

**Hill College**  
**Annual Financial Report**  
**August 31, 2012**

**HILL COLLEGE  
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HILL COLLEGE

ORGANIZATIONAL DATA

For the Fiscal Year 2011 - 2012

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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

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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
Jessyca Brown	Dean of Institutional Effectiveness
Todd Ewing	Dean of Instruction, CE/CT/DC
Susan Gann	Dean of Instruction, Mathematics, Humanities, Social Sciences, Art, Behavioral Sciences, Education and Developmental Studies
Debbie Gerik	Dean of Financial Services
Bill Gilker	Campus Manager / Dean of Students (JCC)
Nancy Holland	Dean, Hill College @ Burluson
Lori Moseley	Dean of Instruction, Health Sciences



**LOTT, VERNON & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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KILLEEN • COPPERAS COVE • TEMPLE

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

We have audited the accompanying financial statements of Hill College (the College), as of and for the year ended August 31, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. 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 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 supplemental schedules, 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 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.



Temple, Texas  
December 14, 2012

## 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, 2012. 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 Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; 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 Assets

#### Condensed Statement of Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Assets:</b>			
Current Assets	\$ 17,380,298	\$14,757,845	\$ 11,912,177
Capital Assets	20,859,537	20,279,708	20,356,357
Other Noncurrent Assets	1,602,800	1,510,509	1,521,133
<b>Total Assets</b>	<u>\$ 39,842,635</u>	<u>\$36,548,062</u>	<u>\$ 33,789,667</u>
<b>Liabilities:</b>			
Current Liabilities	\$ 7,132,882	\$ 6,378,717	\$ 5,400,847
Noncurrent Liabilities	3,179,393	3,596,200	3,991,200
<b>Total Liabilities</b>	<u>\$ 10,312,275</u>	<u>\$ 9,974,917</u>	<u>\$ 9,392,047</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	\$ 17,349,537	\$16,374,708	\$ 16,081,357
Restricted-nonexpendable	1,126,779	1,054,676	1,042,360
Restricted-expendable	894,322	950,764	779,307
Unrestricted	10,159,722	8,192,997	6,494,596
<b>Total Net Assets</b>	<u>\$ 29,530,360</u>	<u>\$26,573,145</u>	<u>\$ 24,397,620</u>

Changes in the "Statement of Net Assets" are derived from the activity reported in the "Statement of Revenues, Expenses, and Changes in Net Assets". 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 Assets are 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 is "Restricted Net Assets" which is further divided into two categories: Nonexpendable and Expendable. Nonexpendable restricted net assets are assets derived from Grants and Endowments. Expendable restricted net assets are available for expenditures but must be spent in accordance with the restriction of donors and other external entities. The final category, "Unrestricted Net Assets", is assets available to the institution for any lawful purpose of the College.

The \$2,957,215 increase in Total Net Assets when compared to the prior year is the result of (1) capital asset activity for the year less depreciation, (the significant capital project for the year was \$928,741 construction in progress on a new Welding building on the Wallace campus in Hillsboro, Texas) and (2) an increase of \$1,966,725 in unrestricted reserves.

The largest component of capital assets is the College's investment in buildings and other real estate improvements, \$18,020,121. The buildings owned by Hill College are only 30.87% 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 component of our liabilities is bonds payable. 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. On April 17, 2012 the Board approved the sale of \$3,550,000 Revenue Refunding Bonds to refund all of the District's outstanding bonded indebtedness. 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 41.04% 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 Assets" refer to "Notes to the Financial Statements".

## Statement of Revenues, Expenses and Changes in Net Assets

### Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Operating Revenues:</b>			
Tuition and fees (net of discounts)	\$ 3,472,160	\$ 3,276,872	\$ 3,097,823
Federal grants and contracts	491,662	619,070	564,097
State grants and contracts	799,752	658,702	481,624
Non-governmental grants and contracts	1,073,218	1,317,309	1,174,655
Auxiliary enterprises (net of discounts)	838,789	756,118	822,299
Other operating revenues	175,162	170,039	140,661
<b>Total Operating Revenues</b>	<b>6,850,743</b>	<b>6,798,110</b>	<b>6,281,159</b>
<b>Operating Expenses:</b>			
Instruction	8,007,032	8,270,398	7,919,762
Public Service	17,410	12,446	18,977
Academic support	1,524,356	1,563,410	1,665,540
Student services	1,873,145	1,985,727	1,966,831
Institutional support	4,067,293	3,481,038	3,446,453
Operation and maintenance of plant	2,262,829	2,528,101	2,315,120
Scholarships and fellowships	5,543,546	11,570,669	4,601,736
Auxiliary enterprises	1,065,039	998,291	960,276
Depreciation	777,420	728,546	645,701
<b>Total Operating Expenses</b>	<b>25,138,070</b>	<b>31,138,626</b>	<b>23,540,396</b>
<b>Operating Loss</b>	<b>(18,287,327)</b>	<b>(24,340,516)</b>	<b>(17,259,237)</b>
<b>Non-Operating Revenues (Expenses):</b>			
State Appropriations	8,084,248	8,164,179	8,641,966
Maintenance ad valorem taxes	1,384,171	1,280,110	1,105,789
Branch campus maintenance tax	2,923,462	2,713,193	2,492,215
Federal revenue, non-operating	8,176,302	13,944,360	6,535,456
Gifts	666,642	364,096	-
Investment income	117,566	121,868	127,215
Interest on capital-related debt	(203,482)	(201,728)	(219,928)
Gain (loss) on disposal of capital assets	(3,800)	(1,085)	-
Amortization expense	(35,217)	(3,120)	(3,120)
Other non-operating revenues	53,388	119,898	29,283
<b>Net Non-Operating Revenues</b>	<b>21,163,280</b>	<b>26,501,771</b>	<b>18,708,876</b>
<b>Income Before Other Revenues (Expenses)</b>	<b>2,875,953</b>	<b>2,161,255</b>	<b>1,449,639</b>
<b>Other Revenues (Expenses):</b>			
Additions to permanent endowments	81,262	14,270	2,820
<b>Increase (Decrease) in Net Assets</b>	<b>2,957,215</b>	<b>2,175,525</b>	<b>1,452,459</b>
<b>Net Assets at Beginning of Year</b>	<b>26,573,145</b>	<b>24,397,620</b>	<b>22,945,161</b>
<b>Net Assets at End of Year</b>	<b>\$ 29,530,360</b>	<b>\$ 26,573,145</b>	<b>\$ 24,397,620</b>



The "Statement of Revenues, Expenses and Changes in Net Assets" 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 Assets" 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 Assets" 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 2011 to 2012. There was an increase of \$609,681 in Net Non-Operating Revenues which is primarily the result of three things, (1) a \$104,061 increase in ad valorem tax revenue (2) a \$210,269 increase in maintenance tax revenue and (3) a \$302,546 increase in gifts to the college.

While an increase in net assets 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 assets. The college's net assets increased \$2,957,215 during the year.

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

## Statement of Cash Flows

### Condensed Statement of Cash Flows

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash Flows from			
Operating Activities	\$ (17,522,485)	\$ (21,363,550)	\$ (16,105,374)
Noncapital Financing Activities	19,672,460	24,646,949	17,409,031
Capital and Related Financing Activities	(1,095,410)	(740,715)	(2,319,016)
Investing Activities	(91,545)	1,801,541	1,019,814
Net Increase in Cash and Cash Equivalents	963,020	4,344,225	4,455
Cash at Beginning of Year	10,808,825	6,464,600	6,460,145
Cash at End of Year	<u>\$ 11,771,845</u>	<u>\$ 10,808,825</u>	<u>\$ 6,464,600</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 Assets".

**(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 Assets". 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.

During the year, Hill College received \$661,654 from the Hill College Development Foundation for the construction of a welding building on the Wallace Campus in Hillsboro, Texas. The total contributed by the Foundation for the construction of this building to date is \$1,006,654. At August 31, 2012, \$928,741 had been booked to construction in progress.

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

### **Discussion of Currently Known Facts, Decisions, or Conditions**

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

Effective fall 2012, the Hill College Board of Regents approved a \$3 per semester credit hour increase in tuition for all students and a \$10 per semester credit hour tax equalization fee for students in Godley ISD.

During the fall of 2012, Hill College purchased a 34,900 square foot building in Cleburne to be renovated as a future site of vocational programs in Cleburne, Texas.

## **FINANCIAL STATEMENTS**

Hill College  
Exhibit 1  
Statement of Net Assets  
August 31, 2012 and August 31, 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 10,338,235	\$ 9,431,576
Short Term Investments	2,038,418	1,828,908
Accounts Receivable (Net)	4,465,356	2,978,483
Deferred Charges	467,932	437,065
Prepaid Expenses	70,357	81,813
<b>Total Current Assets</b>	<b><u>17,380,298</u></b>	<b><u>14,757,845</u></b>
<b>Noncurrent Assets</b>		
Restricted Cash and Cash Equivalents	1,433,610	1,377,249
Endowment Investments	101,516	100,368
Deferred Charges	67,674	32,892
Capital Assets, (Net) (See Note #5)	20,859,537	20,279,708
<b>Total Noncurrent Assets</b>	<b><u>22,462,337</u></b>	<b><u>21,790,217</u></b>
<b>Total Assets</b>	<b><u>39,842,635</u></b>	<b><u>36,548,062</u></b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	1,437,485	1,016,236
Accrued Liabilities	188,432	177,620
Funds Held for Others	406,004	423,494
Deferred Revenue	4,611,675	4,366,367
Bonds Payable - Current Portion	489,286	395,000
<b>Total Current Liabilities</b>	<b><u>7,132,882</u></b>	<b><u>6,378,717</u></b>
<b>Noncurrent Liabilities</b>		
Dorm Deposits Payable	89,750	86,200
Bonds Payable	3,089,643	3,510,000
<b>Total Noncurrent Liabilities</b>	<b><u>3,179,393</u></b>	<b><u>3,596,200</u></b>
<b>Total Liabilities</b>	<b><u>10,312,275</u></b>	<b><u>9,974,917</u></b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	17,349,537	16,374,708
Restricted for:		
Nonexpendable		
Student Aid	1,126,779	1,054,676
Expendable		
Student Aid	74,273	86,270
Loans	1,006	996
Debt Service	819,043	863,498
Unrestricted	10,159,722	8,192,997
<b>Total Net Assets (Schedule D)</b>	<b><u>29,530,360</u></b>	<b><u>26,573,145</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 39,842,635</u></b>	<b><u>\$ 36,548,062</u></b>

The Notes to the Financial Statements are an integral part of this statement.

**Hill College Foundation**  
**Exhibit 1-A**  
**Statement of Financial Position**  
**August 31, 2011 and August 31, 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 144,483	\$ 330,247
Investments	489,643	446,121
Receivables	-	2,022
<b>Total Current Assets</b>	<u>634,126</u>	<u>778,390</u>
<b>Noncurrent Assets:</b>		
Receivables-restricted	333,222	326,423
Investments-restricted	5,800,013	5,785,369
Capital Assets, net of accumulated depreciation	1,373,062	1,386,090
<b>Total Noncurrent Assets</b>	<u>7,506,297</u>	<u>7,497,882</u>
<b>Total Assets</b>	<u>8,140,423</u>	<u>8,276,272</u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Due to Hill College	-	345,000
Deferred Lease Revenue	-	147,724
<b>Total Current Liabilities</b>	<u>-</u>	<u>492,724</u>
<b>NET ASSETS</b>		
Invested in Capital Assets	1,373,062	1,386,090
Restricted for:		
Expendable:		
Wallace Campus and Programs of Hill College	5,014,321	4,733,285
Hill College Capital Projects	745,976	703,538
Nonexpendable:		
Endowments for Hill College Scholarships	504,689	500,026
Unrestricted	502,375	460,609
<b>Total Net Assets</b>	<u>\$ 8,140,423</u>	<u>\$ 7,783,548</u>

Hill College  
Exhibit 2  
Statement of Revenues, Expenses, and Changes in Net Assets  
Years Ended August 31, 2012 and August 31, 2011

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Tuition and Fees (net of discounts of \$4,601,889 and \$4,325,625, respectively)	\$ 3,472,160	\$ 3,303,180
Federal Grants and Contracts	491,662	619,070
State Grants and Contracts	799,752	658,702
Non-Governmental Grants and Contracts	1,073,218	1,317,309
Auxiliary Enterprises (net of discounts)	838,789	840,080
Other Operating Revenues	175,162	170,039
<b>Total Operating Revenues (Schedule A)</b>	<b>6,850,743</b>	<b>6,908,380</b>
<b>Operating Expenses</b>		
	8,007,032	8,270,398
Public Service	17,410	12,446
Academic Support	1,524,356	1,563,410
Student Services	1,873,145	1,985,727
Institutional Support	4,067,293	3,481,038
Operation and Maintenance of Plant	2,262,829	2,528,101
Scholarships and Fellowships	5,543,546	5,732,767
Auxiliary Enterprises	1,065,039	998,291
Depreciation	777,420	728,546
<b>Total Operating Expenses (Schedule B)</b>	<b>25,138,070</b>	<b>25,300,724</b>
<b>Operating Loss</b>	<b>(18,287,327)</b>	<b>(18,392,344)</b>
<b>Non-Operating Revenues (Expenses)</b>		
State Appropriations	8,084,248	8,164,179
Maintenance Ad Valorem Taxes	1,384,171	1,280,110
Branch Campus Maintenance Tax	2,923,462	2,713,193
Federal Revenue, Non Operating	8,176,302	7,996,188
Gifts	666,642	364,096
Investment Income	117,566	121,868
Interest on Capital Related Debt	(203,482)	(201,728)
Gain (Loss) on Disposal of Capital Assets	(3,800)	(1,085)
Other Non-Operating Revenues	53,388	119,898
Other Non-Operating Expenses	(35,217)	(3,120)
<b>Net Non-Operating Revenues (Schedule C)</b>	<b>21,163,280</b>	<b>20,553,599</b>
<b>Income Before Other Revenues (Expenses)</b>	<b>2,875,953</b>	<b>2,161,255</b>
<b>Other Revenues (Expenses)</b>		
Additions to Permanent and Term Endowments	81,262	14,270
<b>Total Other Revenues</b>	<b>81,262</b>	<b>14,270</b>
<b>Increase in Net Assets</b>	<b>2,957,215</b>	<b>2,175,525</b>
<b>Net Assets</b>		
Net Assets - Beginning of Year	26,573,145	24,397,620
<b>Net Assets - End of Year</b>	<b>\$ 29,530,360</b>	<b>\$ 26,573,145</b>

The Notes to the Financial Statements are an integral part of this statement.

**Hill College Foundation**  
**Exhibit 2-A**  
**Statement of Activities**  
**Years Ended August 31, 2011 and August 31, 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues:</b>		
Investment Earnings	\$ 500,242	\$ 416,276
Farm and Lease Revenue	297,273	240,738
Contribution	-	282
	<u>797,515</u>	<u>657,296</u>
<b>Operating Expenses:</b>		
Contribution to Hill College	297,388	345,000
Investment Management Fees	99,206	94,578
Legal Fees	3,621	7,798
Accounting and Audit Fees	16,788	20,004
Property Taxes	4,373	4,219
Insurance	5,198	5,198
Depreciation	13,028	13,028
Other Operating Expenses	1,038	2,007
	<u>440,640</u>	<u>491,832</u>
<b>Increase in Net Assets</b>	<b>356,875</b>	<b>165,464</b>
Net Assets, Beginning of Year	7,783,548	7,618,084
<b>Net Assets, End of Year</b>	<b><u>\$ 8,140,423</u></b>	<b><u>\$ 7,783,548</u></b>



Hill College  
Exhibit 3  
Statement of Cash Flows  
Years Ended August 31, 2012 and August 31, 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from students and other customers	\$ 3,917,325	\$ 4,143,039
Receipts from grants and contracts	1,477,719	2,629,527
Payments to suppliers for goods and services	(5,373,490)	(5,057,581)
Payments to or on behalf of employees	(12,187,404)	(11,552,272)
Payments for scholarships	(5,543,546)	(5,732,767)
Other receipts	186,911	154,676
<b>Net cash used by operating activities</b>	<b>(17,522,485)</b>	<b>(15,415,378)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Receipts from state appropriations	7,126,393	6,695,006
Receipts from nonoperating federal revenues	8,176,302	7,996,188
Receipts from ad valorem taxes	4,307,633	3,993,303
Receipts from (payments to) student organizations and other agency transactions	(19,130)	10
Additions to permanent and term endowments	81,262	14,270
<b>Net cash provided by noncapital financing activities</b>	<b>19,672,460</b>	<b>18,698,777</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds on issuance of capital debt	3,516,644	-
Receipts from gifts	666,642	364,096
Proceeds from the sale of capital assets	-	1,400
Insurance proceeds	2,671	119,898
Purchases of capital assets	(1,193,772)	(654,381)
Payments on capital debt - principal	(3,905,000)	(370,000)
Payments on capital debt - interest	(182,595)	(201,728)
<b>Net cash used by capital and related financing activities</b>	<b>(1,095,410)</b>	<b>(740,715)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	-	1,800,000
Purchase of investments	(200,000)	(100,000)
Interest on investments	108,455	101,541
<b>Net cash (used)/provided by investing activities</b>	<b>(91,545)</b>	<b>1,801,541</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>963,020</b>	<b>4,344,225</b>
Cash and cash equivalents - September 1	10,808,825	6,464,600
<b>Cash and cash equivalents - August 31</b>	<b>\$ 11,771,845</b>	<b>\$ 10,808,825</b>
<b>Reconciliation of net operating loss to net cash provided (used)</b>		
<b>by operating activities:</b>		
Operating loss	\$ (18,287,327)	\$ (18,392,344)
Adjustments to reconcile operating loss to net cash used		
by operating activities:		
Depreciation expense	777,420	728,546
Payments made directly by state for benefits	957,855	1,469,173
Changes in assets and liabilities:		
Receivables (net)	(1,458,710)	(194,703)
Prepaid expenses	11,457	10,619
Accounts payable	290,448	749,766
Deferred revenue	217,239	183,453
Deferred charges	(30,867)	30,112
<b>Net cash used by operating activities</b>	<b>\$ (17,522,485)</b>	<b>\$ (15,415,378)</b>

The Notes to the Financial Statements are an integral part of this statement.

**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

**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 and all applicable Financial Accounting Standard Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The College has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. 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, 2012 and 2011

**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, 2012 and August 31, 2011, respectively, the minimum unrestricted fund balance to be maintained was \$5,268,469 and \$5,283,608. 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 \$200,936 and \$610 at 2012 and 2011 to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

**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.

**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

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 \$3,588,078 and \$3,468,337, dorm rental and food service fees of \$517,629 and \$512,965 and federal, state and local grants of \$163,216 and \$70,383 have been reported as deferred revenues at August 31, 2012 and 2011, 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 2011 amounts have been reclassified to conform to current year presentation.

**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

**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

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 Assets, consist of the items reported below:

**Cash and Deposits**

	<u>2012</u>	<u>2011</u>
Bank Deposits		
Demand Deposits	\$ 6,505,111	\$ 6,057,073
Time Deposits	5,262,784	4,747,802
	<u>11,767,895</u>	<u>10,804,875</u>
Cash and Cash Equivalents		
Petty Cash on Hand	<u>3,950</u>	<u>3,950</u>
Total Cash and Deposits	<u>\$ 11,771,845</u>	<u>\$ 10,808,825</u>

Reconciliation of Deposits and Investments to Exhibit 1:

<b>Type of Security</b>	<b><u>Market Value</u></b> <b><u>August 31, 2012</u></b>	<b><u>Market Value</u></b> <b><u>August 31, 2011</u></b>
Total Cash and Deposits	\$ 11,771,845	\$ 10,808,825
Certificate of Deposit	1,938,998	1,928,666
Investment Pools	200,936	610
Total Investments	<u>\$ 2,139,934</u>	<u>\$ 1,929,276</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 13,911,779</u></b>	<b><u>\$ 12,738,101</u></b>
Cash and Cash Equivalents (Exhibit 1)	10,338,235	9,431,576
Restricted Cash and Cash Equivalents (Exhibit 1)	1,433,610	1,377,249
Short Term Investments (Exhibit 1)	2,038,418	1,828,908
Endowment Investments (Exhibit 1)	<u>101,516</u>	<u>100,368</u>
<b>Total Deposits and Investments (Exhibit 1)</b>	<b><u>\$ 13,911,779</u></b>	<b><u>\$ 12,738,101</u></b>

**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

As of August 31, 2012 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	\$ 1,938,998	\$ 1,938,998	\$ -	\$ -	\$ -
Investment Pool	200,936	200,936	-	-	-
<b>Total Fair Value</b>	<b>\$ 2,139,934</b>	<b>\$ 2,139,934</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**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.

**5. Capital Assets**

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

	Balance			Balance August 31, 2012
	September 1, 2011	Increases	Decreases	
<b>Not Depreciated:</b>				
Land	\$ 322,248	\$ -	\$ -	\$ 322,248
Collections	28,907	-	-	28,907
Construction in Progress	-	928,741	-	928,741
Subtotal	351,155	928,741	-	1,279,896
<b>Buildings and Other Capital Assets:</b>				
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
<b>Total Buildings and Other Capital Assets</b>	<b>30,124,579</b>	<b>432,308</b>	<b>159,474</b>	<b>30,397,413</b>

**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

Accumulated Depreciation:

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>

Capital assets activity for the year ended August 31, 2011 was as follows:

	Balance September 1, 2010	Increases	Decreases	Balance August 31, 2011
<u>Not Depreciated:</u>				
Land	\$ 322,248	\$ -	\$ -	\$ 322,248
Collections	28,907	-	-	28,907
Construction in Progress	1,528,472	39,114	1,567,586	-
Subtotal	<u>1,879,627</u>	<u>39,114</u>	<u>1,567,586</u>	<u>351,155</u>
<u>Buildings and Other Capital Assets:</u>				
Buildings and Building Improvements	23,653,516	1,853,881	-	25,507,397
Other Real Estate Improvements	561,022	-	-	561,022
Total Buildings and Other Real Estate Improvements	24,214,538	1,853,881	-	26,068,419
Library Books	860,066	35,371	16,410	879,027
Furniture, Machinery, and Equipment	2,945,511	293,602	61,980	3,177,133
Total Buildings and Other Capital Assets	<u>28,020,115</u>	<u>2,182,854</u>	<u>78,390</u>	<u>30,124,579</u>
<u>Accumulated Depreciation:</u>				
Buildings and Building Improvements	6,693,088	421,956	-	7,115,044
Other Real Estate Improvements	498,402	1,777	-	500,179
Total Buildings and Other Real Estate Improvements	7,191,490	423,733	-	7,615,223
Library Books	579,636	37,238	16,410	600,464
Furniture, Machinery, and Equipment	1,772,259	267,575	59,495	1,980,339
Total Accumulated Depreciation	<u>9,543,385</u>	<u>728,546</u>	<u>75,905</u>	<u>10,196,026</u>
Net Capital Assets	<u>\$ 20,356,357</u>	<u>\$ 1,493,422</u>	<u>\$ 1,570,071</u>	<u>\$ 20,279,708</u>

**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

**6. Long-term Liabilities**

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

	<u>Balance September 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance August 31, 2012</u>	<u>Current Portion</u>
Bonds:					
Revenue bonds	\$ 3,905,000	\$ 3,550,000	\$ 3,905,000	\$ 3,550,000	\$485,000
Unamortized bond premium	-	30,000	1,071	28,929	4,286
Total long-term Liabilities	<u>\$ 3,905,000</u>	<u>\$ 3,580,000</u>	<u>\$ 3,906,071</u>	<u>\$ 3,578,929</u>	<u>\$489,286</u>

Long-term liability activity for the year ended August 31, 2011 was as follows:

	<u>Balance September 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance August 31, 2011</u>	<u>Current Portion</u>
Bonds:					
Revenue bonds	\$ 4,275,000	\$ -	\$ 370,000	\$ 3,905,000	\$395,000
Total long-term Liabilities	<u>\$ 4,275,000</u>	<u>\$ -</u>	<u>\$ 370,000</u>	<u>\$ 3,905,000</u>	<u>\$395,000</u>

**7. Debt Obligations**

Debt service requirements as of August 31, 2012 were as follows:

<u>For the Year Ended August 31</u>	<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 485,000	\$ 87,237	\$ 572,237
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
2018-2019	1,025,000	37,462	1,062,462
<b>Total</b>	<u><b>\$ 3,550,000</b></u>	<u><b>\$ 374,737</b></u>	<u><b>\$ 3,924,737</b></u>



**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

**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  
\$3,550,000 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, 2012, 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. Defeased Bonds Outstanding**

<u>Bond Issue</u>	<u>Year Refunded</u>	<u>Par Value Outstanding</u>
Revenue Bonds Series 2000	2012	\$ 1,005,000
Revenue Bonds Series 2002	2012	845,000
Total		<u>\$ 1,850,000</u>

**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

**11. 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. TRS issues a publicly available financial report with required supplementary information which can be obtained from [www.trs.state.tx.us](http://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 2012 and 2011 and a state contribution rate of 6.0% for fiscal year 2012 and 6.644% for fiscal year 2011. In certain instances the reporting district is required to make all or a portion of the state's 6.0% contribution for fiscal year 2012 and 6.644% contribution for fiscal year 2011.

**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.

**Hill College**  
Notes to Financial Statements  
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The retirement expense to the state for the College was \$532,902 and \$592,520 for the fiscal years ended August 31, 2012 and 2011, 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 \$10,632,522 and \$10,543,724 for fiscal years 2012 and 2011, respectively. The total payroll of employees covered by the Teacher Retirement System was \$6,028,379 and \$6,076,374 for fiscal years 2012 and 2011, respectively. The total payroll of employees covered by the Optional Retirement System was \$3,163,454 and \$3,190,252 for fiscal years 2012 and 2011, respectively. The total payroll of employees covered by the PARS plan was \$1,285,523 and \$1,086,763 for fiscal years 2012 and 2011, respectively.

**12. 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 2012 was \$17,000 and \$16,500 for tax year 2011, with a \$5,500 make-up provision for individuals fifty years or older in 2012 and 2011. Twenty-four employees of the College contributed a total of \$49,407 under this plan for the year 2012, and twenty-one employees contributed a total of \$48,527 under this plan for 2011. 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.

**13. 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 \$116,464 for 2012 and \$99,777 for 2011. 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, 2012 and 2011

**14. Disaggregation of Receivables and Payables Balances**

**Receivables**

Receivables at August 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Student Receivables	\$ 1,654,869	\$ 1,111,950
Taxes Receivables	372,557	342,045
Federal Receivables	2,590,991	1,652,993
State Receivables	266,457	224,709
Other Receivables	188,389	124,708
Subtotal	<u>5,073,263</u>	<u>3,456,405</u>
Allowance for doubtful accounts	<u>(607,907)</u>	<u>(477,922)</u>
Total Receivables	<u><u>4,465,356</u></u>	<u><u>2,978,483</u></u>

**Payables**

Payables at August 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Vendors Payable	<u>\$ 1,437,485</u>	<u>\$ 1,016,236</u>
Total Payables	<u><u>\$ 1,437,485</u></u>	<u><u>\$ 1,016,236</u></u>

**15. 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 2012 and 2011 for which monies have not been received nor funds expended totaled \$213,180 and \$213,180. Federal Contract and Grant Awards comprised all of these amounts.

**16. 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

**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

expending the annual insurance premiums. 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 for the year ended August 31, 2012 and totaled \$613,283 for 2012. For the year ended August 31, 2011, the state's contribution per full-time employee for HealthSelect of Texas was \$413.26 for employees, \$649.60 for employee and spouse, \$571.52 for employee and child, and \$807.86 for employee and family and totaled \$1,080,837. The cost of providing those benefits for 48 retirees in the year ended 2012 was \$277,016 (retiree benefits for 48 retirees cost \$268,298 for the year ended 2011). For 193 active employees, the cost of providing benefits was \$336,267 for the year ended 2012 (active employee benefits for 198 employees cost \$812,539 for the year ended 2011).

**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>2012</u>	<u>2011</u>
Assessed Valuation of the District	\$ 1,803,846,771	\$ 1,793,743,605
Less: Exemptions	<u>160,053,616</u>	<u>145,288,467</u>
Net Assessed Valuation of the District	1,643,793,155	1,648,455,138
Less: Freeze Taxable	254,103,417	238,198,305
Transfer Adjustment	70,435	-
Freeze Adjusted Taxable	<u><u>1,389,619,303</u></u>	<u><u>1,410,256,833</u></u>

Authorized Tax Rate per \$100 valuation (current operations-maximum per enabling legislation)	.300000	.300000
Assessed Tax Rate per \$100 valuation (current operations)	.087219	.078984

Taxes levied for the year ended August 31, 2012 and 2011 amounted to \$1,379,249 and \$1,269,338, 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>2012</u>	<u>2011</u>
	<u>Current Operations</u>	<u>Current Operations</u>
Current Taxes Collected	\$ 1,319,210	\$ 1,213,792
Delinquent Taxes Collected	38,004	37,826
Penalties and Interest Collected	<u>26,957</u>	<u>28,492</u>
Total Collections	<u><u>\$ 1,384,171</u></u>	<u><u>\$ 1,280,110</u></u>

**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

Tax collections for the year ended August 31, 2012 and 2011 were 95.65% and 95.62%, 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.

<u>Independent School District</u>	<u>Collections in Fiscal Year 2012 (including penalties and interest)</u>	<u>Collections in Fiscal Year 2011 (including penalties and interest)</u>
Alvarado	\$ 524,040	\$ 478,568
Cleburne	1,319,227	1,219,481
Godley	129,227	128,536
Grandview	149,965	139,491
Joshua	554,421	509,906
Keene	64,764	60,179
Rio Vista	76,102	71,263
Venus	105,716	105,769
Total	<u>\$ 2,923,462</u>	<u>\$ 2,713,193</u>

**19. Operating Lease Commitments**

Rental expenses under operating leases during fiscal year 2012 and 2011 were approximately \$56,400 and \$57,600, respectively.

Future, minimum lease rental payments under noncancellable operating leases having an initial term in excess of one year as of August 2012 are as follows:

<u>Year Ended</u>	<u>Minimum Future Lease Payments</u>
2013	\$ 56,400
2014	56,400
2015	56,400
2016	56,400

**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

**20. 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, 2012 and 2011.

**21. 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 2012 financial statements were not included, as the audit for 2012 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.

**22. 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.

**23. 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/>.

**Hill College**  
Notes to Financial Statements  
August 31, 2012 and 2011

*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, 2012, 2011, and 2010, were \$1,543,361, \$1,561,265, and \$1,363,005, respectively, which amounts were funded from the College's state appropriation and equaled the required contributions each year.

#### **24. Contingent Liabilities**

##### State Appropriations for TRS and ORP

Texas Constitution article 16, section 67(b)(3) provides that the State of Texas must contribute "not less than six percent nor more than ten percent of the aggregate compensation paid to individuals participating in the system", referring to the State's Teacher Retirement System (TRS) including the related Optional Retirement Program (ORP). During the 2011 legislative session, the Texas Legislature appropriated retirement funds for various types of educational institutions other than community and junior colleges in satisfaction of this requirement, but the community college appropriations restricted the State's contribution to TRS/ORP on behalf of community colleges to only six percent of each district's unrestricted general revenue appropriation for each year of the biennium state budget. There is no pending litigation concerning this issue to construe the constitutional funding requirements; or to hold that the State biennium appropriations satisfy those requirements; or to attempt to collect any shortfall contributions from any community college district.

The TRS System of Texas has expectations that the College will provide the difference between the formula required contribution and the amount provided by the State, which is less than the amount believed to be required by the constitution. The College estimates the contribution shortage to be approximately \$132,000. It is the College's contention that the State is the employer government legally responsible for the required contributions under GASB No. 27. It is conceivable that at some future point, the College may be required to pay from local funds the disputed TRS/ORP contributions. Should that occur, the College will record a current period expenditure in the year in which the payment is made.



**SUPPLEMENTARY SCHEDULES**

Hill College  
Schedule A  
Schedule of Operating Revenues  
Year Ended August 31, 2012 (With Memorandum Totals for the Year Ended August 31, 2011)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2012 Total</u>	<u>2011 Total</u>
<b>Tuition:</b>						
State Funded Credit Courses:						
In-District Resident Tuition	\$ 2,798,029	\$ -	\$ 2,798,029	\$ -	\$ 2,798,029	\$ 2,597,946
Out-of-District Resident Tuition	1,867,249	-	1,867,249	-	1,867,249	1,745,825
Non-Resident Tuition	164,958	-	164,958	-	164,958	176,241
TPEG - Credit (set aside)*	-	301,425	301,425	-	301,425	283,036
State-Funded Continuing Education	154,951	-	154,951	-	154,951	146,367
Non-State Funded Continuing Education	9,430	-	9,430	-	9,430	7,514
<b>Total Tuition</b>	<b>4,994,617</b>	<b>301,425</b>	<b>5,296,042</b>	<b>-</b>	<b>5,296,042</b>	<b>4,956,929</b>
<b>Fees:</b>						
Out of District Fee	848,514	-	848,514	-	848,514	882,070
Distance Learning Fee	-	-	-	-	-	-
General Fee	392,262	-	392,262	-	392,262	397,344
Student Service Fee	-	-	-	376,835	376,835	388,839
Building Use Fee	-	-	-	857,274	857,274	686,877
Laboratory Fee	303,122	-	303,122	-	303,122	316,746
<b>Total Fees</b>	<b>1,543,898</b>	<b>-</b>	<b>1,543,898</b>	<b>1,234,109</b>	<b>2,778,007</b>	<b>2,671,876</b>
<b>Scholarship Allowances and Discounts:</b>						
Remissions and Exemptions - State	-	-	-	(181,782)	(181,782)	(151,589)
Remissions and Exemptions - Local	-	-	-	-	-	(240)
Title IV Federal Grants	(2,702,076)	-	(2,702,076)	-	(2,702,076)	(2,338,169)
Other Federal Grants	-	-	-	-	-	(9,707)
TPEG Awards	(306,947)	-	(306,947)	-	(306,947)	(241,781)
Other State Grants	(71,231)	-	(71,231)	-	(71,231)	(92,061)
Other Local Grants	(1,339,853)	-	(1,339,853)	-	(1,339,853)	(1,492,078)
<b>Total Scholarship Allowances</b>	<b>(4,420,107)</b>	<b>-</b>	<b>(4,420,107)</b>	<b>(181,782)</b>	<b>(4,601,889)</b>	<b>(4,325,625)</b>
<b>Total Net Tuition and Fees</b>	<b>2,118,408</b>	<b>301,425</b>	<b>2,419,833</b>	<b>1,052,327</b>	<b>3,472,160</b>	<b>3,303,180</b>
<b>Additional Operating Revenues:</b>						
Federal Grants and Contracts	36,813	454,849	491,662	-	491,662	619,070
State Grants and Contracts	-	799,752	799,752	-	799,752	658,702
Non-Governmental Grants and Contracts	-	1,073,218	1,073,218	-	1,073,218	1,317,309
General Operating Revenues	175,162	-	175,162	-	175,162	170,039
<b>Total Additional Operating Revenues</b>	<b>211,975</b>	<b>2,327,819</b>	<b>2,539,794</b>	<b>-</b>	<b>2,539,794</b>	<b>2,765,120</b>
<b>Auxiliary Enterprises:</b>						
Residential Life	-	-	-	957,975	957,975	964,250
Less Discounts	-	-	-	(592,114)	(592,114)	(588,838)
Bookstore	-	-	-	311,782	311,782	224,227
Cosmetology	-	-	-	29,862	29,862	36,528
Concessions	-	-	-	131,134	131,134	203,663
Miscellaneous Income	-	-	-	150	150	250
<b>Total Net Auxiliary Enterprises</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>838,789</b>	<b>838,789</b>	<b>840,080</b>
<b>Total Operating Revenues</b>	<b>\$ 2,330,383</b>	<b>\$ 2,629,244</b>	<b>\$ 4,959,627</b>	<b>\$ 1,891,116</b>	<b>\$ 6,850,743</b>	<b>\$ 6,908,380</b>
					(Exhibit 2)	(Exhibit 2)

\*In accordance with Education Code 56.033, \$301,425 and \$283,036 for years August 31, 2012 and 2011, 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, 2012 (with Memorandum Totals for the Year Ended August 31, 2011)

	Operating Expenses					2012 Total	2011 Total
	Salaries and Wages	Benefits		Other Expenses			
		State	Local				
<b>Unrestricted - Educational Activities</b>							
Instruction	\$ 6,238,746	\$ -	\$ 127,093	\$ 604,279	\$ 6,970,118	\$ 6,930,455	
Public Service	-	-	-	-	-	-	
Academic Support	1,060,618	-	25,620	320,700	1,406,938	1,377,637	
Student Services	1,124,065	-	17,039	192,902	1,334,006	1,381,067	
Institutional Support	1,521,445	-	1,036,732	1,303,526	3,861,703	3,201,762	
Operation and Maintenance of Plant	318,450	-	42,433	1,850,103	2,210,986	2,467,072	
Scholarships and Fellowships	-	-	-	-	-	-	
<b>Total Unrestricted Educational Activities</b>	<b>10,263,324</b>	<b>-</b>	<b>1,248,917</b>	<b>4,271,510</b>	<b>15,783,751</b>	<b>15,357,993</b>	
<b>Restricted - Educational Activities</b>							
Instruction	\$ 210,223	\$ 628,728	\$ -	\$ 197,963	\$ 1,036,914	\$ 1,339,943	
Public Service	17,410	-	-	-	17,410	12,446	
Academic Support	-	115,178	-	2,240	117,418	185,773	
Student Services	207,762	187,637	-	143,740	539,139	604,660	
Institutional Support	-	203,090	-	2,500	205,590	279,276	
Operation and Maintenance of Plant	2,749	49,094	-	-	51,843	61,029	
Scholarships and Fellowships	-	-	-	5,543,546	5,543,546	5,732,767	
<b>Total Restricted Educational Activities</b>	<b>438,144</b>	<b>1,183,727</b>	<b>-</b>	<b>5,889,989</b>	<b>7,511,860</b>	<b>8,215,894</b>	
<b>Total Educational Activities</b>	<b>10,701,468</b>	<b>1,183,727</b>	<b>1,248,917</b>	<b>10,161,499</b>	<b>23,295,611</b>	<b>23,573,887</b>	
<b>Auxiliary Enterprises</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,065,039</b>	<b>1,065,039</b>	<b>998,291</b>	
<b>Depreciation Expense - Buildings and Other Real Estate Improvements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>433,074</b>	<b>433,074</b>	<b>423,734</b>	
<b>Depreciation Expense - Equipment and Furniture</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>344,346</b>	<b>344,346</b>	<b>304,812</b>	
<b>Total Operating Expenses</b>	<b>\$ 10,701,468</b>	<b>\$ 1,183,727</b>	<b>\$ 1,248,917</b>	<b>\$ 12,003,958</b>	<b>\$ 25,138,070</b>	<b>\$ 25,300,724</b>	
					(Exhibit 2)	(Exhibit 2)	

Hill College  
Schedule C  
Schedule of Non-Operating Revenues and Expenses  
Year Ended August 31, 2012 (with Memorandum Totals for the Year Ended August 31, 2011)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2012 Total</u>	<u>2011 Total</u>
<b>NON-OPERATING REVENUES:</b>					
State Appropriations:					
Education and General State Support	\$ 6,681,563	\$ -	\$ -	\$ 6,681,563	\$ 6,175,822
State Group Insurance	-	613,283	-	613,283	1,080,837
State Retirement Matching	-	532,902	-	532,902	592,520
Texas Heritage Museum	256,500	-	-	256,500	315,000
<b>Total State Appropriations</b>	<b>6,938,063</b>	<b>1,146,185</b>	<b>-</b>	<b>8,084,248</b>	<b>8,164,179</b>
Maintenance Ad Valorem Taxes	1,384,171	-	-	1,384,171	1,280,110
Branch Campus Maintenance Tax	2,923,462	-	-	2,923,462	2,713,193
Federal Revenue, Non Operating	8,176,302	-	-	8,176,302	7,996,188
Investment Income	79,980	19,351	18,235	117,566	121,868
Gifts	666,642	-	-	666,642	364,096
Other Non-Operating Revenue	53,388	-	-	53,388	119,898
<b>Total Non-Operating Revenues</b>	<b>20,222,008</b>	<b>1,165,536</b>	<b>18,235</b>	<b>21,405,779</b>	<b>20,759,532</b>
<b>NON-OPERATING EXPENSES:</b>					
Interest on Capital Related Debt	203,482	-	-	203,482	201,728
Loss on Disposal of Capital Assets	3,800	-	-	3,800	1,085
Other Non-Operating Expense	35,217	-	-	35,217	3,120
<b>Total Non-Operating Expenses</b>	<b>242,499</b>	<b>-</b>	<b>-</b>	<b>242,499</b>	<b>205,933</b>
<b>Net Non-Operating Revenues</b>	<b>\$ 19,979,509</b>	<b>\$ 1,165,536</b>	<b>\$ 18,235</b>	<b>\$ 21,163,280</b>	<b>\$ 20,553,599</b>
				(Exhibit 2)	(Exhibit 2)

Hill College  
Schedule D  
Schedule of Net Assets by Source and Availability  
Year Ended August 31, 2012 (with Memorandum Totals for the Year Ended August 31, 2011)

	Detail by Source				Available for Current Operations		
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 8,254,552	\$ -	\$ -	\$ -	\$ 8,254,552	\$ 8,254,552	\$ -
Board Designated	1,400,000	-	-	-	1,400,000	1,400,000	-
Restricted	-	74,273	-	-	74,273	-	74,273
Auxiliary Enterprises	505,170	-	-	-	505,170	505,170	-
Loan	-	1,006	-	-	1,006	-	1,006
Endowment	-	-	1,126,779	-	1,126,779	-	1,126,779
Plant:							
Debt Service	-	819,043	-	-	819,043	-	819,043
Investment in Plant	-	-	-	17,349,537	17,349,537	-	17,349,537
<b>Total Net Assets, August 31, 2012</b>	<b>10,159,722</b>	<b>894,322</b>	<b>1,126,779</b>	<b>17,349,537</b>	<b>29,530,360</b>	<b>10,159,722</b>	<b>19,370,638</b>
					(Exhibit 1)		
<b>Total Net Assets, August 31, 2011</b>	<b>8,192,997</b>	<b>950,764</b>	<b>1,054,676</b>	<b>16,374,708</b>	<b>26,573,145</b>	<b>8,192,997</b>	<b>18,380,148</b>
					(Exhibit 1)		
<b>Net Increase (Decrease) in Net Assets</b>	<b>\$ 1,966,725</b>	<b>\$ (56,442)</b>	<b>\$ 72,103</b>	<b>\$ 974,829</b>	<b>\$ 2,957,215</b>	<b>\$ 1,966,725</b>	<b>\$ 990,490</b>
					(Exhibit 2)		

**HILL COLLEGE**  
**Schedule E**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended August 31, 2012**

<b>Federal Grantor/ Pass Through Grantor / Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Grantors Number</b>	<b>Expenditures and Pass Through Disbursements</b>
<i>U. S. Department of Education</i>			
Direct Programs:			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grant	84.007		\$ 96,532
Federal College Work Study Program	84.033		62,853
Federal Pell Grant Program	84.063		8,016,917
Direct Loans	84.268		6,596,655
TRIO: Student Support Services	84.042		208,796
Pass-Through From:			
Texas Higher Education Coordinating Board			
Carl Perkins Vocational Education-Basic	84.048	124245	246,053
<b>Total U. S. Department of Education</b>			<b>15,227,806</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 15,227,806</b>

Notes to Schedule on following page.

**HILL COLLEGE**  
**Schedule E (Continued)**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended August 31, 2012**

**Note 1: Federal Assistance Reconciliation**

Federal Grants and Contracts Revenue per Schedule A	\$ 491,662
Less: Indirect/Administrative Costs Recoveries	(36,813)
Add: Non-Operating Federal Revenue from Schedule C	8,176,302
	<hr/>
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Assets	\$ 8,631,151
	<hr/>
Reconciling Item:	
Add: Direct Student Loans	\$ 6,596,655
	<hr/>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	\$ 15,227,806
	<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

**HILL COLLEGE**  
**Schedule F**  
**Schedule of Expenditures of State Awards**  
**For the Year Ended August 31, 2012**

<b>Grantor Agency / Program Title</b>	<b>Grant Contract Number</b>	<b>Expenditures</b>
<i>Texas Higher Education Coordinating Board</i>		
TEXAS Grant Program		\$ 226,154
TX Educational Opportunity Grant Program		44,655
Texas College Work Study Program		14,613
Early High School Graduation Scholarship Program		9,589
Certified Educational Aide Exemption Program		2,849
Innovation Grant Program - At-Risk Student Tracking and Intervention	05686	29,803
ABE Community College Grants	07047	42,975
<i>Total Texas Higher Education Coordinating Board</i>		<u>370,638</u>
<i>Texas Comptroller of Public Accounts</i>		
Jobs and Education for Texans (JET) Program	6095-02	245,172
<i>Texas Workforce Commission</i>		
Skills Development	0411SDF001	183,942
<b>Total State Financial Assistance</b>		<u><u>\$ 799,752</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, 2012

**Note 1: State Assistance Reconciliation**

State Revenues - per Schedule A	
State Grants and Contracts	\$ 799,752
Less: Indirect/Administrative Cost Recoveries	-
<b>Total State Revenues per Schedule of Expenditures of State Awards</b>	<b>\$ 799,752</b>

**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**



**LOTT, VERNON & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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**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 the financial statements of Hill College (the College), as of and for the years ended August 31, 2012 and 2011, and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of 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).

This report is intended solely for the information and use of the Board of Regents, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Jett, Vernon & Co., P.C.*

Temple, Texas  
December 14, 2012



**LOTT, VERNON & COMPANY, P.C.**  
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND  
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

Board of Regents  
Hill College  
Hillsboro, Texas

Compliance

We have audited Hill College's (the College) 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, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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 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. Our audit does not provide a legal determination of the College's compliance with those requirements.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND  
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR (CONTINUED)**

In our opinion, Hill College complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Regents, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Jett, Vernon & Co., P.C.*

Temple, Texas  
December 14, 2012

**HILL COLLEGE**  
**Schedule of Findings and Questioned Costs**  
**August 31, 2012**

I. Summary of Audit Results

**Financial Statements**

1. Type of auditor's report issued: unqualified
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 Circular A-133 and State of Texas  
 Single Audit Circular and 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:		Innovation Grant Program – At-Risk Student Tracking and Intervention
SEOG	84.007	
Federal College Work Study Program	84.033	
Federal Pell Grant Program	84.063	ABE Community College Grants
William D Ford Direct Loans	84.268	
Trio: Student Support Services	84.042	Texas Workforce Commission Skills Development
Carl Perkins Vocational Education	84.048	

**HILL COLLEGE**

**Schedule of Findings and Questioned Costs (Continued)**

**August 31, 2012**

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 Awards Findings and Questioned Costs  
- None.