controls related to recording wire transfers and has updated its procedures as follows to ensure that cash amounts are recorded properly and timely in the general ledger.

Receivable Clearing: Throughout the month, the General Ledger Accounting staff and Grants Accounting staff will perform a daily review of the bank statements to identify ACH payments received. A daily review will help to ensure that all payments received in the bank are identified and correctly booked in the period received. A journal entry should be made to record the ACH received and to reduce the receivable. These entries should be completed on a daily or weekly basis but not later than the close of the period for which the ACH has been received. Reviewing the bank statement on a daily basis will provide time to complete any research that may be required to determine the proper posting before month end. As part of the month-end closing process, the General Ledger Accounting staff must perform the bank reconciliation before the accounting period is closed. This will ensure that all outstanding transactions in the bank are identified and booked before the accounting period is closed.

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

**Finding #: 2016 – 002**

**CFDA 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:** 2016

**Federal Agency:** U.S. Department of Education

**Pass-through Entity:** N/A

**Type of Finding:** Noncompliance

**Return of Title IV Funds**

**Criteria:**

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 accurately 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.



HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED AUGUST 31, 2016

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:**

Houston Community College (HCC) did not return Title IV funds to the Title IV program within the 45 day requirement.

**Context:**

Through testing performed, it was noted that for three out of the forty returns randomly selected for testing, the return amount was not returned within the required time frame. The returns were submitted 4, 19 and 32 days after the 45 day requirement.

**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.

**Effect:**

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

**Questioned Costs:**

None reported

**Repeat Finding:**

Yes – Finding 2015-001

**Recommendation:**

We recommend HCC reinforce the established controls related to the review of the Return of Title IV funds to ensure that they are remitted in accordance with the Department of Education guidelines. This can be accomplished by instituting periodic training.

**Views of responsible officials:**

Houston Community College (HCC) continues to strengthen their R2T4 processing procedures to ensure compliance with Title IV regulations. This included developing automated system workflows, hiring a compliance manager, hiring an outside firm to conduct random audits, and implementing an extensive training program. Along with procedures developed in 2014 and 2015 which include oversight by the compliance manager, random reviews by an outside firm, and extensive training, additional measures have been put in place during 2016 to further improve the process and ensure that R2T4 calculations are done in a timely manner, within the 45 day deadline. These additional measures include requiring the processors to immediately update the federal government's Common Origination and Disbursement system (COD) with the return amounts rather than relying on HCC's administrative computing system to pick up the return records and transmit to the federal government. Requiring staff to immediately update COD shortens the timeframe in which records are returned. The processing manager, also, instituted an auditing trail procedure during 2016 that requires all processors to document the steps of each R2T4 calculation with system screen prints and annotations of the returns completed. These audit trail documents are periodically reviewed by the processing manager.

There were three cases of non-compliance found during the 2015-2016 compliance audit. One case was the result of an error found during the random audit process which required the processor to go back and correct the record causing the final return amount to be posted after the 45 day requirement. The second instance was calculated in HCC's administrative system within the 45 day requirement but the return to COD was completed after 45 days due to the processor's oversight. The third instance was a question posed by the processor to the manager which required research that was not completed until after the 45 day requirement.

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED AUGUST 31, 2016

As a result of this repeat finding, HCC hired an outside firm to review all 2015-2016 R2T4 records to determine when the returns were submitted to COD.

**Finding #: 2016 – 003**

**CFDA Title:** Student Financial Assistance Cluster

**CFDA Number:** 84.063, 84.268

**Federal Award Number:** N/A

**Federal Award Year:** 2016

**Federal Agency:** U.S. Department of Education

**Pass-through Entity:** N/A

**Type of Finding:** Control Deficiency and Noncompliance

**Enrollment Reporting**

**Criteria:**

Under the Pell grant and loan program, institutions must complete and return within 30 days (unless the roster file will be submitted within 60 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.

**Context:**

Through testing performed, it was noted that for 6 out of the 40 sampled students' enrollment status changes randomly selected for testing, the status changes were not submitted within the 30 or 60 day requirement. During the prior year, spring 2015 through fall 2015, it was noted that the College became aware of two significant data issues, (1) invalid enrollment status of students who withdrew from classes, and (2) students missing from reports, i.e., those captured on the first term report but not captured on subsequent reports. Three of the sampled students whose status changes were untimely reported occurred during the timeframe of the above noted issues.

**Cause:**

Inaccurate data generation and transmission of information between the College, the National Student Clearinghouse (NSC), and the National Student Loan Data System (NSLDS) caused student status changes to not be consistently reported within the deadline. Additionally controls were not operating effectively to review system generated data for accuracy.

**Effect:**

Failure to report the student status changes timely and accurately will cause errors in the in-school status and cause student's deferment and grace periods to be inaccurately calculated impacting the requirement to begin repaying loans.

**Questioned Costs:**

None reported.

**Repeat Finding:**

Yes – Finding 2015-002

**Recommendation:**

We recommend HCC continue to investigate the inaccurate data generation and transmission of information to NSC and NSLDS and create solutions to the system issues. Additionally, we recommend that HCC continue to refine the policies and procedures surrounding the review of the information generated for transmission by the NSC to the NSLDS.

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED AUGUST 31, 2016

**Views of responsible officials:**

Of the six students identified with enrollment status changes submitted outside the 30 or 60 day requirement, three were reported to National Student Clearinghouse (NSC) within the required reporting timeframe; however, NSC acknowledges that they were experiencing delays in reporting to NSLDS during this period. The remaining three students were reported late and corrective action has been taken to mitigate future reporting issues.

In spring 2015 through fall 2015, we were aware of two significant data issues, (1) invalid enrollment status of students who withdrew from classes, and (2) students missing from reports, i.e., those captured on the first term report but not captured on subsequent reports. We took action to resolve these issues by modifying the application that processes students who withdraw from their academic program within the current reporting period. We adjusted NSC report setup parameters to exclude grade of 'W' when calculating enrollment status for the term. By end of fall 2015, we were confident that invalid enrollment status issues were resolved by making these changes.

In spring 2016, we identified that the issue related to the missing students was due to an internal business process that allows academic program changes after term begins. To correct this issue, we reprogrammed one of our customized steps within the PeopleSoft Student system to properly capture the missing student's enrollment information. As a quality control measure, new queries were created to identify data issues and make corrections as necessary before sending reports to the National Clearing House. The Registrar's Office will also generate and submit reports more frequently throughout the semester. To ensure enrollment statuses in the NSC and NSLDS databases are in sync with our PeopleSoft database, a data compare report has been created. This new compare report shows that errors have significantly declined over the last two years, and we will continue to monitor and make necessary changes needed to improve this process and submit accurate timely student data.