

HILL COLLEGE

Annual Financial Report

**For the Fiscal Year Ended
August 31, 2017**

HILL COLLEGE
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HILL COLLEGE

ORGANIZATIONAL DATA

For the Fiscal Year 2016 - 2017

BOARD OF REGENTS

Officers

David Teel	President
Bill Galiga	Vice-President
Karen Brackin	Secretary

Members

		<u>Term Expires</u>
Dr. William Auvenshine	Hillsboro, Texas	2018
Karen Brackin	Itasca, Texas	2018
Charles Bryant	Covington, Texas	2020
Kent Eubank	Whitney, Texas	2020
Bill Galiga	Hillsboro, Texas	2022
Dr. Allen Lane	Whitney, Texas	2018
Jolene Lehmann	Bynum, Texas	2020
Dwight Lloyd	Itasca, Texas	2022
Tony Marley	Hillsboro, Texas	2020
Jennifer Nowlin	Whitney, Texas	2022
Rick Sullins	Abbott, Texas	2018
David Teel	Hillsboro, Texas	2022

PRINCIPAL ADMINISTRATIVE OFFICERS

Dr. Pam Boehm	President
Jessyca Brown	Vice-President of External Affairs
Billy Don Curbo	Vice-President of Administrative Services
Rex Parcells	Vice-President of Instruction
Lizza Trenkle	Vice-President of Student Services
Jessie White	Vice-President of Information Technology
Dr. Floretta Bush	Dean of Career and Technical Education
Susan Gann	Dean of Math and Sciences
Debbie Gerik	Dean of Financial Services
Bill Gilker	Dean of Students / Campus Manager, JCC
Dr. Kayla Kelley	Dean of Program Development and Student Success
Nancy McKenzie	Dean of Arts and Humanities
Lori Moseley	Dean of Health and Community Services
Scott Nalley	Dean of Students
John Versluis	Dean, Texas Heritage Museum



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*Member of
American Institute & Texas Society of
Certified Public Accountants*

INDEPENDENT AUDITORS' REPORT

Board of Regents
Hill College
Hillsboro, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Hill College, (the College) as of and for the years ended August 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 entity'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 entity'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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hill College as of August 31, 2017, and 2016, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The supplemental schedules (schedules A through D), as described in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards (schedule E) and schedule of expenditures of state awards (schedule F) are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State of Texas Single Audit Circular, and are also not a required part of the basic financial statements.

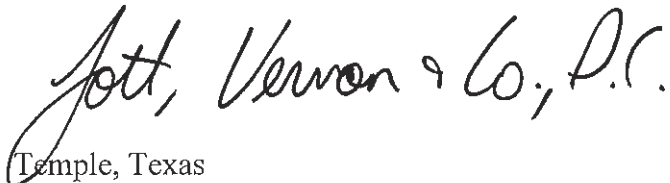
The supplemental schedules, the schedule of expenditures of federal awards and the schedule of expenditures of state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the College'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 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 College's internal control over financial reporting and compliance.



Temple, Texas
December 22, 2017

Management's Discussion and Analysis

This section of Hill College's annual financial report presents management's discussion and analysis of the financial performance of the College during the fiscal year ended August 31, 2017. This annual report contains financial statements which are in conformance with Governmental Accounting Standards Board (GASB). There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The following summary and management's discussion and analysis is intended to provide readers with an overview of the basic financial statements. This discussion should be read in conjunction with the accompanying financial statements, notes to the financial statements, and supplemental information.

Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. The College adopted GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68* effective September 1, 2014. With the adoption of GASB No. 68, the College recognized a net pension liability in the statement of net position for its proportionate share of participation in the Teacher Retirement System of Texas defined benefit pension plan. With the adoption of GASB No. 71, the College recognized deferred outflows of resources in the statement of net position for contributions made to this defined benefit pension plan after the measurement date (August 31, 2014). The cumulative effect of these changes in accounting principles decreased unrestricted net position by \$2,747,707 at September 1, 2014. For additional information on accounting policy refer to Notes 1 and 2 in the "Notes to the Financial Statements".

Financial statements for the College's component unit, Hill College Foundation (the Foundation), are issued independently of the College. The Foundation's financial information is included in the College's annual report as a discrete component unit (see table of contents). More details on the Foundation are in Note 20 in the Notes to the Financial Statements.

Statement of Net Position

Condensed Statement of Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current Assets	\$ 17,818,307	\$17,586,285	\$ 17,660,332
Capital Assets	27,283,093	28,034,362	23,577,711
Other Noncurrent Assets	1,877,613	1,837,577	1,673,427
Total Assets	<u>\$ 46,979,013</u>	<u>\$47,458,224</u>	<u>\$ 42,911,470</u>
Deferred Outflows of Resources:			
Deferred Outflows Related to Pensions	862,058	1,071,922	429,746
Total Deferred Outflows of Resources	862,058	1,071,922	429,746
Liabilities:			
Current Liabilities	\$ 8,017,743	\$ 8,453,971	\$ 5,529,664
Noncurrent Liabilities	3,182,107	3,954,929	4,107,724
Total Liabilities	<u>\$ 11,199,850</u>	<u>\$12,408,900</u>	<u>\$ 9,637,388</u>
Deferred Inflows of Resources:			
Deferred Inflows Related to Pensions	983,911	1,027,503	741,862
Total Deferred Inflows of Resources	983,911	1,027,503	741,862
Net Position:			
Invested in Capital Assets, Net of Related Debt	\$ 26,258,093	\$26,774,361	\$ 21,802,711
Restricted-nonexpendable	1,655,808	1,595,508	1,425,032
Restricted-expendable	1,160,911	1,050,183	926,554
Unrestricted	6,582,498	5,673,691	8,807,669
Total Net Position	<u>\$ 35,657,310</u>	<u>\$35,093,743</u>	<u>\$ 32,961,966</u>

Changes in the “Statement of Net Position” are derived from the activity reported in the “Statement of Revenues, Expenses, and Changes in Net Position”. This statement is intended to give its readers an indication of the institution’s financial condition at a given point in time, for example at year’s end.

Net Position is divided into three major categories. The first category, “Invested in Capital Assets Net of Related Debt,” represents the College’s equity in property, plant and equipment owned by the institution. The next category “Restricted” is further divided into two categories: Nonexpendable and Expendable. Nonexpendable is derived from Grants and Endowments. Expendable is available for expenditures but must be spent in accordance with the restriction of donors and other external entities. The final category, “Unrestricted”, is available to the institution for any lawful purpose of the College.

The largest component of “Capital Assets” is the College’s investment in buildings and other real estate improvements, \$25,324,339. The buildings owned by Hill College are only 30% depreciated, which is an indication of the age of the facilities. Most buildings are relatively new

and are in good repair. The \$751,269 decrease in “Capital Assets” was due to \$989,128 depreciation net of \$237,859 capital acquisitions, (\$29,306 library books and \$208,553 equipment).

The \$436,228 decrease in “Current Liabilities” when compared to the prior year is the result of liquidating students Title IV funds into their student account prior to August 31, 2017, but not processing student refund checks until September 1, 2017 and a timing difference in payment to the bookstore for Fall 2016 student financial aid vouchers. The \$772,822 reduction in noncurrent liabilities is primarily the result of payment on 2012 revenue bonds.

It is also important to note that current liabilities are only 45% of current assets. This is an indication of the college’s ability to meet its short-term obligations as they come due and still have resources available for any unforeseen contingency.

The \$563,567 increase in “Net position” is the total revenue over total expenditures as reflected in the Schedule A (Revenue) and Schedule B (Expense) as well as the “Statement of Revenues, Expense and Changes in Net Position”.

The College’s financial position is strong and stable as reflected in Exhibit 1. Unrestricted net position is critical to support the College’s overall mission; therefore, it is important that unrestricted net position be adequately maintained. The College has not been required to use these resources to fund operations. Further, the adoption of GASBs No. 68 and 71 did not put the College in a deficit unrestricted net position.

For additional information on “Statement of Net Position” refer to “Notes to the Financial Statements”.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues:			
Tuition and fees (net of discounts)	\$ 3,997,896	\$ 3,443,149	\$ 3,487,270
Federal grants and contracts	163,300	248,072	502,864
State grants and contracts	436,530	436,150	606,924
Non-governmental grants and contracts	1,384,522	1,609,011	1,235,832
Auxiliary enterprises (net of discounts)	714,106	763,457	753,607
Other operating revenues	207,424	286,387	168,194
Total Operating Revenues	6,903,778	6,786,226	6,754,691
Operating Expenses:			
Instruction	8,346,118	7,797,010	8,078,453
Public Service	-	-	2,315
Academic support	1,975,079	1,582,335	1,855,712
Student services	1,915,242	1,958,820	2,161,539
Institutional support	5,638,327	4,459,098	4,573,907
Operation and maintenance of plant	2,164,120	2,767,911	2,397,385
Scholarships and fellowships	3,639,919	4,436,339	4,336,927
Auxiliary enterprises	1,303,882	1,231,437	1,225,047
Depreciation	989,127	920,310	826,880
Total Operating Expenses	25,971,814	25,153,260	25,458,165
Operating Loss	(19,068,036)	(18,367,034)	(18,703,474)
Non-Operating Revenues (Expenses):			
State Appropriations	8,423,241	8,106,647	8,863,227
Maintenance ad valorem taxes	1,667,152	1,611,934	1,507,984
Branch campus maintenance tax	3,319,879	3,471,084	3,323,119
Federal revenue, non-operating	5,764,434	6,395,823	6,400,966
Gifts	115,785	626,617	8,787
Investment income	97,686	96,986	99,824
Interest on capital-related debt	(38,389)	(53,952)	(65,314)
Other non-operating revenues	212,882	53,364	92,074
Net Non-Operating Revenues	19,562,670	20,308,503	20,230,667
Income Before Other Revenues (Expenses)	494,634	1,941,469	1,527,193
Other Revenues (Expenses):			
Additions to permanent endowments	68,933	190,308	138,539
Increase (Decrease) in Net Position	563,567	2,131,777	1,665,732
Net Position, Beginning of Year, as Previously Reported	35,093,743	32,961,966	34,043,941
Cumulative Effect of Change in Accounting Principle	-	-	(2,747,707)
Net Position, Beginning of Year, as Restated	35,093,743	32,961,966	31,296,234
Net Position at End of Year	\$35,657,310	\$35,093,743	\$32,961,966

The “Statement of Revenues, Expenses and Changes in Net Position” presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Generally speaking, operating revenues or expenditures are those earned or incurred by the institution from its normal activity of carrying out its mission of providing educational programs to the citizens of its service area.

The College is primarily dependent upon three sources of revenue: state appropriations; tuition and fees; and property taxes. Since state appropriations and property taxes are classified as Non-Operating Revenues (per GASB), Texas community colleges will generally display an operating deficit before taking into account other support. Therefore, total revenues and total expenses should be considered in assessing the change in the College’s financial position.

The operating revenue reported in the “Statement of Revenues, Expenses and Changes in Net Position” is derived from the activity reported in Schedule A “Schedule of Operating Revenues”.

The Operating expenses reported in the “Statement of Revenues, Expenses and Changes in Net Position” are derived from the activity reported in Schedule B “Schedule of Operating Expenses by Object”.

The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

While there was approximately a 5% increase in student headcount enrollment, it only resulted in a modest \$117,552 increase in “Operating Revenue”. The majority of the increase in enrollment was in high school dual credit enrollments. High school dual credit students are not full-time and are typically limited to one or two classes per semester. There were no increases in the tuition and fee rates charged to students during FY17. There was a \$745,833 decline in “Net Non-Operating Revenue” which was primarily the result of a decrease in “Federal revenue, non-operating” and a decrease in “Gifts”. “Federal revenue, non-operating” declined \$631,389 from the prior year. This is reflective of the decrease in federal Title IV funds (Pell, SEOG and Work-Study) our students qualified for in FY17 as compared to FY16. “Gifts” declined \$510,832 from the prior year. While the Hill College Foundation normally makes gifts to the college on an annual basis, the \$626,617 gift in FY16 was unusually large. There was also an increase of \$818,554 in “Operating Expense”. The majority of the increase in operating expense was a one-time expense to upgrade computers and technology district wide.

For additional information on “Statement of Revenues, Expenses and Changes in Net Position” refer to “Notes to the Financial Statements”.

Statement of Cash Flows

Condensed Statement of Cash Flows

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash Flows from			
Operating Activities	\$ (17,534,965)	\$ (15,242,225)	\$ (17,508,100)
Noncapital Financing Activities	17,703,203	18,548,821	19,002,443
Capital and Related Financing Activities	(718,319)	(5,041,603)	(1,799,734)
Investing Activities	<u>(1,682,291)</u>	<u>72,652</u>	<u>76,066</u>
Net Increase in Cash and Cash Equivalents	(2,232,372)	(1,662,355)	(229,325)
Cash at Beginning of Year	<u>10,263,161</u>	<u>11,925,516</u>	<u>12,154,841</u>
Cash at End of Year	<u>\$ 8,030,789</u>	<u>\$ 10,263,161</u>	<u>\$ 11,925,516</u>

The “Statement of Cash Flows” is a detailed analysis of the change in cash and cash equivalents that occurred during the year. This statement consists of five components.

(1) Cash Flows from Operating Activities

This section deals with the change in cash due to the normal operating activity of the institution. Refer to the net income or loss recorded in the “Statement of Revenues, Expenses and Changes in Net Position”.

(2) Cash Flows from Noncapital Financing Activities

For Hill College this is a combination of state appropriated funds, property tax revenue, and receipts from non-operating federal revenues.

(3) Cash Flows from Capital and Related Financing Activities

This deals with the change in cash due to acquisition or disposition of capital assets and with payments on capital debt and leases.

(4) Cash Flows from Investing Activities

This reflects cash flows resulting from investing activities.

(5) Reconciliation of Operating Income (Loss) to Net Cash used by Operating Activities

This section reconciles the net change in cash with the operating income (loss) reported in the “Statement of Revenues, Expenses, and Changes in Net Position”. This reconciliation is necessary because of changes that may affect cash without having a corresponding effect on revenue or expense, for example: changes in accounts receivable, accounts payable, deferred revenue, etc. Items that may affect revenue or expense without affecting cash, such as depreciation, also create a need for this reconciliation.

For additional information on “Statement of Cash Flows” refer to “Notes to the Financial Statements”.

Capital Asset and Debt Administration

On May 15, 2012 Hill College issued \$3,550,000 Revenue Refunding Bonds for the purpose of refunding all outstanding bond issues. The average life of the issue was 3.957 years (2013 through 2019). The repayment period on the bonds was reduced by two years (to 2019), and the actual net debt service savings on the reissue was \$300,318.

For additional information concerning Capital Assets and Debt Administration, see Note 2, 5, 6, 7, and 9.

Discussion of Currently Known Facts, Decisions, or Conditions

Hill College currently maintains an A2 bond rating with Moody's Investors Services.

The dual credit tuition and fees rate remains frozen at the 14/15 rate.

FINANCIAL STATEMENTS

Hill College
Exhibit 1
Statement of Net Position
August 31, 2017 and August 31, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 6,258,639	\$ 8,530,419
Short Term Investments	5,328,830	3,547,406
Accounts Receivable (Net)	5,459,751	4,777,057
Deferred Charges	523,323	545,330
Prepaid Expenses	<u>247,764</u>	<u>186,073</u>
Total Current Assets	<u>17,818,307</u>	<u>17,586,285</u>
Noncurrent Assets		
Restricted Cash and Cash Equivalents	1,772,150	1,732,742
Endowment Investments	105,128	104,500
Deferred Charges	335	335
Capital Assets, (Net) (Note 5)	<u>27,283,093</u>	<u>28,034,362</u>
Total Noncurrent Assets	<u>29,160,706</u>	<u>29,871,939</u>
Total Assets	<u>46,979,013</u>	<u>47,458,224</u>
Deferred Outflows of Resources:		
Deferred Outflows Related to Pensions	862,058	1,071,922
Total Deferred Outflows of Resources	<u>862,058</u>	<u>1,071,922</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,310,774	2,719,709
Accrued Liabilities	90,745	101,564
Funds Held for Others	230,910	238,782
Deferred Revenue	4,840,314	4,863,916
Bonds Payable - Current Portion	<u>545,000</u>	<u>530,000</u>
Total Current Liabilities	<u>8,017,743</u>	<u>8,453,971</u>
Noncurrent Liabilities		
Dorm Deposits Payable	83,375	116,125
Bonds Payable	487,500	1,036,786
Net Pension Liability	<u>2,611,232</u>	<u>2,802,018</u>
Total Noncurrent Liabilities	<u>3,182,107</u>	<u>3,954,929</u>
Total Liabilities	<u>11,199,850</u>	<u>12,408,900</u>
Deferred Inflows of Resources:		
Deferred Inflows Related to Pensions	983,911	1,027,503
Total Deferred Inflows of Resources	<u>983,911</u>	<u>1,027,503</u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	26,258,093	26,774,361
Restricted for:		
Nonexpendable		
Student Aid	1,655,808	1,595,508
Expendable		
Student Aid	37,609	233,145
Debt Service	1,123,302	817,038
Unrestricted	<u>6,582,498</u>	<u>5,673,691</u>
Total Net Position (Schedule D)	<u>\$ 35,657,310</u>	<u>\$ 35,093,743</u>

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

Hill College Foundation
 Exhibit 1-A
 Statement of Financial Position
 August 31, 2016 and August 31, 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 237,690	\$ 121,872
Investments	<u>569,514</u>	<u>533,268</u>
Total Current Assets	<u>807,204</u>	<u>655,140</u>
Noncurrent Assets:		
Receivables-restricted	307,866	300,968
Investments-restricted	6,214,651	6,364,304
Capital Assets, net of accumulated depreciation	<u>1,179,694</u>	<u>1,179,694</u>
Total Noncurrent Assets	<u>7,702,211</u>	<u>7,844,966</u>
Total Assets	<u>8,509,415</u>	<u>8,500,106</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities:		
Accounts Payable	<u>-</u>	<u>1,898</u>
Total Current Liabilities	<u>-</u>	<u>1,898</u>
 NET ASSETS		
Invested in Capital Assets	1,179,694	1,179,694
Restricted for:		
Expendable:		
Wallace Campus and Programs of Hill College	5,626,145	5,365,072
Hill College Capital Projects	627,819	909,206
Nonexpendable:		
Endowments for Hill College Scholarships	493,582	483,608
Unrestricted	<u>582,175</u>	<u>560,628</u>
Total Net Assets	<u>8,509,415</u>	<u>8,498,208</u>
Total Liabilities and Net Assets	<u>\$ 8,509,415</u>	<u>\$ 8,500,106</u>

Hill College
Exhibit 2
Statement of Revenues, Expenses, and Changes in Net Position
Years Ended August 31, 2017 and August 31, 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Tuition and Fees (net of discounts of \$4,900,631 and \$4,524,376, respectively)	\$ 3,997,896	\$ 3,443,149
Federal Grants and Contracts	163,300	248,072
State Grants and Contracts	436,530	436,150
Non-Governmental Grants and Contracts	1,384,522	1,609,011
Auxiliary Enterprises (net of discounts)	714,106	763,457
General Operating Revenues	<u>207,424</u>	<u>286,387</u>
Total Operating Revenues (Schedule A)	6,903,778	6,786,226
Operating Expenses		
Instruction	8,346,118	7,797,010
Public Service	-	-
Academic Support	1,975,079	1,582,335
Student Services	1,915,242	1,958,820
Institutional Support	5,638,327	4,459,098
Operation and Maintenance of Plant	2,164,120	2,767,911
Scholarships and Fellowships	3,639,919	4,436,339
Auxiliary Enterprises	1,303,882	1,231,437
Depreciation	<u>989,127</u>	<u>920,310</u>
Total Operating Expenses (Schedule B)	25,971,814	25,153,260
Operating Loss	(19,068,036)	(18,367,034)
Non-Operating Revenues (Expenses)		
State Appropriations	8,423,241	8,106,647
Maintenance Ad Valorem Taxes	1,667,152	1,611,934
Branch Campus Maintenance Tax	3,319,879	3,471,084
Federal Revenue, Non Operating	5,764,434	6,395,823
Gifts	115,785	626,617
Investment Income	97,686	96,986
Interest on Capital Related Debt	(38,389)	(53,952)
Other Non-Operating Revenues	<u>212,882</u>	<u>53,364</u>
Net Non-Operating Revenues (Schedule C)	19,562,670	20,308,503
Income Before Other Revenues (Expenses)	494,634	1,941,469
Other Revenues (Expenses)		
Additions to Permanent and Term Endowments	<u>68,933</u>	<u>190,308</u>
Total Other Revenues	68,933	190,308
Increase in Net Position	563,567	2,131,777
Net Position		
Net Position - Beginning of Year	35,093,743	32,961,966
Net Position - End of Year	<u>\$ 35,657,310</u>	<u>\$ 35,093,743</u>

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

Hill College Foundation
 Exhibit 2-A
 Statement of Activities
 Years Ended August 31, 2016 and August 31, 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Interest and Dividends	\$ 215,556	\$ 210,352
Gain/(Loss) on Sale of Securities	78,638	363,554
Unrealized Gain/(Loss)	153,667	(570,986)
Farm and Lease Revenue	69,861	42,982
Other Miscellaneous Revenue	10,014	365
	<u>527,736</u>	<u>46,267</u>
Total Operating Revenue		
Operating Expenses:		
Contribution to Hill College	386,525	24,557
Investment Management Fees	104,151	103,826
Legal Fees	3,281	1,688
Accounting Fees	3,690	682
Property Taxes	5,909	5,443
Insurance	4,945	4,945
Other Operating Expenses	8,028	3,034
	<u>516,529</u>	<u>144,175</u>
Total Operating Expenses		
Increase in Net Assets	11,207	(97,908)
Net Assets, Beginning of Year	<u>8,498,208</u>	<u>8,596,116</u>
Net Assets, End of Year	<u><u>\$ 8,509,415</u></u>	<u><u>\$ 8,498,208</u></u>

Hill College
Exhibit 3
Statement of Cash Flows
Years Ended August 31, 2017 and August 31, 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from students and other customers	\$ 5,459,531	\$ 6,400,099
Receipts from grants and contracts	998,997	472,508
Payments to suppliers for goods and services	(7,713,649)	(5,634,206)
Payments to or on behalf of employees	(12,933,482)	(12,229,764)
Payments for scholarships	(3,639,919)	(4,436,339)
Other receipts	293,557	185,477
Net cash used by operating activities	<u>(17,534,965)</u>	<u>(15,242,225)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from state appropriations	6,891,632	6,884,006
Receipts from nonoperating federal revenues	5,764,434	6,395,823
Receipts from ad valorem taxes	4,987,031	5,083,018
Receipts from student organizations and other agency transactions	193,215	169,700
Payments to student organizations and other agency transactions	(202,042)	(174,034)
Additions to permanent and term endowments	68,933	190,308
Net cash provided by noncapital financing activities	<u>17,703,203</u>	<u>18,548,821</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipts from gifts	115,785	626,617
Purchases of capital assets	(470,336)	(5,144,484)
Payments on capital debt - principal	(530,000)	(515,000)
Payments on capital debt - interest	(46,650)	(62,100)
Other receipts	212,882	53,364
Net cash used by capital and related financing activities	<u>(718,319)</u>	<u>(5,041,603)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(2,000,000)	-
Sale of investments	256,917	-
Interest on investments	60,792	72,652
Net cash provided (used) by investing activities	<u>(1,682,291)</u>	<u>72,652</u>
Increase (decrease) in cash and cash equivalents	<u>(2,232,372)</u>	<u>(1,662,355)</u>
Cash and cash equivalents - September 1	<u>10,263,161</u>	<u>11,925,516</u>
Cash and cash equivalents - August 31	<u>\$ 8,030,789</u>	<u>\$ 10,263,161</u>
Reconciliation of net operating loss to net cash provided (used)		
by operating activities:		
Operating loss	\$ (19,068,036)	\$ (18,367,034)
Adjustments to reconcile operating loss to net cash used		
by operating activities:		
Depreciation expense	989,127	920,310
Payments made directly by state for benefits	1,531,609	1,222,641
Changes in assets and liabilities:		
Receivables (net)	(95,592)	(94,027)
Prepaid expenses	(61,691)	(78,992)
Accounts payable	(782,517)	773,288
Deferred revenue	(45,358)	397,647
Deferred charges	(2,507)	(16,058)
Net cash used by operating activities	<u>\$ (17,534,965)</u>	<u>\$ (15,242,225)</u>

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

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

1. Reporting Entity

The authorization to establish Hill College was issued in 1921 by the Attorney General of the State of Texas under the name of Hillsboro Junior College. The College first enrolled students in September of 1923. Hillsboro Junior College operated continuously until July of 1950 when it closed after an attempt to establish a countywide college system failed. The college lay dormant for eleven years during which time the charter was protected from forfeiture through the efforts of the late Senator Crawford Martin of Hillsboro. On March 3, 1962, a bond issue was passed for the purpose of building a new campus. The college opened for business in September of 1962 under a new name, Hill Junior College. The new college district was expanded by the voluntary annexation of five Hill County school districts other than the original Hillsboro school district. In 1974, the college opened an extension center in Cleburne, Texas, located in Johnson County. In 1997 and 1998, the citizens of eight Johnson County school districts approved a local maintenance and operation tax for the purpose of supporting the branch campus of Hill College in Johnson County. The Hill Junior College District is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the College 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.

2. Summary of Significant Accounting Policies

Reporting Guidelines

The significant accounting policies followed by the College in preparing these financial statements are in accordance with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The College applies all applicable GASB pronouncements. The College is reported as a special-purpose government engaged in business-type activities.

Tuition Discounting

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code 56.0333). When the award is used by the student for tuition and fees, the amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Title IV, Higher Education Act Program Funds

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

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

Other Tuition Discounts

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

Basis of Accounting

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

Budgetary Data

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The College's Board of Regents adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget and subsequent amendments 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. Board policy requires the College maintain a minimum fund balance equal to twenty-five percent of the current operating budget. For the years ended August 31, 2017 and August 31, 2016, respectively, the minimum unrestricted fund balance to be maintained was \$5,553,763 and \$5,590,574. The College exceeded this minimum required fund balance for both years.

Cash and Cash Equivalents

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

Deferred Outflows

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are only permitted to report deferred outflows in circumstances specifically authorized by the GASB. A typical deferred outflow for community colleges is a deferred charge on a refunding debt.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. The governing board has designated public funds investment pools comprised of \$2,519,344 and \$504,431 at 2017 and 2016 to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovations of \$100,000 to building, 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 years for land improvements, 15 years for library books, 10 years for furniture, machinery, vehicles and other equipment and 5 years for telecommunications and peripheral equipment.

Pensions

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

Deferred Revenue

Tuition and fees of \$3,843,829 and \$3,795,822, dorm rental and food service fees of \$522,712 and \$573,984 and federal, state and local grants of \$70,915 and \$113,008 have been reported as deferred revenues at August 31, 2017 and 2016, respectively.

Deferred Inflows

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

Estimates

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

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

Operating and Non-Operating Revenue and Expense Policy

The College distinguishes operating revenues and expenses from non-operating items. The College reports as a BTA and as a single, proprietary fund. Operating revenues and expenses generally result from providing services in connection with the College's principal ongoing operations. The principal operating revenues are tuition and related fees. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The operations of the bookstore and cafeteria are not performed by the College.

3. Authorized Investments

Hill College is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (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.

The Board of Regents of Hill College has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the College are in compliance with the Regent's investment policies. In addition, there were no instances of non-compliance with regards to the Public Funds Investment Act.

4. Deposits and Investments

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

Cash and Deposits

	<u>2017</u>	<u>2016</u>
Bank Deposits		
Demand Deposits	\$ 6,628,879	\$ 8,914,092
Time Deposits	<u>1,398,420</u>	<u>1,345,119</u>
	8,027,299	10,259,211
Cash and Cash Equivalents		
Petty Cash on Hand	<u>3,490</u>	<u>3,950</u>
Total Cash and Deposits	<u>\$ 8,030,789</u>	<u>\$ 10,263,161</u>

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

Reconciliation of Deposits and Investments to Exhibit 1:

Type of Security	Market Value August 31, 2017	Market Value August 31, 2016
Total Cash and Deposits	\$ 8,030,789	\$ 10,263,161
Certificate of Deposit	2,914,614	3,147,475
Investment Pools	2,519,344	504,431
Total Investments	<u>\$ 5,433,958</u>	<u>\$ 3,651,906</u>
Total Deposits and Investments	<u>\$ 13,464,747</u>	<u>\$ 13,915,067</u>
Cash and Cash Equivalents (Exhibit 1)	6,258,639	8,530,419
Restricted Cash and Cash Equivalents (Exhibit 1)	1,772,150	1,732,742
Short Term Investments (Exhibit 1)	5,328,830	3,547,406
Endowment Investments (Exhibit 1)	<u>105,128</u>	<u>104,500</u>
Total Deposits and Investments (Exhibit 1)	<u>\$ 13,464,747</u>	<u>\$ 13,915,067</u>

As of August 31, 2017, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			N/A
		Less than 1	1 to 2	Greater than 2	
Certificates of Deposit	\$ 2,914,614	\$ 2,914,614	\$ -	\$ -	\$ -
Investment Pool	2,519,344	2,519,344	-	-	-
Total Fair Value	<u>\$ 5,433,958</u>	<u>\$ 5,433,958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk – In accordance with state law and District policy, the District does not purchase any investments with maturities greater than 10 years.

Credit Risk – In accordance with state law and the District’s investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, counties, etc. must be rated at least A.

Concentration of Credit Risk – The District does not place a limit on the amount the District may invest in any one issuer. None of the District’s investments are in FNMA, FHLB or similar investments.

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

5. Capital Assets

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

	Balance September 1, 2016	Increases	Decreases	Balance August 31, 2017
<u>Not Depreciated:</u>				
Land	\$ 393,110	\$ -	\$ -	\$ 393,110
Collections	28,907	-	-	28,907
Construction in Progress	-	-	-	-
Subtotal	<u>422,017</u>	<u>-</u>	<u>-</u>	<u>422,017</u>
<u>Buildings and Other Capital Assets:</u>				
Buildings and Building Improvements	33,610,215	-	-	33,610,215
Other Real Estate Improvements	2,396,478	-	-	2,396,478
Total Buildings and Other Real Estate Improvements	36,006,693	-	-	36,006,693
Library Books	907,697	29,306	50,405	886,598
Furniture, Machinery, and Equipment	4,275,013	208,553	14,850	4,468,716
Total Buildings and Other Capital Assets	<u>41,189,403</u>	<u>237,859</u>	<u>65,255</u>	<u>41,362,007</u>
<u>Accumulated Depreciation:</u>				
Buildings and Building Improvements	9,460,898	572,276	-	10,033,174
Other Real Estate Improvements	561,176	88,004	-	649,180
Total Buildings and Other Real Estate Improvements	10,022,074	660,280	-	10,682,354
Library Books	651,066	38,336	50,405	638,997
Furniture, Machinery, and Equipment	2,903,918	290,512	14,850	3,179,580
Total Accumulated Depreciation	<u>13,577,058</u>	<u>989,128</u>	<u>65,255</u>	<u>14,500,931</u>
Net Capital Assets	<u>\$ 28,034,362</u>	<u>\$ (751,269)</u>	<u>\$ -</u>	<u>\$ 27,283,093</u>

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

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

	Balance September 1, 2015	Increases	Decreases	Balance August 31, 2016
Not Depreciated:				
Land	\$ 393,110	\$ -	\$ -	\$ 393,110
Collections	28,907	-	-	28,907
Construction in Progress	1,072,086	4,867,799	5,939,885	-
Subtotal	<u>1,494,103</u>	<u>4,867,799</u>	<u>5,939,885</u>	<u>422,017</u>
Buildings and Other Capital Assets:				
Buildings and Building Improvements	28,522,826	5,087,389	-	33,610,215
Other Real Estate Improvements	<u>1,332,923</u>	<u>1,063,555</u>	-	<u>2,396,478</u>
Total Buildings and Other Real Estate Improvements	29,855,749	6,150,944	-	36,006,693
Library Books	907,454	36,992	36,749	907,697
Furniture, Machinery, and Equipment	<u>4,047,007</u>	<u>261,111</u>	<u>33,105</u>	<u>4,275,013</u>
Total Buildings and Other Capital Assets	<u>34,810,210</u>	<u>6,449,047</u>	<u>69,854</u>	<u>41,189,403</u>
Accumulated Depreciation:				
Buildings and Building Improvements	8,934,410	526,488	-	9,460,898
Other Real Estate Improvements	<u>497,102</u>	<u>64,074</u>	-	<u>561,176</u>
Total Buildings and Other Real Estate Improvements	9,431,512	590,562	-	10,022,074
Library Books	647,354	40,461	36,749	651,066
Furniture, Machinery, and Equipment	<u>2,647,736</u>	<u>289,287</u>	<u>33,105</u>	<u>2,903,918</u>
Total Accumulated Depreciation	<u>12,726,602</u>	<u>920,310</u>	<u>69,854</u>	<u>13,577,058</u>
Net Capital Assets	<u>\$ 23,577,711</u>	<u>\$ 10,396,536</u>	<u>\$ 5,939,885</u>	<u>\$ 28,034,362</u>

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

6. Noncurrent Liabilities

Long-term liability activity for the year ended August 31, 2017 was as follows:

	<u>Balance September 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance August 31, 2017</u>	<u>Current Portion</u>
Bonds:					
Revenue Bonds	\$ 1,555,000	\$ -	\$ 530,000	\$ 1,025,000	\$545,000
Unamortized Bond Premium	11,786	-	4,286	7,500	-
Subtotal	<u>1,566,786</u>	<u>-</u>	<u>534,286</u>	<u>1,032,500</u>	<u>545,000</u>
Net pension Liability	<u>2,802,018</u>	<u>-</u>	<u>190,786</u>	<u>2,611,232</u>	<u>-</u>
Total Long-term Liabilities	<u>\$ 4,368,804</u>	<u>\$ -</u>	<u>\$ 725,072</u>	<u>\$ 3,643,732</u>	<u>\$545,000</u>

Long-term liability activity for the year ended August 31, 2016 was as follows:

	<u>Balance September 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance August 31, 2016</u>	<u>Current Portion</u>
Bonds:					
Revenue Bonds	\$ 2,070,000	\$ -	\$ 515,000	\$ 1,555,000	\$530,000
Unamortized Bond Premium	16,071	-	4,285	11,786	-
Subtotal	<u>2,086,071</u>	<u>-</u>	<u>519,285</u>	<u>1,566,786</u>	<u>530,000</u>
Net pension Liability	<u>2,425,153</u>	<u>376,865</u>	<u>-</u>	<u>2,802,018</u>	<u>-</u>
Total Long-term Liabilities	<u>\$ 4,511,224</u>	<u>\$ 376,865</u>	<u>\$ 519,285</u>	<u>\$ 4,368,804</u>	<u>\$530,000</u>

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

7. Debt Obligations

Debt service requirements as of August 31, 2017 were as follows:

For the Year Ended	Revenue Bonds		
<u>August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	545,000	26,662	571,662
2019	480,000	10,800	490,800
Total	\$ 1,025,000	\$ 37,462	\$ 1,062,462

8. Bonds Payable

General information related to bonds payable is summarized below:

Revenue Refunding Bonds, Series 2012:

To refund Series 1998, 2000, and 2002 bonds
Issued June 1, 2012
\$3,550,000; all authorized bonds have been issued
\$1,025,000 outstanding balance

The building use fee for the availability of the administration building and the fine arts building, the library use fee, the net revenues of the cafeteria and the bookstore, and dormitory rental fees are obligated toward the retirement of indebtedness.

Transfers are to be made from the Special Revenue Bond Fund to the Special Revenue Bond Interest and Sinking Fund, and the Special Revenue Bond Reserve Fund. For the year ended August 31, 2017, the College was in compliance with all significant covenants and restrictions that are contained in the various bond indentures.

Bonds payable are due in annual installments varying from \$480,000 to \$545,000 with an interest rate of 3.0% and the final installment due in 2019.

9. Advanced Refunding Bonds

On April 17, 2012, the Board approved the sale of \$3,550,000 Revenue Refunding Bonds, Series 2012. The sale closed and funds were received on June 12, 2012 with an average coupon rate of 2.79%. Proceeds from the sale totaling \$3,683,705 were used to refund all of the College's outstanding bonded indebtedness (Revenue Bonds Series 1998, 2000 and 2002) to achieve debt service savings and to pay costs of \$70,000 related to the issuance of the bonds. The Revenue Bond Series 1998, 2000, and 2002 are considered fully defeased and the liability for those bonds has been removed from the Plant Fund. Advanced refunding of these bonds reduced the College's debt service payments over the next 9 years by approximately \$300,318. An economic gain (the difference between net present values of the old and new debt service payments) of \$260,885 was achieved by the refunding.

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

10. Employees' Retirement Plan

The State of Texas has joint contributory retirement plans for almost all its employees.

Teacher Retirement System of Texas – Defined Benefit Pension Plan

Plan Description

The College participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position

Detail 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 https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf; 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 above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas 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 system

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

Contribution Rates

	2017	2016
Member	7.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
FY 2016 College Contributions	\$ 219,552	
FY 2016 State of Texas On-Behalf Contributions	\$ 198,119	
FY 2016 Member Contributions	\$ 438,876	

The College's contributions to the TRS pension plan in 2017 were \$238,340 as reported in the Schedule of College Contributions in the Required Supplementary Information section of these financial statements.

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

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

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

Actuarial Assumptions

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

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term Expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50%
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four-year period ending August 31, 2014 and adopted on September 24, 2015.

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. 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.

Hill College
Notes to Financial Statements
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Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>	<u>Expected Contribution to Long-Term Portfolio Returns*</u>
Global Equity			
U. S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U. S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Stable Value Hedge Funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	<u>100.0%</u>		<u>8.7%</u>

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

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

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

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 Net Pension Liability.

	1% Decrease in Discount Rate (7.00%)	Discount Rate (8.00%)	1% Increase in Discount Rate (9.00%)
Hill College's proportionate share of the net pension liability:	4,041,307	2,611,232	1,398,239

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2017, the College reported a liability of \$2,611,232 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the College. The amount recognized by the College 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 College were as follows:

Hill College's proportionate share of the collective net pension liability	2,611,232
State's proportionate share that is associated with Hill College	2,351,637
Total	4,962,869

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

At August 31, 2016, the employer's proportion of the collective net pension liability was 0.0069101198%, which was a decrease of 0.0010166802% from its proportion measured as of August 31, 2015.

For the year ended August 31, 2017, the College recognized pension expense of \$244,044 and revenue of \$244,044 for support provided by the State.

Hill College
Notes to Financial Statements
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At August 31, 2017, the College reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 40,944	\$ 77,970
Changes in actuarial assumptions	79,586	72,380
Differences between projected and actual investment earnings	503,188	282,074
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	551,487
Contributions paid to TRS subsequent to the measurement date	<u>238,340</u>	<u>-</u>
Total	<u>\$ 862,058</u>	<u>\$ 983,911</u>

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:

<u>Year Ended August 31:</u>	<u>Pension Expense Amount</u>
2018	(81,788)
2019	(81,788)
2020	59,249
2021	(92,622)
2022	(121,731)
Thereafter	(41,513)

Optional Retirement Plan – Defined Contribution Plan

Plan Description. 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 legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.60% and 6.65%, respectively. The College contributes an additional 1.0% for employees participating in the optional retirement program. Benefits fully vest after one year plus one day of employment.

Hill College
Notes to Financial Statements
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Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. S.B. 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

The retirement expense to the state for the College was \$90,160 and \$108,126 for the fiscal years ended August 31, 2017 and 2016, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

Public Agency Retirement System – Defined Contribution Plan

In addition, the College has established a defined contribution plan for part-time employees called the Public Agency Retirement System (PARS) plan. The PARS plan, as established by the College under the provisions of the Omnibus Budget Reconciliation Act of 1990, requires 5.5% to be deducted from participants' salaries each pay period and contributed to the PARS plan administered by the Union Bank of California. The College also contributes the equivalent of 2% of participants' salaries. Contributions to the PARS plan are immediately 100% vested.

The total payroll for all College employees was \$10,975,493 and \$10,434,517 for fiscal years 2017 and 2016, respectively. The total payroll of employees covered by the Teacher Retirement System was \$6,666,918 and \$6,200,385 for fiscal years 2017 and 2016, respectively. The total payroll of employees covered by the Optional Retirement System was \$3,088,524 and \$3,007,494 for fiscal years 2017 and 2016, respectively. The total payroll of employees covered by the PARS plan was \$1,127,147 and \$1,146,410 for fiscal years 2017 and 2016, respectively.

11. Deferred Compensation Plan

Under Section 403(b) of the Internal Revenue Code, all employees of the College are eligible to defer from taxable income amounts they choose to contribute to a Tax Sheltered Annuity (TSA). Authority for this program is granted under Government Code 609.001. The general maximum contribution limit was \$18,000 for tax years 2017 and 2016, with a make-up provision for individuals fifty years or older of \$6,000 in 2017 and 2016. Nineteen employees of the College contributed a total of \$81,952 under this plan for the year 2017, and nineteen employees contributed a total of \$70,677 under this plan for 2016. The College does not contribute to this plan. The deferred compensation program is not included in the basic financial statements because the program's assets are assets of the plan participants and not of the College.

12. Compensable Absences

Effective September 1, 2006, full-time employees earn vacation leave of six and two-thirds hours per month for a maximum of eighty hours per year. A maximum of forty hours may be carried over to the next fiscal year. The College recognized the accrued liability for the unpaid vacation leave in the amount of \$47,156 for 2017 and \$57,120 for 2016. Full-time employees earn sick leave of eight hours per month, which can be accumulated up to sixty days maximum. It is paid to an employee who misses work because of illness. Employees who terminate their employment are not entitled to payment for accumulated sick leave. Therefore, the College does not accrue for accumulated sick leave.

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

13. Health Care and Life Insurance Benefits

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee for HealthSelect of Texas was \$617.30 for employees, \$970.98 for employee and spouse, \$854.10 for employee and child, and \$1,207.78 for employee and family and totaled \$985,415 for the year ended August 31, 2017. For the year ended August 31, 2016, the state's contribution per full-time employee for HealthSelect of Texas was \$576.54 for employees, \$906.78 for employee and spouse, \$797.66 for employee and child, and \$1,127.90 for employee and family and totaled \$919,527. The cost of providing those benefits for 67 retirees in the year ended 2017 was \$267,421 (retiree benefits for 62 retirees cost \$234,962 for the year ended 2016). For 214 active employees, the cost of providing benefits was \$717,994 for the year ended 2017 (active employee benefits for 207 employees cost \$684,565 for the year ended 2016). S.B. 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

14. Postemployment Benefits Other than Pensions

Plan Description. In addition to providing pension benefits, the state provides certain health care 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 state. The College contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit postretirement 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.

The 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/>.

Funding Policy. 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.

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

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

The College's contributions to SRHP for the years ended August 31, 2017, 2016, and 2015, were \$2,347,462, \$2,149,719, and \$2,006,865, respectively, which equaled the required contributions each year.

15. Disaggregation of Receivables and Payables Balances

Receivables

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

	<u>2017</u>	<u>2016</u>
Student Receivables	\$ 1,789,762	\$ 1,807,338
Taxes Receivables	437,890	414,242
Federal Receivables	4,635,682	3,679,018
State Receivables	-	13,401
Other Receivables	91,984	223,860
Subtotal	<u>6,955,318</u>	<u>6,137,859</u>
Allowance for doubtful accounts	<u>(1,495,567)</u>	<u>(1,360,802)</u>
Total Receivables	<u><u>5,459,751</u></u>	<u><u>4,777,057</u></u>

Payables

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

	<u>2017</u>	<u>2016</u>
Student Payables	\$ 2,079,169	\$ 1,512,705
Vendors Payable	231,605	1,207,004
Total Payables	<u><u>\$ 2,310,774</u></u>	<u><u>\$ 2,719,709</u></u>

16. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements.

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

17. Ad Valorem Tax

The College's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the district.

At August 31:

	<u>2017</u>	<u>2016</u>
Assessed Valuation of the District	\$ 2,170,620,856	\$ 2,076,248,354
Less: Exemptions	311,640,784	278,729,962
Net Taxable	1,858,980,072	1,797,518,392
Less: Freeze Taxable	313,786,090	297,231,610
Freeze Adjusted Taxable	<u>1,545,193,982</u>	<u>1,500,286,782</u>

Authorized Tax Rate per \$100 valuation (current operations-maximum per enabling legislation)	.500000	.500000
Assessed Tax Rate per \$100 valuation (current operations)	.093132	.093012

Taxes levied for the year ended August 31, 2017 and 2016 amounted to \$1,655,815 and \$1,602,732, respectively. This amount includes the actual taxes calculated for disabled persons and persons over 65 up to their individual tax ceilings. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

	<u>2017</u>	<u>2016</u>
	<u>Current Operations</u>	<u>Current Operations</u>
Current Taxes Collected	\$ 1,598,016	\$ 1,541,146
Delinquent Taxes Collected	39,274	40,637
Penalties and Interest Collected	29,862	30,151
Total Collections	<u>\$ 1,667,152</u>	<u>\$ 1,611,934</u>

Tax collections for the year ended August 31, 2017 and 2016 were 96.51% and 96.16%, respectively, of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to maintenance and operations expenditures.

18. Branch Campus Maintenance Tax

A branch campus maintenance tax that is established by election is levied by the school districts of Alvarado, Cleburne, Godley, Grandview, Joshua, Keene, Rio Vista and Venus. It is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the districts. Collections are transferred to Hill College to be used for the operation of a Branch Campus at Cleburne.

Hill College
Notes to Financial Statements
August 31, 2017 and 2016

<u>Independent School District</u>	<u>Collections in Fiscal Year 2017 (including penalties and interest)</u>	<u>Collections in Fiscal Year 2016 (including penalties and interest)</u>
Alvarado	\$ 693,185	\$ 761,155
Cleburne	1,300,055	1,383,408
Godley	151,064	137,717
Grandview	148,350	152,962
Joshua	705,050	720,625
Keene	81,097	81,529
Rio Vista	96,126	92,708
Venus	144,952	140,980
Total	<u>\$ 3,319,879</u>	<u>\$ 3,471,084</u>

19. Income Taxes

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

20. Component Unit

Hill College Foundation – Discrete Component Unit

Hill College Foundation (the Foundation) was established as a separate nonprofit organization in 1975 for the purpose of providing student scholarships and assistance in the development and growth of the College. Under Governmental Standards Board Statement No. 39, Determining Whether Certain Organizations are Component Units, an organization should report as a discretely presented component unit those organizations that raise and hold economic resources for the direct benefit of a government unit.

Accordingly, the Foundation financial statements are included in the College's annual report as a discrete component unit (see table of contents). Fiscal year 2017 financial statements were not included, as the audit for 2017 was not completed by the date the College's financial statements were audited and submitted. Complete financial statements of the Hill Junior College Development Foundation, Inc. can be obtained from the administrative office of Hill College.

21. Related Parties

The Hill College Johnson County Campus Development Foundation, Inc. is a nonprofit organization with the sole purpose of supporting the educational and other activities of the College. Hill College is not obligated to financially support or pay the debt of the foundation nor is it able to significantly influence the policies of this foundation. The foundation solicits donations and acts as coordinators of gifts made by other parties.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

Hill College
Schedule of College's Share of Net Pension Liability
Last Three Fiscal Years**

Fiscal year ending August 31*	2017	2016	2015
College's proportionate share of collective net pension liability (%)	0.0069101%	0.0079268%	0.0090791%
College's proportionate share of collective net pension liability (\$)	\$ 2,611,232	\$ 2,802,018	\$ 2,425,153
Portion of NECE's total proportionate share of NPL associated with College	2,351,637	2,452,737	2,117,111
Total	4,962,869	5,254,755	4,542,264
College's covered payroll amount	\$ 6,666,918	\$ 6,200,385	\$ 6,541,689
Ratio of: ER proportionate share of collective NPL / ER's covered payroll amount	39.17%	45.19%	37.07%

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

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

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

Hill College
Schedule of College's Contributions
Last Three Fiscal Years**

Fiscal year ending August 31*	2017	2016	2015
Legally required contributions	\$ 238,340	\$ 219,552	\$ 234,602
Actual contributions	238,340	219,552	234,602
Contributions deficiency (excess)	-	-	-
College's covered employee payroll amount	\$ 6,666,918	\$ 6,200,385	\$ 6,541,689
Ratio of: Actual contributions / ER covered payroll amount	3.57%	3.54%	3.59%

*The amounts presented above are as of the College's most recent fiscal year-end.

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

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

Hill College
Notes to Required Supplementary Information
August 31, 2017

1. Changes of Benefit Terms:

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

2. Changes of Assumptions

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

SUPPLEMENTARY SCHEDULES

Hill College
Schedule A
Schedule of Operating Revenues
Year Ended August 31, 2017 (With Memorandum Totals for the Year Ended August 31, 2016)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2017 Total	2016 Total
Tuition:						
State Funded Credit Courses:						
In-District Resident Tuition	\$ 3,185,879	\$ -	\$ 3,185,879	\$ -	\$ 3,185,879	\$ 2,841,869
Out-of-District Resident Tuition	2,376,176	-	2,376,176	-	2,376,176	1,979,468
Non-Resident Tuition	307,177	-	307,177	-	307,177	232,421
TPEG - Credit (set aside)*	-	354,498	354,498	-	354,498	306,942
State-Funded Continuing Education	58,303	-	58,303	-	58,303	87,509
TPEG - Credit (set aside)*	-	2,750	2,750	-	2,750	2,650
Non-State Funded Continuing Education	4,377	-	4,377	-	4,377	5,600
Total Tuition	5,931,912	357,248	6,289,160	-	6,289,160	5,456,459
Fees:						
Out of District Fee	909,344	-	909,344	-	909,344	849,537
General Fees	341,769	-	341,769	-	341,769	340,183
Student Service Fee	-	-	-	331,656	331,656	320,252
Building Use Fee	-	-	-	810,099	810,099	782,859
Laboratory Fee	216,499	-	216,499	-	216,499	218,235
Total Fees	1,467,612	-	1,467,612	1,141,755	2,609,367	2,511,066
Scholarship Allowances and Discounts:						
Remissions and Exemptions - State	-	-	-	(272,566)	(272,566)	(233,006)
Title IV Federal Grants	(2,207,356)	-	(2,207,356)	-	(2,207,356)	(1,979,568)
TPEG Awards	(347,014)	-	(347,014)	-	(347,014)	(415,231)
Other State Grants	(98,163)	-	(98,163)	-	(98,163)	(99,280)
Other Local Grants	(1,975,532)	-	(1,975,532)	-	(1,975,532)	(1,797,291)
Total Scholarship Allowances	(4,628,065)	-	(4,628,065)	(272,566)	(4,900,631)	(4,524,376)
Total Net Tuition and Fees	2,771,459	357,248	3,128,707	869,189	3,997,896	3,443,149
Additional Operating Revenues:						
Federal Grants and Contracts	21,753	141,547	163,300	-	163,300	248,072
State Grants and Contracts	-	436,530	436,530	-	436,530	436,150
Non-Governmental Grants and Contracts	-	1,384,522	1,384,522	-	1,384,522	1,609,011
General Operating Revenues	207,424	-	207,424	-	207,424	286,387
Total Additional Operating Revenues	229,177	1,962,599	2,191,776	-	2,191,776	2,579,620
Auxiliary Enterprises:						
Residential Life	-	-	-	1,081,112	1,081,112	1,009,576
Less Discounts	-	-	-	(616,628)	(616,628)	(586,366)
Bookstore	-	-	-	140,409	140,409	217,171
Cosmetology & Massage Therapy	-	-	-	24,841	24,841	33,313
Concessions	-	-	-	84,372	84,372	89,763
Miscellaneous Income	-	-	-	-	-	-
Total Net Auxiliary Enterprises	-	-	-	714,106	714,106	763,457
Total Operating Revenues	\$ 3,000,636	\$ 2,319,847	\$ 5,320,483	\$ 1,583,295	\$ 6,903,778	\$ 6,786,226
					(Exhibit 2)	(Exhibit 2)

*In accordance with Education Code 56.033, \$357,248 and \$309,592 for years August 31, 2017 and 2016, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

Hill College
Schedule B
Schedule of Operating Expenses by Object
Year Ended August 31, 2017 (With Memorandum Totals for the Year Ended August 31, 2016)

	Operating Expenses					2017 Total	2016 Total
	Salaries and Wages	Benefits		Other Expenses			
		State	Local				
Unrestricted - Educational Activities							
Instruction	\$ 6,410,327	\$ -	\$ 301,905	\$ 678,850	\$ 7,391,082	\$ 6,979,120	
Public Service	-	-	-	-	-	-	
Academic Support	1,190,609	-	58,709	488,999	1,738,317	1,435,228	
Student Services	1,322,571	-	58,084	204,790	1,585,445	1,548,769	
Institutional Support	1,596,888	-	1,490,509	2,248,922	5,336,319	4,236,251	
Operation and Maintenance of Plant	339,371	-	67,235	1,723,384	2,129,990	2,740,294	
Scholarships and Fellowships	-	-	-	-	-	-	
Total Unrestricted Educational Activities	10,859,766	-	1,976,442	5,344,945	18,181,153	16,939,662	
Restricted - Educational Activities							
Instruction	\$ 15,245	\$ 752,537	\$ -	\$ 187,254	\$ 955,036	\$ 817,890	
Public Service	-	-	-	-	-	-	
Academic Support	10,460	226,302	-	-	236,762	147,107	
Student Services	34,161	252,718	-	42,918	329,797	410,051	
Institutional Support	2,070	269,902	-	30,036	302,008	222,847	
Operation and Maintenance of Plant	-	34,130	-	-	34,130	27,617	
Scholarships and Fellowships	-	-	-	3,639,919	3,639,919	4,436,339	
Total Restricted Educational Activities	61,936	1,535,589	-	3,900,127	5,497,652	6,061,851	
Total Educational Activities	10,921,702	1,535,589	1,976,442	9,245,072	23,678,805	23,001,513	
Auxiliary Enterprises	-	-	-	1,303,882	1,303,882	1,231,437	
Depreciation Expense - Buildings and Other Real Estate Improvements	-	-	-	660,279	660,279	590,563	
Depreciation Expense - Equipment and Furniture	-	-	-	328,848	328,848	329,747	
Total Operating Expenses	\$ 10,921,702	\$ 1,535,589	\$ 1,976,442	\$ 11,538,081	\$ 25,971,814	\$ 25,153,260	
					(Exhibit 2)	(Exhibit 2)	

Hill College

Schedule C

Schedule of Non-Operating Revenues and Expenses

Year Ended August 31, 2017 (With Memorandum Totals for the Year Ended August 31, 2016)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2017 Total</u>	<u>2016 Total</u>
NON-OPERATING REVENUES:					
State Appropriations:					
Education and General State Support	\$ 6,535,128	\$ -	\$ -	\$ 6,535,128	\$ 6,527,502
State Group Insurance	-	985,415	-	985,415	919,527
State Retirement Matching	-	546,194	-	546,194	303,114
Texas Heritage Museum	356,504	-	-	356,504	356,504
Total State Appropriations	6,891,632	1,531,609	-	8,423,241	8,106,647
Maintenance Ad Valorem Taxes	1,667,152	-	-	1,667,152	1,611,934
Branch Campus Maintenance Tax	3,319,879	-	-	3,319,879	3,471,084
Federal Revenue, Non Operating	5,764,434	-	-	5,764,434	6,395,823
Investment Income	68,139	13,244	16,303	97,686	96,986
Gifts	115,785	-	-	115,785	626,617
Other Non-Operating Revenue	212,882	-	-	212,882	53,364
Total Non-Operating Revenues	18,039,903	1,544,853	16,303	19,601,059	20,362,455
NON-OPERATING EXPENSES:					
Interest on Capital Related Debt	38,389	-	-	38,389	53,952
Other Non-Operating Expense	-	-	-	-	-
Total Non-Operating Expenses	38,389	-	-	38,389	53,952
Net Non-Operating Revenues	\$ 18,001,514	\$ 1,544,853	\$ 16,303	\$ 19,562,670	\$ 20,308,503
				(Exhibit 2)	(Exhibit 2)

Hill College
Schedule D
Schedule of Net Position by Source and Availability
Year Ended August 31, 2017 (With Memorandum Totals for the Year Ended August 31, 2016)

	Detail by Source				Available for Current Operations		
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 2,298,346	\$ -	\$ -	\$ -	\$ 2,298,346	\$ 2,298,346	\$ -
Board Designated	3,778,982	-	-	-	3,778,982	3,778,982	-
Restricted	-	37,609	-	-	37,609	-	37,609
Auxiliary Enterprises	505,170	-	-	-	505,170	505,170	-
Loan	-	-	-	-	-	-	-
Endowment	-	-	1,655,808	-	1,655,808	-	1,655,808
Plant:							
Debt Service	-	1,123,302	-	-	1,123,302	-	1,123,302
Investment in Plant	-	-	-	26,258,093	26,258,093	-	26,258,093
Total Net Position, August 31, 2017	6,582,498	1,160,911	1,655,808	26,258,093	35,657,310 (Exhibit 1)	6,582,498	29,074,812
Total Net Position, August 31, 2016	5,673,691	1,050,183	1,595,508	26,774,361	35,093,743 (Exhibit 2)	5,673,691	29,420,052
Net Increase (Decrease) in Net Position	\$ 908,807	\$ 110,728	\$ 60,300	\$ (516,268)	\$ 563,567 (Exhibit 2)	\$ 908,807	\$ (345,240)

HILL COLLEGE
 Schedule E
 Schedule of Expenditures of Federal Awards
 For the Year Ended August 31, 2017

<u>Federal Grantor/ Pass Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantors Number</u>	<u>Expenditures and Pass Through Disbursements</u>
<i>U. S. Department of Education</i>			
Direct Programs:			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grant	84.007		\$ 86,304
Federal College Work Study Program	84.033		23,983
Federal Pell Grant Program	84.063		5,654,148
Direct Loans	84.268		<u>6,138,803</u>
Total Direct Programs			11,903,238
Pass-Through From:			
Texas Higher Education Coordinating Board			
Carl Perkins Vocational Education-Basic	84.048	164232	141,546
<i>Total U. S. Department of Education</i>			<u>12,044,784</u>
Total Federal Financial Assistance			<u><u>\$ 12,044,784</u></u>

Notes to Schedule on following page.

HILL COLLEGE
Schedule E (Continued)
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2017

Note 1: Federal Assistance Recouiliation

Federal Grants and Contracts Revenue per Schedule A	\$	163,300
Less: Indirect/Administrative Costs Recoveries		(21,753)
Add: Non-Operating Federal Revenue from Schedule C		5,764,434
		<hr/>
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Position	\$	5,905,981
		<hr/>
Reconciling Item:		
Add: Direct Student Loans	\$	6,138,803
		<hr/>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	\$	12,044,784
		<hr/> <hr/>

Note 2: Significant Accounting Policies Used in Preparing the Schedule

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

HILL COLLEGE
Schedule F
Schedule of Expenditures of State Awards
For the Year Ended August 31, 2017

Grantor Agency / Program Title	Grant Contract Number	Expenditures
<i>Texas Higher Education Coordinating Board</i>		
TX Educational Opportunity Grant Program		\$ 272,226
Texas College Work Study Program		22,510
ABE Community College Grants	07047	1,553
Nursing Innovation Grant Program (NIGP)	13068	16,738
<i>Total Texas Higher Education Coordinating Board</i>		<u>313,027</u>
<i>Texas Workforce Commission</i>		
Skills Development	0415SDF007	63,503
Pass-Through From:		
Texas Association of Community Colleges - Texas Success Center Career Pathways Project	2915SSF000	60,000
<i>Total Texas Workforce Commission</i>		<u>123,503</u>
Total State Financial Assistance		<u><u>\$ 436,530</u></u>

Notes to Schedule on following page.

HILL COLLEGE
Schedule F (Continued)
Schedule of Expenditures of State Awards
For the Year Ended August 31, 2017

Note 1: State Assistance Reconciliation

State Revenues - per Schedule A	
State Grants and Contracts	\$ 436,530
Less: Indirect/Administrative Cost Recoveries	-
Total State Revenues per Schedule of Expenditures of State Awards	<u>\$ 436,530</u>

Note 2: Significant Accounting Policies Used in Preparing the Schedule

The accompanying schedule is presented using the accrual basis of accounting. See Note 2 to the financial statements for Hill College's significant accounting policies. These expenditures are reported on Hill College's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.

AUDITORS' REPORT ON CONTROLS AND COMPLIANCE



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

Board of Regents
Hill College
Hillsboro, Texas

We have audited, in accordance with the 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 Hill College (The "College"), as of and for the years ended August 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated December 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the 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 the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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 College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS* (CONTINUED)**

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the Public Funds Investment Act (Chapter 2256, Texas Government Code), 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* or the Public Funds Investment Act (Chapter 2256, Texas Government Code).

Purpose of this Report

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 College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jett, Vernon & Co., P.C.

Temple, Texas
December 22, 2017



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Regents
Hill College
Hillsboro, Texas

Report on Compliance for Each Major Federal Program

We have audited Hill College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal 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)*. Those standards and the Uniform Guidance 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 program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(CONTINUED)**

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

Opinion on Each Major Federal Program

In our opinion, Hill College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

Report on Internal Control Over Compliance

Management of the College 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 College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 College'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 program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(CONTINUED)**

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. Accordingly, this report is not suitable for any other purpose.

Jett, Vernon & Co., P.C.

Temple, Texas
December 22, 2017

HILL COLLEGE
Schedule of Findings and Questioned Costs
August 31, 2017

I. Summary of Audit Results

Financial Statements

1. Type of auditor's report issued: *unmodified*
2. Internal control over financial reporting:
 Material weakness(es) identified? _____ yes X no
 Significant deficiencies identified that are
 not considered to be material
 weakness(es)? _____ yes X none reported
3. Noncompliance material to financial
 statements noted? _____ yes X no

Federal Awards

4. Internal control over major programs:
 Material weakness(es) identified? _____ yes X no
 Significant deficiencies identified that are
 not considered to be material
 weakness(es)? _____ yes X no
5. Type of auditor's report issued on
 compliance for major programs: *unmodified*
6. Any audit findings disclosed that are required
 to be reported in accordance with section
 200.516a of the Uniform Guidance? _____ yes X no

7. Identification of major programs:

<u>Name of Federal Programs</u>	<u>Federal CFDA Number</u>
U.S. Department of Education Student Financial Aid Cluster:	
SEOG	84.007
Federal College Work Study Program	84.033
Federal Pell Grant Program	84.063
William D Ford Direct Loans	84.268

8. Dollar threshold used to distinguish between
 type A and type B federal programs: \$750,000
9. Auditee qualified as low-risk auditee for
 federal single audit? X yes _____ no

HILL COLLEGE
Schedule of Findings and Questioned Costs (Continued)
August 31, 2017

II. Financial Statement Findings

None.

III. Federal and State Awards Findings and Questioned Costs

None.