

Hill College
Annual Financial Report
August 31, 2013

HILL COLLEGE
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HILL COLLEGE

ORGANIZATIONAL DATA

For the Fiscal Year 2012 - 2013

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
Jim Cato	Whitney, Texas	2016
Gwen Eubank	Whitney, Texas	2014
Bill Galiga	Hillsboro, Texas	2016
Dr. Allan Lane	Whitney, Texas	2018
Jolene Lehmann	Bynum, Texas	2014
Dwight Lloyd	Itasca, Texas	2016
Tony Marley	Hillsboro, Texas	2014
Ricky Sullins	Abbott, Texas	2018
David Teel	Hillsboro, Texas	2016
Pam Timmons	Covington, Texas	2014

PRINCIPAL ADMINISTRATIVE OFFICERS

Dr. Sheryl Kappus	President
Billy Don Curbo	Vice-President of Administrative Services
Rex Parcels	Vice-President of Instruction
Dr. Robert Riza	Vice-President of Student Services
Dr. Roger Schustereit	Vice-President
Jessie White	Vice-President of Information Technology
Leslie Cannon	Executive Dean
Lizza Trenkle	Executive Dean of Enrollment Services
Susan Gann	Dean of Instruction, Mathematics, Humanities, Social Sciences, Art, Behavioral Sciences, Education and Developmental Studies
Dr. Floretta Bush	Dean of Career & Technical Education
Debbie Gerik	Dean of Financial Services
Bill Gilker	Campus Manager / Dean of Students (JCC)
Nancy Holland	Dean, Hill College @ Burleson
Lori Moseley	Dean of Instruction, Health Sciences



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

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

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, 2013 and 2012, 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 of 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

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION (CONTINUED)

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2013 and 2012, and the respective changes in financial position, and cash flows for the years then ended in conformity 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 on pages 5 through 10 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 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 supplementary 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 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas Single Audit Circular, and are also not a required part of the financial statements. The supplementary 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

**INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL
STATEMENTS AND SUPPLEMENTAL INFORMATION (CONTINUED)**

financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 20, 2013, 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.

Jett, Vernon & Co., P.C.

Temple, Texas
December 20, 2013

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, 2013. 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.

For additional information on accounting policy refer to Notes 1 and 2 in the "Notes to the Financial Statements".

Statement of Net Position

Condensed Statement of Net Position

	2013	2012	2011
Assets:			
Current Assets	\$ 17,011,091	\$ 17,380,298	\$ 14,757,845
Capital Assets	22,956,885	20,859,537	20,279,708
Other Noncurrent Assets	1,381,603	1,535,300	1,510,509
Total Assets	\$ 41,349,579	\$ 39,775,135	\$ 36,548,062
Deferred Outflows of Resources:			
None	-	-	-
Total Deferred Outflows of Resources	-	-	-
Liabilities:			
Current Liabilities	\$ 6,840,299	\$ 7,128,596	\$ 6,378,717
Noncurrent Liabilities	2,668,000	3,154,750	3,596,200
Total Liabilities	\$ 9,508,299	\$ 10,283,346	\$ 9,974,917
Deferred Inflows of Resources:			
Unamortized Premium on Bonds	24,643	28,929	-
Total Deferred Inflows of Resources	24,643	28,929	-
Net Position:			
Invested in Capital Assets, Net of Related Debt	\$ 19,406,884	\$ 17,349,537	\$ 16,374,708
Restricted-nonexpendable	1,146,057	1,126,779	1,054,676
Restricted-expendable	1,546,334	826,822	950,764
Unrestricted	9,717,362	10,159,722	8,192,997
Total Net Position	\$ 31,816,637	\$ 29,462,860	\$ 26,573,145

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 \$2,353,777 increase in Total Net Position when compared to the prior year is the result of capital asset activity for the year less depreciation. The significant capital projects for the year were (1) \$1,030,779 spent on the completion of the Welding building and site improvements on the Wallace Campus, (2) \$519,269 booked as construction in progress for an addition to the Performing Arts Center on the Hillsboro Campus, and (3) a 34,900 square foot building (Dudley III) purchased for \$175,343 with \$548,270 booked as construction in progress for renovations to the Dudley III building.

The largest component of capital assets is the College's investment in buildings and other real estate improvements, \$19,886,168. The buildings owned by Hill College are only 29.70% depreciated, which is an indication of the age of our facilities. Most of our buildings are relatively new and are in good repair.

The largest and most significant components of our liabilities are (1) Deferred Revenue which is up \$120,192 because of a \$3 per SCH increase in tuition, (2) Bonds Payable which is down \$485,000 because Hill College issued \$3,550,000 Revenue Refunding Bonds in 2012 and reduced the payment period by two years, and (3) accounts payable which is down \$249,834. The main campus located in Hillsboro is totally paid for and debt free. All of the outstanding bond indebtedness is for the development of the Johnson County campus. See the "Capital Asset and Debt Administration" Section for more information on the Revenue Refunding Bonds.

It is also important to note that current liabilities are only 40.21% 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.

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

	2013	2012	2011
Operating Revenues:			
Tuition and fees (net of discounts)	\$ 3,558,023	\$ 3,472,160	\$ 3,303,180
Federal grants and contracts	490,377	491,662	619,070
State grants and contracts	664,197	799,752	658,702
Non-governmental grants and contracts	1,041,557	1,073,218	1,317,309
Auxiliary enterprises (net of discounts)	812,901	838,789	840,080
Other operating revenues	213,017	175,162	170,039
Total Operating Revenues	6,780,072	6,850,743	6,908,380
Operating Expenses:			
Instruction	7,970,573	8,007,032	8,270,398
Public Service	16,226	17,410	12,446
Academic support	1,521,290	1,524,356	1,563,410
Student services	2,203,324	1,873,145	1,985,727
Institutional support	4,204,744	4,067,293	3,481,038
Operation and maintenance of plant	2,323,245	2,262,829	2,528,101
Scholarships and fellowships	5,157,089	5,543,546	5,732,767
Auxiliary enterprises	1,191,163	1,065,039	998,291
Depreciation	779,968	777,420	728,546
Total Operating Expenses	25,367,622	25,138,070	25,300,724
Operating Loss	(18,587,550)	(18,287,327)	(18,392,344)
Non-Operating Revenues (Expenses):			
State Appropriations	8,002,717	8,084,248	8,164,179
Maintenance ad valorem taxes	1,427,422	1,384,171	1,280,110
Branch campus maintenance tax	3,142,351	2,923,462	2,713,193
Federal revenue, non-operating	8,045,509	8,176,302	7,996,188
Gifts	2,730	666,642	364,096
Investment income	123,406	117,566	121,868
Interest on capital-related debt	(81,880)	(203,482)	(201,728)
Gain (loss) on disposal of capital assets	8,246	(3,800)	(1,085)
Other non-operating expenses	-	(102,717)	(3,120)
Other non-operating revenues	252,396	53,388	119,898
Net Non-Operating Revenues	20,922,897	21,095,780	20,553,599
Income Before Other Revenues (Expenses)	2,335,347	2,808,453	2,161,255
Other Revenues (Expenses):			
Additions to permanent endowments	18,430	81,262	14,270
Increase (Decrease) in Net Position	2,353,777	2,889,715	2,175,525
Net Position at Beginning of Year	29,462,860	26,573,145	24,397,620
Net Position at End of Year	\$ 31,816,637	\$ 29,462,860	\$ 26,573,145

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.

There is no significant change in the Operating Revenues and the Operating Expenses from 2012 to 2013. There was a decrease of \$535,938 in "Increase in Net Position" due to a \$666,642 gift from the Hill College Foundation in 2012 for the construction of the new Welding building.

While an increase in net position may be an indication of the financial health of the college, it is not necessarily a goal of the institution to always show an increase in net position. The college's net position increased \$2,353,777 during the year.

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>2013</u>	<u>2012</u>	<u>2011</u>
Cash Flows from			
Operating Activities	\$ (16,677,870)	\$ (17,522,485)	\$ (21,363,550)
Noncapital Financing Activities	19,661,349	19,672,460	24,646,949
Capital and Related Financing Activities	(3,260,671)	(1,095,410)	(740,715)
Investing Activities	152,660	(91,545)	1,801,541
Net Increase in Cash and Cash Equivalents	(124,532)	963,020	4,344,225
Cash at Beginning of Year	11,771,845	10,808,825	6,464,600
Cash at End of Year	<u>\$ 11,647,313</u>	<u>\$ 11,771,845</u>	<u>\$ 10,808,825</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.

Effective fall 2013, the Hill College Board of Regents approved a \$2 per semester credit hour increase in tuition for all students and a \$1 per semester credit hour increase in building use fees for in-district Johnson County students.

During the fall of 2013, the Hill College Foundation gave Hill College 32.88 acres of land, with an appraised value of \$68,440. This land is a part of the Wallace Campus in Hillsboro and is the site on which the new Welding building was built.

FINANCIAL STATEMENTS

Hill College
 Exhibit 1
 Statement of Net Position
 August 31, 2013 and August 31, 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 10,368,413	\$ 10,338,235
Short Term Investments	2,008,409	2,038,418
Accounts Receivable (Net)	4,061,837	4,465,356
Deferred Charges	486,085	467,932
Prepaid Expenses	86,347	70,357
	<u>17,011,091</u>	<u>17,380,298</u>
Total Current Assets		
Noncurrent Assets		
Restricted Cash and Cash Equivalents	1,278,900	1,433,610
Endowment Investments	102,369	101,516
Deferred Charges	334	174
Capital Assets, (Net) (See Note 5)	22,956,885	20,859,537
	<u>24,338,488</u>	<u>22,394,837</u>
Total Noncurrent Assets		
Total Assets		
	<u>41,349,579</u>	<u>39,775,135</u>
Deferred Outflows of Resources:		
None	-	-
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,187,651	1,437,485
Accrued Liabilities	191,642	188,432
Funds Held for Others	234,139	406,004
Deferred Revenue	4,731,867	4,611,675
Bonds Payable - Current Portion	495,000	485,000
	<u>6,840,299</u>	<u>7,128,596</u>
Total Current Liabilities		
Noncurrent Liabilities		
Dorm Deposits Payable	98,000	89,750
Bonds Payable	2,570,000	3,065,000
	<u>2,668,000</u>	<u>3,154,750</u>
Total Noncurrent Liabilities		
Total Liabilities		
	<u>9,508,299</u>	<u>10,283,346</u>
Deferred Inflows of Resources:		
Unamortized Premium on Bonds Payable	24,643	28,929
Total Deferred Inflows of Resources	<u>24,643</u>	<u>28,929</u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	19,406,884	17,349,537
Restricted for:		
Nonexpendable		
Student Aid	1,146,057	1,126,779
Expendable		
Student Aid	(17,767)	74,273
Loans	-	1,006
Debt Service	1,564,101	751,543
Unrestricted	9,717,362	10,159,722
	<u>31,816,637</u>	<u>29,462,860</u>
Total Net Position (Schedule D)		

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

Hill College Foundation
 Exhibit 1-A
 Statement of Financial Position
 August 31, 2012 and August 31, 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 126,392	\$ 144,483
Investments	502,389	489,643
Total Current Assets	<u>628,781</u>	<u>634,126</u>
Noncurrent Assets:		
Receivables-restricted	335,343	333,222
Investments-restricted	5,829,140	5,800,013
Capital Assets, net of accumulated depreciation	1,360,033	1,373,062
Total Noncurrent Assets	<u>7,524,516</u>	<u>7,506,297</u>
Total Assets	<u>8,153,297</u>	<u>8,140,423</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,283	-
Total Current Liabilities	<u>1,283</u>	<u>-</u>
 NET ASSETS		
Invested in Capital Assets	1,360,033	1,373,062
Restricted for:		
Expendable:		
Wallace Campus and Programs of Hill College	4,977,726	5,014,321
Hill College Capital Projects	784,043	745,976
Nonexpendable:		
Endowments for Hill College Scholarships	484,689	504,689
Unrestricted	545,523	502,375
Total Net Assets	<u>8,152,014</u>	<u>8,140,423</u>
Total Liabilities and Net Assets	<u>\$ 8,153,297</u>	<u>\$ 8,140,423</u>

Hill College
Exhibit 2
Statement of Revenues, Expenses, and Changes in Net Position
Years Ended August 31, 2013 and August 31, 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Tuition and Fees (net of discounts of \$4,994,928 and \$4,601,889, respectively)	\$ 3,558,023	\$ 3,472,160
Federal Grants and Contracts	490,377	491,662
State Grants and Contracts	664,197	799,752
Non-Governmental Grants and Contracts	1,041,557	1,073,218
Auxiliary Enterprises (net of discounts)	812,901	838,789
General Operating Revenues	<u>213,017</u>	<u>175,162</u>
Total Operating Revenues (Schedule A)	6,780,072	6,850,743
Operating Expenses		
Instruction	7,970,573	8,007,032
Public Service	16,226	17,410
Academic Support	1,521,290	1,524,356
Student Services	2,203,324	1,873,145
Institutional Support	4,204,744	4,067,293
Operation and Maintenance of Plant	2,323,245	2,262,829
Scholarships and Fellowships	5,157,089	5,543,546
Auxiliary Enterprises	1,191,163	1,065,039
Depreciation	<u>779,968</u>	<u>777,420</u>
Total Operating Expenses (Schedule B)	25,367,622	25,138,070
Operating Loss	(18,587,550)	(18,287,327)
Non-Operating Revenues (Expenses)		
State Appropriations	8,002,717	8,084,248
Maintenance Ad Valorem Taxes	1,427,422	1,384,171
Branch Campus Maintenance Tax	3,142,351	2,923,462
Federal Revenue, Non Operating	8,045,509	8,176,302
Gifts	2,730	666,642
Investment Income	123,406	117,566
Interest on Capital Related Debt	(81,880)	(203,482)
Gain (Loss) on Disposal of Capital Assets	8,246	(3,800)
Other Non-Operating Revenues	252,396	53,388
Other Non-Operating Expenses	<u>-</u>	<u>(102,717)</u>
Net Non-Operating Revenues (Schedule C)	20,922,897	21,095,780
Income Before Other Revenues (Expenses)	2,335,347	2,808,453
Other Revenues (Expenses)		
Additions to Permanent and Term Endowments	<u>18,430</u>	<u>81,262</u>
Total Other Revenues	18,430	81,262
Increase in Net Position	2,353,777	2,889,715
Net Position		
Net Position - Beginning of Year (As restated - Note 22)	<u>29,462,860</u>	<u>26,573,145</u>
Net Position - End of Year	\$ 31,816,637	\$ 29,462,860

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

Hill College Foundation
 Exhibit 2-A
 Statement of Activities
 Years Ended August 31, 2012 and August 31, 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Investment Earnings	\$ 419,797	\$ 500,242
Farm and Lease Revenue	115,186	297,273
Contribution	1,077	-
	<u>536,060</u>	<u>797,515</u>
Total Operating Revenue		
Operating Expenses:		
Contribution to Hill College	387,566	297,388
Investment Management Fees	92,960	99,206
Legal Fees	4,590	3,621
Accounting and Audit Fees	12,509	16,788
Property Taxes	4,499	4,373
Insurance	5,290	5,198
Depreciation	13,029	13,028
Other Operating Expenses	4,026	1,038
	<u>524,469</u>	<u>440,640</u>
Total Operating Expenses		
Increase in Net Assets	11,591	356,875
Net Assets, Beginning of Year	<u>8,140,423</u>	<u>7,783,548</u>
Net Assets, End of Year	\$ <u>8,152,014</u>	\$ <u>8,140,423</u>

Hill College
Exhibit 3
Statement of Cash Flows
Years Ended August 31, 2013 and August 31, 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from students and other customers	\$ 4,634,335	\$ 3,917,325
Receipts from grants and contracts	2,480,859	1,477,719
Payments to suppliers for goods and services	(6,081,763)	(5,373,490)
Payments to or on behalf of employees	(12,733,965)	(12,187,404)
Payments for scholarships	(5,157,089)	(5,543,546)
Other receipts	179,753	186,911
Net cash used by operating activities	<u>(16,677,870)</u>	<u>(17,522,485)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from state appropriations	6,974,957	7,126,393
Receipts from nonoperating federal revenues	8,045,509	8,176,302
Receipts from ad valorem taxes	4,569,773	4,307,633
Receipts from student organizations and other agency transactions	169,653	173,115
Payments to student organizations and other agency transactions	(115,963)	(192,245)
Additions to permanent and term endowments	18,430	81,262
Other payments	(1,010)	-
Net cash provided by noncapital financing activities	<u>19,661,349</u>	<u>19,672,460</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds on issuance of capital debt	-	3,516,644
Receipts from gifts	2,730	666,642
Proceeds from the sale of capital assets	26,856	-
Insurance proceeds	26,525	2,671
Purchases of capital assets	(2,744,158)	(1,193,772)
Payments on capital debt - principal	(485,000)	(3,905,000)
Payments on capital debt - interest	(87,624)	(182,595)
Net cash used by capital and related financing activities	<u>(3,260,671)</u>	<u>(1,095,410)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	2,057,831	-
Purchase of investments	(2,000,000)	(200,000)
Interest on investments	94,829	108,455
Net cash provided (used) by investing activities	<u>152,660</u>	<u>(91,545)</u>
Increase (decrease) in cash and cash equivalents	<u>(124,532)</u>	<u>963,020</u>
Cash and cash equivalents - September 1	<u>11,771,845</u>	<u>10,808,825</u>
Cash and cash equivalents - August 31	<u>\$ 11,647,313</u>	<u>\$ 11,771,845</u>
Reconciliation of net operating loss to net cash provided (used)		
by operating activities:		
Operating loss	\$ (18,587,550)	\$ (18,287,327)
Adjustments to reconcile operating loss to net cash used		
by operating activities:		
Depreciation expense	779,968	777,420
Payments made directly by state for benefits	1,027,760	957,855
Changes in assets and liabilities:		
Receivables (net)	405,308	(1,458,710)
Prepaid expenses	(15,990)	11,457
Accounts payable	(388,682)	290,448
Deferred revenue	119,630	217,239
Deferred charges	(18,314)	(30,867)
Net cash used by operating activities	<u>\$ (16,677,870)</u>	<u>\$ (17,522,485)</u>

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

Hill College
Notes to Financial Statements
August 31, 2013

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.

The College adopted two new GASB statements for the fiscal year under audit. GASB 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position*, which was effective for financial statement periods beginning after December 15, 2011, established reporting standards for deferred outflow and inflows and changed the presentation and titles of the financial statements accordingly.

The College chose to early adopt GASB 65, *Items Previously Reported as Assets and Liabilities*, which is effective for financial statement periods beginning after December 15, 2012. This statement established accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows and deferred inflows.

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

Hill College
Notes to Financial Statements
August 31, 2013

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.

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, 2013 and August 31, 2012, respectively, the minimum unrestricted fund balance to be maintained was \$5,699,876 and \$5,268,469. 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.

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 \$501,342 and \$200,936 at 2013 and 2012 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, 2013

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.

Deferred Revenue

Tuition and fees of \$3,724,871 and \$3,588,078, dorm rental and food service fees of \$533,312 and \$517,629 and federal, state and local grants of \$130,370 and \$163,216 have been reported as deferred revenues at August 31, 2013 and 2012, respectively.

Estimates

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

Operating and Non-Operating Revenue and Expense Policy

The 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.

Characterization of Title IV Grant Revenue

In response to guidance provided by the Governmental Accounting Standards Board (GASB) as question/answer 7.72.10 in the Implementation Guide, revenue received for federal Title IV grant programs (i.e. Pell grants) is now characterized as non-operating revenue as opposed to operating revenue.

Reclassifications

Certain 2012 amounts have been reclassified to conform to current year presentation.

Hill College
Notes to Financial Statements
August 31, 2013

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>2013</u>	<u>2012</u>
Bank Deposits		
Demand Deposits	\$ 6,145,001	\$ 6,505,111
Time Deposits	5,498,362	5,262,784
	<u>11,643,363</u>	<u>11,767,895</u>
Cash and Cash Equivalents		
Petty Cash on Hand	<u>3,950</u>	<u>3,950</u>
Total Cash and Deposits	<u>\$ 11,647,313</u>	<u>\$ 11,771,845</u>

Hill College
Notes to Financial Statements
August 31, 2013

Reconciliation of Deposits and Investments to Exhibit 1:

Type of Security	Market Value August 31, 2013	Market Value August 31, 2012
Total Cash and Deposits	\$ 11,647,313	\$ 11,771,845
Certificate of Deposit	1,609,436	1,938,998
Investment Pools	501,342	200,936
Total Investments	<u>\$ 2,110,778</u>	<u>\$ 2,139,934</u>
Total Deposits and Investments	<u><u>\$ 13,758,091</u></u>	<u><u>\$ 13,911,779</u></u>
Cash and Cash Equivalents (Exhibit 1)	10,368,413	10,338,235
Restricted Cash and Cash Equivalents (Exhibit 1)	1,278,900	1,433,610
Short Term Investments (Exhibit 1)	2,008,409	2,038,418
Endowment Investments (Exhibit 1)	<u>102,369</u>	<u>101,516</u>
Total Deposits and Investments (Exhibit 1)	<u><u>\$ 13,758,091</u></u>	<u><u>\$ 13,911,779</u></u>

As of August 31, 2013 the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 2	Greater than 2	N/A
Certificates of Deposit	\$ 1,609,436	\$ 1,609,436	\$ -	\$ -	\$ -
Investment Pool	501,342	501,342	-	-	-
Total Fair Value	<u><u>\$ 2,110,778</u></u>	<u><u>\$ 2,110,778</u></u>	<u><u>\$ -</u></u>	<u><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, 2013

5. Capital Assets

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

	Balance September 1, 2012	Increases	Decreases	Balance August 31, 2013
<u>Not Depreciated:</u>				
Land	\$ 322,248	\$ -	\$ -	\$ 322,248
Collections	28,907	-	-	28,907
Construction in Progress	928,741	1,094,057	928,741	1,094,057
Subtotal	<u>1,279,896</u>	<u>1,094,057</u>	<u>928,741</u>	<u>1,445,212</u>
<u>Buildings and Other Capital Assets:</u>				
Buildings and Building Improvements	25,507,397	2,134,863	-	27,642,260
Other Real Estate Improvements	561,022	205,821	120,198	646,645
Total Buildings and Other Real Estate Improvements	26,068,419	2,340,684	120,198	28,288,905
Library Books	917,868	36,773	4,371	950,270
Furniture, Machinery, and Equipment	3,411,126	353,153	77,980	3,686,299
Total Buildings and Other Capital Assets	<u>30,397,413</u>	<u>2,730,610</u>	<u>202,549</u>	<u>32,925,474</u>
<u>Accumulated Depreciation:</u>				
Buildings and Building Improvements	7,546,341	440,767	-	7,987,108
Other Real Estate Improvements	501,957	21,850	108,178	415,629
Total Buildings and Other Real Estate Improvements	8,048,298	462,617	108,178	8,402,737
Library Books	640,291	41,014	4,371	676,934
Furniture, Machinery, and Equipment	2,129,183	276,337	71,390	2,334,130
Total Accumulated Depreciation	<u>10,817,772</u>	<u>779,968</u>	<u>183,939</u>	<u>11,413,801</u>
Net Capital Assets	<u>\$ 20,859,537</u>	<u>\$ 3,044,699</u>	<u>\$ 947,351</u>	<u>\$ 22,956,885</u>

Hill College
Notes to Financial Statements
August 31, 2013

Capital assets activity for the year ended August 31, 2012 was as follows:

	Balance September 1, 2011	Increases	Decreases	Balance August 31, 2012
<u>Not Depreciated:</u>				
Land	\$ 322,248	\$ -	\$ -	\$ 322,248
Collections	28,907	-	-	28,907
Construction in Progress	-	928,741	-	928,741
Subtotal	<u>351,155</u>	<u>928,741</u>	<u>-</u>	<u>1,279,896</u>
<u>Buildings and Other Capital Assets:</u>				
Buildings and Building Improvements	25,507,397	-	-	25,507,397
Other Real Estate Improvements	561,022	-	-	561,022
Total Buildings and Other Real Estate Improvements	26,068,419	-	-	26,068,419
Library Books	879,027	38,841	-	917,868
Furniture, Machinery, and Equipment	3,177,133	393,467	159,474	3,411,126
Total Buildings and Other Capital Assets	<u>30,124,579</u>	<u>432,308</u>	<u>159,474</u>	<u>30,397,413</u>
<u>Accumulated Depreciation:</u>				
Buildings and Building Improvements	7,115,044	431,297	-	7,546,341
Other Real Estate Improvements	500,179	1,778	-	501,957
Total Buildings and Other Real Estate Improvements	7,615,223	433,075	-	8,048,298
Library Books	600,464	39,827	-	640,291
Furniture, Machinery, and Equipment	1,980,339	304,518	155,674	2,129,183
Total Accumulated Depreciation	<u>10,196,026</u>	<u>777,420</u>	<u>155,674</u>	<u>10,817,772</u>
Net Capital Assets	<u>\$ 20,279,708</u>	<u>\$ 583,629</u>	<u>\$ 3,800</u>	<u>\$ 20,859,537</u>

Hill College
Notes to Financial Statements
August 31, 2013

6. Long-term Liabilities

Long-term liability activity for the year ended August 31, 2013 was as follows:

	Balance September 1, 2012	Additions	Reductions	Balance August 31, 2013	Current Portion
Bonds:					
Revenue bonds	\$ 3,550,000	\$ -	\$ 485,000	\$ 3,065,000	\$495,000
Total long-term Liabilities	<u>\$ 3,550,000</u>	<u>\$ -</u>	<u>\$ 485,000</u>	<u>\$ 3,065,000</u>	<u>\$495,000</u>

Long-term liability activity for the year ended August 31, 2012 was as follows:

	Balance September 1, 2011	Additions	Reductions	Balance August 31, 2012	Current Portion
Bonds:					
Revenue bonds	\$ 3,905,000	\$3,550,000	\$3,905,000	\$ 3,550,000	\$485,000
Total long-term Liabilities	<u>\$ 3,905,000</u>	<u>\$3,550,000</u>	<u>\$3,905,000</u>	<u>\$ 3,550,000</u>	<u>\$485,000</u>

7. Debt Obligations

Debt service requirements as of August 31, 2013 were as follows:

For the Year Ended August 31	Revenue Bonds		
	Principal	Interest	Total
2014	\$ 495,000	\$ 79,525	\$ 574,525
2015	500,000	69,600	569,600
2016	515,000	58,238	573,238
2017	530,000	42,675	572,675
2018	545,000	26,662	571,662
2019	480,000	10,800	490,800
Total	<u>\$ 3,065,000</u>	<u>\$ 287,500</u>	<u>\$ 3,352,500</u>

Hill College
Notes to Financial Statements
August 31, 2013

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
\$3,065,000 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, 2013, 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 interest rates from 2.0% to 3.0% with 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.

10. Employees' Retirement Plan

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

Teacher Retirement System of Texas

Plan Description. Hill College contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan.

Hill College
Notes to Financial Statements
August 31, 2013

TRS issues a publicly available financial report with required supplementary information which can be obtained from www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2013 and 2012 and a state contribution rate of 6.4% for fiscal year 2013 and 6.0% for 2012. In certain instances the reporting district is required to make all or a portion of the state's 6.4% contribution for fiscal years 2013 and 6.0% contribution for fiscal year 2012.

Optional Retirement 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 state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.0% and 6.65%, respectively. The College contributes 1.0% for employees participating in the optional retirement program. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

Public Agency Retirement System

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 retirement expense to the state for the College was \$568,164 and \$532,902 for the fiscal years ended August 31, 2013 and 2012, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

The total payroll for all College employees was \$10,778,780 and \$10,632,522 for fiscal years 2013 and 2012, respectively. The total payroll of employees covered by the Teacher Retirement System was \$6,166,481 and \$6,028,379 for fiscal years 2013 and 2012, respectively. The total payroll of employees covered by the Optional Retirement System was \$3,118,457 and \$3,163,454 for fiscal years 2013 and 2012, respectively. The total payroll of employees covered by the PARS plan was \$1,226,067 and \$1,285,523 for fiscal years 2013 and 2012, respectively.

Hill College
Notes to Financial Statements
August 31, 2013

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 in tax year 2013 was \$17,500 and \$17,000 for tax year 2012, with a \$5,500 make-up provision for individuals fifty years or older in 2013 and 2012. Twenty employees of the College contributed a total of \$45,552 under this plan for the year 2013, and twenty-four employees contributed a total of \$49,407 under this plan for 2012. 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, unless special circumstances have been approved by the president. The College recognized the accrued liability for the unpaid vacation leave in the amount of \$120,232 for 2013 and \$116,464 for 2012. 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.

13. Disaggregation of Receivables and Payables Balances

Receivables

Receivables at August 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Student Receivables	\$ 1,854,816	\$ 1,654,869
Taxes Receivables	373,168	372,557
Federal Receivables	2,522,704	2,590,991
State Receivables	17,171	266,457
Other Receivables	159,418	188,389
Subtotal	<u>4,927,277</u>	<u>5,073,263</u>
Allowance for doubtful accounts	<u>(865,440)</u>	<u>(607,907)</u>
Total Receivables	<u><u>4,061,837</u></u>	<u><u>4,465,356</u></u>

Hill College
Notes to Financial Statements
August 31, 2013

Payables

Payables at August 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Vendors Payable	\$ 1,187,651	\$ 1,437,485
Total Payables	<u>\$ 1,187,651</u>	<u>\$ 1,437,485</u>

14. 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. Contract and grant awards already committed, e.g., multi-year awards, or funds awarded during fiscal years 2013 and 2012 for which monies have not been received nor funds expended totaled \$202,031 and \$213,180. Federal Contract and Grant Awards comprised all of these amounts.

15. Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the state. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee for HealthSelect of Texas was \$470.38 for employees, \$739.58 for employee and spouse, \$650.62 for employee and child, and \$919.82 for employee and family for the year ended August 31, 2013 and totaled \$646,513 for 2013. For the year ended August 31, 2012, the state's contribution per full-time employee for HealthSelect of Texas was \$438.30 for employees, \$689.04 for employee and spouse, \$606.20 for employee and child, and \$856.94 for employee and family and totaled \$613,283. The cost of providing those benefits for 53 retirees in the year ended 2013 was \$327,974 (retiree benefits for 48 retirees cost \$277,016 for the year ended 2012). For 199 active employees, the cost of providing benefits was \$318,539 for the year ended 2013 (active employee benefits for 193 employees cost \$336,267 for the year ended 2012).

Hill College
Notes to Financial Statements
August 31, 2013

16. 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>2013</u>	<u>2012</u>
Assessed Valuation of the District	\$ 1,817,541,151	\$ 1,803,846,771
Less: Exemptions	<u>164,937,082</u>	<u>160,053,616</u>
Net Taxable	1,652,604,069	1,643,793,155
Less: Freeze Taxable	258,997,228	254,103,417
Transfer Adjustment	<u>225,146</u>	<u>70,435</u>
Freeze Adjusted Taxable	<u><u>1,393,381,695</u></u>	<u><u>1,389,619,303</u></u>

Authorized Tax Rate per \$100 valuation (current operations-maximum per enabling legislation)	.300000	.300000
Assessed Tax Rate per \$100 valuation (current operations)	.089492	.087219

Taxes levied for the year ended August 31, 2013 and 2012 amounted to \$1,413,531 and \$1,379,249, 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>2013</u>	<u>2012</u>
	<u>Current Operations</u>	<u>Current Operations</u>
Current Taxes Collected	\$ 1,356,206	\$ 1,319,210
Delinquent Taxes Collected	41,199	38,004
Penalties and Interest Collected	<u>30,017</u>	<u>26,957</u>
Total Collections	<u><u>\$ 1,427,422</u></u>	<u><u>\$ 1,384,171</u></u>

Tax collections for the year ended August 31, 2013 and 2012 were 95.94% and 95.65%, 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.

Hill College
Notes to Financial Statements
August 31, 2013

17. 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.

<u>Independent School District</u>	<u>Collections in Fiscal Year 2013 (including penalties and interest)</u>	<u>Collections in Fiscal Year 2012 (including penalties and interest)</u>
Alvarado	\$ 570,767	\$ 524,040
Cleburne	1,422,434	1,319,227
Godley	128,867	129,227
Grandview	155,599	149,965
Joshua	598,744	554,421
Keene	68,617	64,764
Rio Vista	83,779	76,102
Venus	113,544	105,716
Total	<u>\$ 3,142,351</u>	<u>\$ 2,923,462</u>

18. 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, 2013 and 2012.

19. 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 2013 financial statements were not

Hill College
Notes to Financial Statements
August 31, 2013

included, as the audit for 2013 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.

20. 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.

21. Postemployment Benefits Other than Pensions

Plan Description. 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.

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.

The College's contributions to SRHP for the years ended August 31, 2013, 2012, and 2011, were \$1,673,431, \$1,543,361, and \$1,561,265, respectively, which equaled the required contributions each year.

Hill College
Notes to Financial Statements
August 31, 2013

22. Prior Period Adjustment – Change in Accounting Principle

Due to the implementation of GASB 65, all bond issue costs that were previously reported as “deferred charges” on the statement of net position are now expensed in the period in which they occur. Therefore, in 2013, those balances included in previous fiscal years as deferred charges have been removed, and beginning net position has been adjusted. Beginning net position has been restated as follows:

Net Position, 8/31/12 as originally stated	\$ 29,530,360
Restatement due to GASB 65	<u>(67,500)</u>
Net Position, 8/31/12, Restated	<u>\$ 29,462,860</u>

SUPPLEMENTARY SCHEDULES

Hill College
Schedule A
Schedule of Operating Revenues
Year Ended August 31, 2013 (With Memorandum Totals for the Year Ended August 31, 2012)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2013 Total	2012 Total
Tuition:						
State Funded Credit Courses:						
In-District Resident Tuition	\$ 2,883,862	\$ -	\$ 2,883,862	\$ -	\$ 2,883,862	\$ 2,798,029
Out-of-District Resident Tuition	2,150,945	-	2,150,945	-	2,150,945	1,867,249
Non-Resident Tuition	156,995	-	156,995	-	156,995	164,958
TPEG - Credit (set aside)*	-	318,822	318,822	-	318,822	293,113
State-Funded Continuing Education	90,729	-	90,729	-	90,729	154,951
TPEG - Credit (set aside)*	-	5,560	5,560	-	5,560	8,312
Non-State Funded Continuing Education	19,723	-	19,723	-	19,723	9,430
Total Tuition	5,302,254	324,382	5,626,636	-	5,626,636	5,296,042
Fees:						
Out of District Fee	917,079	-	917,079	-	917,079	848,514
General Fees	398,713	-	398,713	-	398,713	392,262
Student Service Fee	-	-	-	384,216	384,216	376,835
Building Use Fee	-	-	-	908,505	908,505	857,274
Laboratory Fee	317,802	-	317,802	-	317,802	303,122
Total Fees	1,633,594	-	1,633,594	1,292,721	2,926,315	2,778,007
Scholarship Allowances and Discounts:						
Remissions and Exemptions - State	-	-	-	(167,760)	(167,760)	(181,782)
Title IV Federal Grants	(2,933,935)	-	(2,933,935)	-	(2,933,935)	(2,702,076)
TPEG Awards	(246,190)	-	(246,190)	-	(246,190)	(306,947)
Other State Grants	(65,444)	-	(65,444)	-	(65,444)	(71,231)
Other Local Grants	(1,581,599)	-	(1,581,599)	-	(1,581,599)	(1,339,853)
Total Scholarship Allowances	(4,827,168)	-	(4,827,168)	(167,760)	(4,994,928)	(4,601,889)
Total Net Tuition and Fees	2,108,680	324,382	2,433,062	1,124,961	3,558,023	3,472,160
Additional Operating Revenues:						
Federal Grants and Contracts	46,930	443,447	490,377	-	490,377	491,662
State Grants and Contracts	8,655	655,542	664,197	-	664,197	799,752
Non-Governmental Grants and Contracts	-	1,041,557	1,041,557	-	1,041,557	1,073,218
General Operating Revenues	213,017	-	213,017	-	213,017	175,162
Total Additional Operating Revenues	268,602	2,140,546	2,409,148	-	2,409,148	2,539,794
Auxiliary Enterprises:						
Residential Life	-	-	-	969,684	969,684	957,975
Less Discounts	-	-	-	(581,757)	(581,757)	(592,114)
Bookstore	-	-	-	276,372	276,372	311,782
Cosmetology	-	-	-	28,117	28,117	29,862
Concessions	-	-	-	120,440	120,440	131,134
Miscellaneous Income	-	-	-	45	45	150
Total Net Auxiliary Enterprises	-	-	-	812,901	812,901	838,789
Total Operating Revenues	\$ 2,377,282	\$ 2,464,928	\$ 4,842,210	\$ 1,937,862	\$ 6,780,072	\$ 6,850,743
					(Exhibit 2)	(Exhibit 2)

*In accordance with Education Code 56.033, \$324,382 and \$301,425 for years August 31, 2013 and 2012, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

Hill College
Schedule B
Schedule of Operating Expenses by Object
For the Year Ended August 31, 2013 (with Memorandum Totals for the Year Ended August 31, 2012)

	Operating Expenses					2013 Total	2012 Total
	Salaries and Wages	Benefits		Other Expenses			
		State	Local				
Unrestricted - Educational Activities							
Instruction	\$ 6,432,588	\$ -	\$ 127,751	\$ 526,026	\$ 7,086,365	\$ 6,970,118	
Public Service	-	-	-	-	-	-	
Academic Support	1,013,660	-	27,289	350,814	1,391,763	1,406,938	
Student Services	1,246,259	-	21,149	144,545	1,411,953	1,334,006	
Institutional Support	1,500,220	-	1,331,447	1,166,544	3,998,211	3,861,703	
Operation and Maintenance of Plant	317,053	-	57,888	1,892,300	2,267,241	2,210,986	
Scholarships and Fellowships	-	-	-	-	-	-	
Total Unrestricted Educational Activities	10,509,780	-	1,565,524	4,080,229	16,155,533	15,783,751	
Restricted - Educational Activities							
Instruction	\$ 208,278	\$ 661,834	\$ -	\$ 14,096	\$ 884,208	\$ 1,036,914	
Public Service	16,226	-	-	-	16,226	17,410	
Academic Support	-	129,527	-	-	129,527	117,418	
Student Services	211,746	200,940	-	378,685	791,371	539,139	
Institutional Support	-	206,533	-	-	206,533	205,590	
Operation and Maintenance of Plant	3,019	52,985	-	-	56,004	51,843	
Scholarships and Fellowships	-	-	-	5,157,089	5,157,089	5,543,546	
Total Restricted Educational Activities	439,269	1,251,819	-	5,549,870	7,240,958	7,511,860	
Total Educational Activities	10,949,049	1,251,819	1,565,524	9,630,099	23,396,491	23,295,611	
Auxiliary Enterprises	-	-	-	1,191,163	1,191,163	1,065,039	
Depreciation Expense - Buildings and Other Real Estate Improvements	-	-	-	462,616	462,616	433,074	
Depreciation Expense - Equipment and Furniture	-	-	-	317,352	317,352	344,346	
Total Operating Expenses	\$ 10,949,049	\$ 1,251,819	\$ 1,565,524	\$ 11,601,230	\$ 25,367,622	\$ 25,138,070	
					(Exhibit 2)	(Exhibit 2)	

Hill College
Schedule C
Schedule of Non-Operating Revenues and Expenses
Year Ended August 31, 2013 (with Memorandum Totals for the Year Ended August 31, 2012)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2013 Total</u>	<u>2012 Total</u>
NON-OPERATING REVENUES:					
State Appropriations:					
Education and General State Support	\$ 6,531,540	\$ -	\$ -	\$ 6,531,540	\$ 6,681,563
State Group Insurance	-	646,513	-	646,513	613,283
State Retirement Matching	-	568,164	-	568,164	532,902
Texas Heritage Museum	256,500	-	-	256,500	256,500
Total State Appropriations	6,788,040	1,214,677	-	8,002,717	8,084,248
Maintenance Ad Valorem Taxes	1,427,422	-	-	1,427,422	1,384,171
Branch Campus Maintenance Tax	3,142,351	-	-	3,142,351	2,923,462
Federal Revenue, Non Operating	8,045,509	-	-	8,045,509	8,176,302
Investment Income	88,094	18,834	16,478	123,406	117,566
Gifts	2,730	-	-	2,730	666,642
Other Non-Operating Revenue	252,396	-	-	252,396	53,388
Total Non-Operating Revenues	19,746,542	1,233,511	16,478	20,996,531	21,405,779
NON-OPERATING EXPENSES:					
Interest on Capital Related Debt	81,880	-	-	81,880	203,482
(Gain) Loss on Disposal of Capital Assets	(8,246)	-	-	(8,246)	3,800
Other Non-Operating Expense	-	-	-	-	102,717
Total Non-Operating Expenses	73,634	-	-	73,634	309,999
Net Non-Operating Revenues	\$ 19,672,908	\$ 1,233,511	\$ 16,478	\$ 20,922,897	\$ 21,095,780
				(Exhibit 2)	(Exhibit 2)

Hill College
Schedule D
Schedule of Net Position by Source and Availability
Year Ended August 31, 2013 (with Memorandum Totals for the Year Ended August 31, 2012)

	Detail by Source				Available for Current Operations		
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 5,433,210	\$ -	\$ -	\$ -	\$ 5,433,210	\$ 5,433,210	\$ -
Board Designated	3,778,982	-	-	-	3,778,982	3,778,982	-
Restricted	-	(17,767)	-	-	(17,767)	-	(17,767)
Auxiliary Enterprises	505,170	-	-	-	505,170	505,170	-
Loan	-	-	-	-	-	-	-
Endowment	-	-	1,146,057	-	1,146,057	-	1,146,057
Plant:							
Debt Service	-	1,564,101	-	-	1,564,101	-	1,564,101
Investment in Plant	-	-	-	19,406,884	19,406,884	-	19,406,884
Total Net Position, August 31, 2013	9,717,362	1,546,334	1,146,057	19,406,884	31,816,637	9,717,362	22,099,275
					(Exhibit 1)		
Total Net Position, August 31, 2012	10,159,722	826,822	1,126,779	17,349,537	29,462,860	10,159,722	19,303,138
					(Exhibit 1)		
Net Increase (Decrease) in Net Position	\$ (442,360)	\$ 719,512	\$ 19,278	\$ 2,057,347	\$ 2,353,777	\$ (442,360)	\$ 2,796,137
					(Exhibit 2)		

HILL COLLEGE
 Schedule E
 Schedule of Expenditures of Federal Awards
 For the Year Ended August 31, 2013

<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		\$ 78,494
Federal College Work Study Program	84.033		52,588
Federal Pell Grant Program	84.063		7,914,427
Direct Loans	84.268		9,822,590
TRIO: Student Support Services	84.042		195,285
Pass-Through From:			
Texas Higher Education Coordinating Board			
Carl Perkins Vocational Education-Basic	84.048	134234	248,162
<i>Total U. S. Department of Education</i>			<u>18,311,546</u>
Total Federal Financial Assistance			<u>\$ 18,311,546</u>

Notes to Schedule on following page.

HILL COLLEGE
Schedule E (Continued)
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2013

Note 1: Federal Assistance Reconciliation

Federal Grants and Contracts Revenue per Schedule A	\$ 490,377
Less: Indirect/Administrative Costs Recoveries	(46,930)
Add: Non-operating Federal Revenue from Schedule C	<u>8,045,509</u>
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Position	<u>8,488,956</u>
Reconciling Item:	
Add: Direct Student Loans	<u>9,822,590</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u>\$ 18,311,546</u>

Note 2: Significant Accounting Policies Used in Preparing the Schedule

The schedules present the activity of all Federal and State programs of the College for the year ended August 31, 2013. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been expended by the College 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. 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 schedules.

HILL COLLEGE
 Schedule F
 Schedule of Expenditures of State Awards
 For the Year Ended August 31, 2013

Grantor Agency / Program Title	Grant Contract Number	Expenditures
<i>Texas Higher Education Coordinating Board</i>		
TEXAS Grant Program		\$ 223,517
TX Educational Opportunity Grant Program		45,831
Texas College Work Study Program		16,397
Innovation Grant Program - At-Risk Student Tracking and Intervention	05686	56,979
ABE Community College Grants	07047	142,675
<i>Total Texas Higher Education Coordinating Board</i>		<u>485,399</u>
 <i>Texas Workforce Commission</i>		
Skills Development	0411SDF001	170,143
 Total State Financial Assistance		 <u><u>\$ 655,542</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, 2013

Note 1: State Assistance Reconciliation

State Revenues - per Schedule A	
State Grants and Contracts	\$ 664,197
Less: Indirect/Administrative Costs Recoveries	(8,655)
Total State Revenues per Schedule of Expenditures of State Awards	<u>\$ 655,542</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. The 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



LOTT, VERNON & COMPANY, P.C.
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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, 2013 and 2012, 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 20, 2013.

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 20, 2013



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

Board of Regents
Hill College
Hillsboro, Texas

Report on Compliance for Each Major Federal and State Program

We have audited Hill College's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and The State of Texas Single Audit Circular that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2013. The College's major federal and state programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133 and The State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR (CONTINUED)**

test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal and State 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 and state programs for the year ended August 31, 2013.

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 and state 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 and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and The State of Texas Single Audit Circular, but not for the purpose of expressing an opinion on the effectiveness of the College's 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 or state 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 or state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and The State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

J.H. Vernon & Co., P.C.

Temple, Texas
December 20, 2013

HILL COLLEGE
Schedule of Findings and Questioned Costs
August 31, 2013

I. Summary of Audit Results

Financial Statements

unqualified

1. Type of auditor's report issued:
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 and State 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: *unqualified*
6. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 or the State of Texas Uniform Grant Management Standards? _____ yes X no

7. Identification of major programs:

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

HILL COLLEGE
Schedule of Findings and Questioned Costs (Continued)
August 31, 2013

8. Dollar threshold used to distinguish between type A and type B federal programs: \$300,000
9. Dollar threshold used to distinguish between type A and type B state programs: \$300,000
10. Auditee qualified as low-risk auditee for federal single audit? X yes no
11. Auditee qualified as low-risk auditee for state single audit? X yes no
- II. Financial Statement Findings
- None.
- III. Federal and State Awards Findings and Questioned Costs
- None.