

**Hill College**  
**Annual Financial Report**  
**August 31, 2014**

**HILL COLLEGE**  
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**HILL COLLEGE**  
**ORGANIZATIONAL DATA**  
**For the Fiscal Year 2013 - 2014**

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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
Charles Bryant	Covington, Texas	2020
Jim Cato	Whitney, Texas	2016
Kent Eubank	Whitney, Texas	2020
Bill Galiga	Hillsboro, Texas	2016
Dr. Allan Lane	Whitney, Texas	2018
Jolene Lehmann	Bynum, Texas	2020
Dwight Lloyd	Itasca, Texas	2016
Tony Marley	Hillsboro, Texas	2020
Ricky Sullins	Abbott, Texas	2018
David Teel	Hillsboro, Texas	2016

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**PRINCIPAL ADMINISTRATIVE OFFICERS**

Dr. Pam Boehm	President
Jessyca Brown	Vice-President of External Affairs
Billy Don Curbo	Vice-President of Administrative Services
Rex Parcels	Vice-President of Instruction
Lizza Trenkle	Vice-President of Student Services
Jessie White	Vice-President of Information Technology
Dr. Floretta Bush	Dean of Career and Technical Education
Susan Gann	Dean of Arts and Sciences
Debbie Gerik	Dean of Financial Services
Bill Gilker	Campus Manager / Dean of Students (JCC)
Nancy Holland	Dean, Hill College @ Burleson
Nancy McKenzie	Dean of Instruction
Lori Moseley	Dean of Health Sciences



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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

### **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, 2014 and 2013, 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, 2014 and 2013, and the respective changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The supplemental schedules (schedules A through D) as described in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards (schedule E) and schedule of expenditures of state awards (schedule F) are presented for purposes of additional analysis as required by 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 basic financial statements. The supplemental schedules, the schedule of expenditures of federal awards and the schedule of expenditures of state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

  
Temple, Texas  
December 12, 2014

## 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, 2014. 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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Assets:</b>			
Current Assets	\$ 18,187,109	\$ 17,011,091	\$ 17,380,298
Capital Assets	23,077,072	22,956,885	20,859,537
Other Noncurrent Assets	1,541,292	1,381,603	1,535,300
<b>Total Assets</b>	<u>\$ 42,805,473</u>	<u>\$ 41,349,579</u>	<u>\$ 39,775,135</u>
<b>Deferred Outflows of Resources:</b>			
None	-	-	-
<b>Total Deferred Outflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Liabilities:</b>			
Current Liabilities	\$ 6,568,515	\$ 6,840,299	\$ 7,128,596
Noncurrent Liabilities	2,193,017	2,692,643	3,183,679
<b>Total Liabilities</b>	<u>\$ 8,761,532</u>	<u>\$ 9,532,942</u>	<u>\$ 10,312,275</u>
<b>Deferred Inflows of Resources:</b>			
Unamortized Premium on Bonds	-	-	-
<b>Total Deferred Inflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Position:</b>			
Invested in Capital Assets, Net of Related Debt	\$ 20,802,072	\$ 19,406,884	\$ 17,349,537
Restricted-nonexpendable	1,309,649	1,146,057	1,126,779
Restricted-expendable	808,831	1,546,334	826,822
Unrestricted	11,123,389	9,717,362	10,159,722
<b>Total Net Position</b>	<u>\$ 34,043,941</u>	<u>\$ 31,816,637</u>	<u>\$ 29,462,860</u>

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

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

The \$1,176,018 increase in current assets when compared to the prior year is primarily the result of (1) an increase of \$1,491,168 in short term investments which also is closely correlated to the \$1,406,027 net increase in Unrestricted Net Position and (2) a \$670,697 decrease in accounts receivable attributable to a 5.73% decline in enrollment when compared to the previous year.

The largest component of capital assets is the College’s investment in buildings and other real estate improvements, \$20,945,083. The buildings owned by Hill College are only 29.85% depreciated, which is an indication of the age of our facilities. Most of our buildings are relatively new and are in good repair.

The \$2,227,304 increase in Total Net Position when compared to the prior year is the result of (1) a \$1,406,027 net increase in Unrestricted Net Position (an increase in unrestricted reserves from the year’s operations) and (2) an increase in Invested in Capital Assets, Net of Related Debt.

It is also important to note that current liabilities are only 36.12% of current assets. This is an indication of the college’s ability to meet its short-term obligations as they come due and still have resources available for any unforeseen contingency.

The largest and most significant components of our liabilities are (1) Deferred Revenue which is down \$305,696 because of a 5.73% decline in enrollment during the fiscal year, and (2) Bonds Payable which is down \$500,000 because of bonds retired by Hill College during the year. 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.

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



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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues:			
Tuition and fees (net of discounts)	\$ 3,506,436	\$ 3,558,023	\$ 3,472,160
Federal grants and contracts	468,639	490,377	491,662
State grants and contracts	482,821	664,197	799,752
Non-governmental grants and contracts	1,217,542	1,041,557	1,073,218
Auxiliary enterprises (net of discounts)	834,119	812,901	838,789
Other operating revenues	208,154	213,017	175,162
Total Operating Revenues	<u>6,717,711</u>	<u>6,780,072</u>	<u>6,850,743</u>
Operating Expenses:			
Instruction	8,047,292	7,970,573	8,007,032
Public Service	2,619	16,226	17,410
Academic support	1,703,403	1,521,290	1,524,356
Student services	2,003,479	2,203,324	1,873,145
Institutional support	4,713,213	4,204,744	4,067,293
Operation and maintenance of plant	2,652,567	2,323,245	2,262,829
Scholarships and fellowships	4,776,676	5,157,089	5,543,546
Auxiliary enterprises	1,267,268	1,191,163	1,065,039
Depreciation	794,027	779,968	777,420
Total Operating Expenses	<u>25,960,544</u>	<u>25,367,622</u>	<u>25,138,070</u>
Operating Loss	(19,242,833)	(18,587,550)	(18,287,327)
Non-Operating Revenues (Expenses):			
State Appropriations	8,811,576	8,002,717	8,084,248
Maintenance ad valorem taxes	1,464,810	1,427,422	1,384,171
Branch campus maintenance tax	3,256,737	3,142,351	2,923,462
Federal revenue, non-operating	7,152,324	8,045,509	8,176,302
Gifts	546,164	2,730	666,642
Investment income	92,537	123,406	117,566
Interest on capital-related debt	(75,239)	(81,880)	(203,482)
Gain (loss) on disposal of capital assets	(7,619)	8,246	(3,800)
Other non-operating expenses	-	-	(102,717)
Other non-operating revenues	55,911	252,396	53,388
Net Non-Operating Revenues	<u>21,297,201</u>	<u>20,922,897</u>	<u>21,095,780</u>
Income Before Other Revenues (Expenses)	2,054,368	2,335,347	2,808,453
Other Revenues (Expenses):			
Additions to permanent endowments	172,936	18,430	81,262
Increase (Decrease) in Net Position	2,227,304	2,353,777	2,889,715
Net Position at Beginning of Year	<u>31,816,637</u>	<u>29,462,860</u>	<u>26,573,145</u>
Net Position at End of Year	<u>\$ 34,043,941</u>	<u>\$ 31,816,637</u>	<u>\$ 29,462,860</u>

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 was not a dramatic change in the total expenditures or total revenue for the year. However there was an increase of \$592,922 in operating expense primarily in the areas of Institutional Support and Plant Operations and Maintenance. While there was only a \$374,304 increase in Non-Operating Revenue, there was a shift in the source of these revenues. State appropriations were up \$808,859, taxes were up \$151,774, and there was a gift of \$538,302 from the Hill College Development Foundation for the support of the Wallace Campus. These increases were offset somewhat by a decline in Federal non-operating revenue due to a combination of decline in enrollment and reduction in student loans.

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 \$2,227,304 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>2014</u>	<u>2013</u>	<u>2012</u>
Cash Flows from			
Operating Activities	\$ (16,782,468)	\$ (16,677,870)	\$ (17,522,485)
Noncapital Financing Activities	19,867,613	19,661,349	19,672,460
Capital and Related Financing Activities	(1,176,355)	(3,260,671)	(1,095,410)
Investing Activities	(1,401,262)	152,660	(91,545)
Net Increase in Cash and Cash Equivalents	507,528	(124,532)	963,020
Cash at Beginning of Year	11,647,313	11,771,845	10,808,825
Cash at End of Year	<u>\$ 12,154,841</u>	<u>\$ 11,647,313</u>	<u>\$ 11,771,845</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. There was a change of \$2,084,316 which is a combination of a \$538,302 gift from the Hill College Foundation and a reduction in the purchase of capital assets during the year.

**(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 2014, the Hill College Board of Regents approved a \$3 per semester credit hour increase in tuition for all students and a \$50 per semester increase in food service.

## **FINANCIAL STATEMENTS**

Hill College  
Exhibit 1  
Statement of Net Position  
August 31, 2014 and August 31, 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 10,717,137	\$ 10,368,413
Short Term Investments	3,499,577	2,008,409
Accounts Receivable (Net)	3,391,140	4,061,837
Deferred Charges	492,608	486,085
Prepaid Expenses	86,647	86,347
<b>Total Current Assets</b>	<u><b>18,187,109</b></u>	<u><b>17,011,091</b></u>
<b>Noncurrent Assets</b>		
Restricted Cash and Cash Equivalents	1,437,704	1,278,900
Endowment Investments	103,253	102,369
Deferred Charges	335	334
Capital Assets, (Net) (See Note 5)	23,077,072	22,956,885
<b>Total Noncurrent Assets</b>	<u><b>24,618,364</b></u>	<u><b>24,338,488</b></u>
<b>Total Assets</b>	<u><u><b>42,805,473</b></u></u>	<u><u><b>41,349,579</b></u></u>
<b>Deferred Outflows of Resources:</b>		
None	-	-
<b>Total Deferred Outflows of Resources</b>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	1,294,193	1,187,651
Accrued Liabilities	121,772	191,642
Funds Held for Others	226,379	234,139
Deferred Revenue	4,426,171	4,731,867
Bonds Payable - Current Portion	500,000	495,000
<b>Total Current Liabilities</b>	<u><b>6,568,515</b></u>	<u><b>6,840,299</b></u>
<b>Noncurrent Liabilities</b>		
Dorm Deposits Payable	102,660	98,000
Bonds Payable	2,090,357	2,594,643
<b>Total Noncurrent Liabilities</b>	<u><b>2,193,017</b></u>	<u><b>2,692,643</b></u>
<b>Total Liabilities</b>	<u><u><b>8,761,532</b></u></u>	<u><u><b>9,532,942</b></u></u>
<b>Deferred Inflows of Resources:</b>		
None	-	-
<b>Total Deferred Inflows of Resources</b>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	20,802,072	19,406,884
Restricted for:		
Nonexpendable		
Student Aid	1,309,649	1,146,057
Expendable		
Student Aid	14,366	(17,767)
Loans	-	-
Debt Service	794,465	1,564,101
Unrestricted	11,123,389	9,717,362
<b>Total Net Position (Schedule D)</b>	<u><u><b>\$ 34,043,941</b></u></u>	<u><u><b>\$ 31,816,637</b></u></u>

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

Hill College Foundation  
Exhibit 1-A  
Statement of Financial Position  
August 31, 2014 and August 31, 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 55,162	\$ 209,716
Investments	570,946	526,318
<b>Total Current Assets</b>	<u>626,108</u>	<u>736,034</u>
<b>Noncurrent Assets:</b>		
Receivables-restricted	339,560	346,319
Investments-restricted	6,454,850	6,188,309
Capital Assets, net of accumulated depreciation	1,179,694	1,347,670
<b>Total Noncurrent Assets</b>	<u>7,974,104</u>	<u>7,882,298</u>
<b>Total Assets</b>	<u>8,600,212</u>	<u>8,618,332</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	4,096	533
<b>Total Current Liabilities</b>	<u>4,096</u>	<u>533</u>
 <b>NET ASSETS</b>		
Invested in Capital Assets	1,179,694	1,347,670
Restricted for:		
Expendable:		
Wallace Campus and Programs of Hill College	5,400,186	5,384,148
Hill College Capital Projects	919,929	840,126
Nonexpendable:		
Endowments for Hill College Scholarships	500,586	485,152
Unrestricted	595,721	560,703
<b>Total Net Assets</b>	<u>8,596,116</u>	<u>8,617,799</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 8,600,212</u>	<u>\$ 8,618,332</u>

Hill College  
Exhibit 2  
Statement of Revenues, Expenses, and Changes in Net Position  
Years Ended August 31, 2014 and August 31, 2013

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>		
Tuition and Fees (net of discounts of \$4,800,876 and \$4,994,928, respectively)	\$ 3,506,436	\$ 3,558,023
Federal Grants and Contracts	468,639	490,377
State Grants and Contracts	482,821	664,197
Non-Governmental Grants and Contracts	1,217,542	1,041,557
Auxiliary Enterprises (net of discounts)	834,119	812,901
General Operating Revenues	<u>208,154</u>	<u>213,017</u>
<b>Total Operating Revenues (Schedule A)</b>	<b>6,717,711</b>	<b>6,780,072</b>
<b>Operating Expenses</b>		
Instruction	8,047,292	7,970,573
Public Service	2,619	16,226
Academic Support	1,703,403	1,521,290
Student Services	2,003,479	2,203,324
Institutional Support	4,713,213	4,204,744
Operation and Maintenance of Plant	2,652,567	2,323,245
Scholarships and Fellowships	4,776,676	5,157,089
Auxiliary Enterprises	1,267,268	1,191,163
Depreciation	<u>794,027</u>	<u>779,968</u>
<b>Total Operating Expenses (Schedule B)</b>	<b><u>25,960,544</u></b>	<b><u>25,367,622</u></b>
<b>Operating Loss</b>	<b>(19,242,833)</b>	<b>(18,587,550)</b>
<b>Non-Operating Revenues (Expenses)</b>		
State Appropriations	8,811,576	8,002,717
Maintenance Ad Valorem Taxes	1,464,810	1,427,422
Branch Campus Maintenance Tax	3,256,737	3,142,351
Federal Revenue, Non Operating	7,152,324	8,045,509
Gifts	546,164	2,730
Investment Income	92,537	123,406
Interest on Capital Related Debt	(75,239)	(81,880)
Gain (Loss) on Disposal of Capital Assets	(7,619)	8,246
Other Non-Operating Revenues	55,911	252,396
Other Non-Operating Expenses	<u>-</u>	<u>-</u>
<b>Net Non-Operating Revenues (Schedule C)</b>	<b><u>21,297,201</u></b>	<b><u>20,922,897</u></b>
<b>Income Before Other Revenues (Expenses)</b>	<b>2,054,368</b>	<b>2,335,347</b>
<b>Other Revenues (Expenses)</b>		
Additions to Permanent and Term Endowments	<u>172,936</u>	<u>18,430</u>
<b>Total Other Revenues</b>	<b><u>172,936</u></b>	<b><u>18,430</u></b>
<b>Increase in Net Position</b>	<b>2,227,304</b>	<b>2,353,777</b>
<b>Net Position</b>		
Net Position - Beginning of Year	31,816,637	29,462,860
<b>Net Position - End of Year</b>	<b><u>\$ 34,043,941</u></b>	<b><u>\$ 31,816,637</u></b>

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



Hill College Foundation  
Exhibit 2-A  
Statement of Activities  
Years Ended August 31, 2014 and August 31, 2013

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues:</b>		
Investment Earnings	\$ 738,510	\$ 491,409
Farm and Lease Revenue	109,574	126,077
Contribution	-	-
	<u>          </u>	<u>          </u>
<b>Total Operating Revenue</b>	<b><u>848,084</u></b>	<b><u>617,486</u></b>
<b>Operating Expenses:</b>		
Contribution to Hill College	733,259	17,820
Investment Management Fees	106,403	98,529
Legal Fees	4,740	532
Accounting and Audit Fees	758	1,830
Property Taxes	4,717	4,689
Insurance	6,253	6,339
Depreciation	2,676	12,363
Other Operating Expenses	10,961	9,599
	<u>          </u>	<u>          </u>
<b>Total Operating Expenses</b>	<b><u>869,767</u></b>	<b><u>151,701</u></b>
<b>Increase in Net Assets</b>	<b>(21,683)</b>	<b>465,785</b>
Net Assets, Beginning of Year	<u>8,617,799</u>	<u>8,152,014</u>
<b>Net Assets, End of Year</b>	<b><u><u>\$ 8,596,116</u></u></b>	<b><u><u>\$ 8,617,799</u></u></b>

Hill College  
Exhibit 3  
Statement of Cash Flows  
Years Ended August 31, 2014 and August 31, 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from students and other customers	\$ 4,111,775	\$ 4,634,335
Receipts from grants and contracts	2,735,217	2,480,859
Payments to suppliers for goods and services	(6,195,791)	(6,081,763)
Payments to or on behalf of employees	(12,893,798)	(12,733,965)
Payments for scholarships	(4,776,676)	(5,157,089)
Other receipts	236,805	179,753
<b>Net cash used by operating activities</b>	<b><u>(16,782,468)</u></b>	<b><u>(16,677,870)</u></b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Receipts from state appropriations	7,824,167	6,974,957
Receipts from nonoperating federal revenues	7,152,324	8,045,509
Receipts from ad valorem taxes	4,721,547	4,569,773
Receipts from student organizations and other agency transactions	182,786	169,653
Payments to student organizations and other agency transactions	(186,147)	(115,963)
Additions to permanent and term endowments	172,936	18,430
Other payments	-	(1,010)
<b>Net cash provided by noncapital financing activities</b>	<b><u>19,867,613</u></b>	<b><u>19,661,349</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Receipts from gifts	546,164	2,730
Proceeds from the sale of capital assets	568	26,856
Insurance proceeds	12,042	26,525
Purchases of capital assets	(1,158,129)	(2,744,158)
Payments on capital debt - principal	(495,000)	(485,000)
Payments on capital debt - interest	(82,000)	(87,624)
<b>Net cash used by capital and related financing activities</b>	<b><u>(1,176,355)</u></b>	<b><u>(3,260,671)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	-	2,057,831
Purchase of investments	(1,470,000)	(2,000,000)
Interest on investments	68,738	94,829
<b>Net cash provided (used) by investing activities</b>	<b><u>(1,401,262)</u></b>	<b><u>152,660</u></b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>507,528</b>	<b>(124,532)</b>
Cash and cash equivalents - September 1	<u>11,647,313</u>	<u>11,771,845</u>
<b>Cash and cash equivalents - August 31</b>	<b><u>\$ 12,154,841</u></b>	<b><u>\$ 11,647,313</u></b>
<b>Reconciliation of net operating loss to net cash provided (used)</b>		
<b>by operating activities:</b>		
Operating loss	\$ (19,242,833)	\$ (18,587,550)
Adjustments to reconcile operating loss to net cash used		
by operating activities:		
Depreciation expense	794,027	779,968
Payments made directly by state for benefits	987,409	1,027,760
Changes in assets and liabilities:		
Receivables (net)	692,021	405,308
Prepaid expenses	(300)	(15,990)
Accounts payable	317,803	(388,682)
Deferred revenue	(324,072)	119,630
Deferred charges	(6,523)	(18,314)
<b>Net cash used by operating activities</b>	<b><u>\$ (16,782,468)</u></b>	<b><u>\$ (16,677,870)</u></b>

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

**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 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.

**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, 2014 and 2013

**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, 2014 and August 31, 2013, respectively, the minimum unrestricted fund balance to be maintained was \$5,719,719 and \$5,699,876. 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 \$501,834 and \$501,342 at 2014 and 2013 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, 2014 and 2013

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 \$3,466,064 and \$3,724,871, dorm rental and food service fees of \$537,045 and \$533,312 and federal, state and local grants of \$61,372 and \$130,370 have been reported as deferred revenues at August 31, 2014 and 2013, 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.

**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.

**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 2013

**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>2014</u>	<u>2013</u>
Bank Deposits		
Demand Deposits	\$ 830,815	\$ 6,145,001
Time Deposits	11,320,076	5,498,362
	<u>12,150,891</u>	<u>11,643,363</u>
Cash and Cash Equivalents		
Petty Cash on Hand	<u>3,950</u>	<u>3,950</u>
Total Cash and Deposits	<u>\$ 12,154,841</u>	<u>\$ 11,647,313</u>

Reconciliation of Deposits and Investments to Exhibit 1:

<b>Type of Security</b>	<b><u>Market Value</u></b> <b><u>August 31, 2014</u></b>	<b><u>Market Value</u></b> <b><u>August 31, 2013</u></b>
Total Cash and Deposits	\$ 12,154,841	\$ 11,647,313
Certificate of Deposit	3,100,996	1,609,436
Investment Pools	501,834	501,342
Total Investments	<u>\$ 3,602,830</u>	<u>\$ 2,110,778</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 15,757,671</u></b>	<b><u>\$ 13,758,091</u></b>
Cash and Cash Equivalents (Exhibit 1)	10,717,137	10,368,413
Restricted Cash and Cash Equivalents (Exhibit 1)	1,437,704	1,278,900
Short Term Investments (Exhibit 1)	3,499,577	2,008,409
Endowment Investments (Exhibit 1)	<u>103,253</u>	<u>102,369</u>
<b>Total Deposits and Investments (Exhibit 1)</b>	<b><u>\$ 15,757,671</u></b>	<b><u>\$ 13,758,091</u></b>

**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 2013

As of August 31, 2014 the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1 to 2</u>	<u>Greater than 2</u>
Certificates of Deposit	\$ 3,100,996	\$ 3,100,996	\$ -	\$ -
Investment Pool	501,834	501,834	-	-
<b>Total Fair Value</b>	<b>\$ 3,602,830</b>	<b>\$ 3,602,830</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.

**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 2013

**5. Capital Assets**

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

	<b>Balance September 1, 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance August 31, 2014</b>
<u>Not Depreciated:</u>				
Land	\$ 322,248	\$ 70,862	\$ -	\$ 393,110
Collections	28,907	-	-	28,907
Construction in Progress	1,094,057	53,527	1,094,057	53,527
Subtotal	1,445,212	124,389	1,094,057	475,544
<u>Buildings and Other Capital Assets:</u>				
Buildings and Building Improvements	27,642,260	1,566,844	-	29,209,104
Other Real Estate Improvements	646,645	-	-	646,645
Total Buildings and Other Real Estate Improvements	28,288,905	1,566,844	-	29,855,749
Library Books	950,270	37,580	32,730	955,120
Furniture, Machinery, and Equipment	3,686,299	287,645	175,715	3,798,229
Total Buildings and Other Capital Assets	32,925,474	1,892,069	208,445	34,609,098
<u>Accumulated Depreciation:</u>				
Buildings and Building Improvements	7,987,108	466,600	-	8,453,708
Other Real Estate Improvements	415,629	41,329	-	456,958
Total Buildings and Other Real Estate Improvements	8,402,737	507,929	-	8,910,666
Library Books	676,934	42,010	32,730	686,214
Furniture, Machinery, and Equipment	2,334,130	244,088	167,528	2,410,690
Total Accumulated Depreciation	11,413,801	794,027	200,258	12,007,570
Net Capital Assets	\$ 22,956,885	\$ 1,222,431	\$ 1,102,244	\$ 23,077,072



**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 2013

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

	<b>Balance September 1, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance August 31, 2013</b>
<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, 2014 and 2013

**6. Long-term Liabilities**

Long-term liability activity for the year ended August 31, 2014 was as follows:

	<b>Balance September 1, 2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance August 31, 2014</b>	<b>Current Portion</b>
Bonds:					
Revenue bonds	\$ 3,065,000	\$ -	\$ 495,000	\$ 2,570,000	\$ 500,000
Unamortized bond premium	24,643	-	4,286	20,357	-
Total long-term Liabilities	<u>\$ 3,089,643</u>	<u>\$ -</u>	<u>\$ 499,286</u>	<u>\$ 2,590,357</u>	<u>\$ 500,000</u>

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

	<b>Balance September 1, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance August 31, 2013</b>	<b>Current Portion</b>
Bonds:					
Revenue bonds	\$ 3,550,000	\$ -	\$ 485,000	\$ 3,065,000	\$ 495,000
Unamortized bond premium	28,929	-	4,286	24,643	-
Total long-term Liabilities	<u>\$ 3,578,929</u>	<u>\$ -</u>	<u>\$ 489,286</u>	<u>\$ 3,089,643</u>	<u>\$ 495,000</u>

**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 2013

**7. Debt Obligations**

Debt service requirements as of August 31, 2014 were as follows:

<b>For the Year Ended</b> <u>August 31</u>	<b>Revenue Bonds</b>		<b>Total</b>
	<u>Principal</u>	<u>Interest</u>	
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
<b>Total</b>	<b>\$ 2,570,000</b>	<b>\$ 207,975</b>	<b>\$ 2,777,975</b>

**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  
\$2,570,000 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, 2014, 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.

**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 2013

**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. 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 2014 and 2013 and a state contribution rate of 6.8% for fiscal year 2014 and 6.4% for 2013. In certain instances the reporting district is required to make all or a portion of the state's 6.8% contribution for fiscal years 2014 and 6.4% contribution for fiscal year 2013.

**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.

**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 2013

*Funding Policy.* Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.6% and 6.65%, respectively. 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 \$306,799 and \$568,164 for the fiscal years ended August 31, 2014 and 2013, 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 \$11,145,594 and \$10,778,780 for fiscal years 2014 and 2013, respectively. The total payroll of employees covered by the Teacher Retirement System was \$6,477,580 and \$6,166,481 for fiscal years 2014 and 2013, respectively. The total payroll of employees covered by the Optional Retirement System was \$3,290,243 and \$3,118,457 for fiscal years 2014 and 2013, respectively. The total payroll of employees covered by the PARS plan was \$1,243,806 and \$1,226,067 for fiscal years 2014 and 2013, respectively.

**11. Deferred Compensation Plan**

Under Section 403(b) of the Internal Revenue Code, all employees of the College are eligible to defer from taxable income amounts they choose to contribute to a Tax Sheltered Annuity (TSA). Authority for this program is granted under Government Code 609.001. The general maximum contribution limit was \$17,500 for tax years 2014 and 2013, with a \$5,500 make-up provision for individuals fifty years or older in 2014 and 2013. Twenty-five employees of the College contributed a total of \$82,668 under this plan for the year 2014, and twenty employees contributed a total of \$45,552 under this plan for 2013. 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 \$61,915 for 2014 and \$120,232 for 2013. 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

**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 2013

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, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Student Receivables	\$ 2,014,408	\$ 1,854,816
Taxes Receivables	393,141	373,168
Federal Receivables	1,847,948	2,522,704
State Receivables	56,714	17,171
Other Receivables	148,851	159,418
Subtotal	<u>4,461,062</u>	<u>4,927,277</u>
Allowance for doubtful accounts	<u>(1,069,922)</u>	<u>(865,440)</u>
Total Receivables	<u><u>3,391,140</u></u>	<u><u>4,061,837</u></u>

**Payables**

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

	<u>2014</u>	<u>2013</u>
Vendors Payable	\$ 1,294,193	\$ 1,187,651
Total Payables	<u><u>\$ 1,294,193</u></u>	<u><u>\$ 1,187,651</u></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 2014 and 2013 for which monies have not been received nor funds expended totaled \$213,180 and \$202,031. Federal Contract and Grant Awards comprised all of these amounts.

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August 31, 2014 and 2013

**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 \$503.14 for employees, \$791.16 for employee and spouse, \$696.00 for employee and child, and \$984.02 for employee and family and totaled \$880,045 for the year ended August 31, 2014. For the year ended August 31, 2013, 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 and totaled \$646,513. The cost of providing those benefits for 56 retirees in the year ended 2014 was \$367,163 (retiree benefits for 53 retirees cost \$327,974 for the year ended 2013). For 224 active employees, the cost of providing benefits was \$512,882 for the year ended 2014 (active employee benefits for 199 employees cost \$318,539 for the year ended 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>2014</u>	<u>2013</u>
Assessed Valuation of the District	\$ 1,818,170,887	\$ 1,817,541,151
Less: Exemptions	<u>168,229,138</u>	<u>164,937,082</u>
Net Assessed Valuation of the District	1,649,941,749	1,652,604,069
Less: Freeze Taxable	<u>271,305,159</u>	<u>259,222,374</u>
Freeze Adjusted Taxable	<u><u>1,378,636,590</u></u>	<u><u>1,393,381,695</u></u>

Authorized Tax Rate per \$100 valuation (current operations-maximum per enabling legislation)	.300000	.300000
Assessed Tax Rate per \$100 valuation (current operations)	.091514	.089492

Taxes levied for the year ended August 31, 2014 and 2013 amounted to \$1,449,710 and \$1,413,531, 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.

**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 2013

	<b>2014</b>	<b>2013</b>
	<u>Current Operations</u>	<u>Current Operations</u>
Current Taxes Collected	\$ 1,396,488	\$ 1,356,206
Delinquent Taxes Collected	38,081	41,199
Penalties and Interest Collected	<u>30,241</u>	<u>30,017</u>
Total Collections	<u>\$ 1,464,810</u>	<u>\$ 1,427,422</u>

Tax collections for the year ended August 31, 2014 and 2013 were 96.33% and 95.94%, 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.

**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 2014 (including penalties and interest)</u>	<u>Collections in Fiscal Year 2013 (including penalties and interest)</u>
Alvarado	\$ 632,757	\$ 570,767
Cleburne	1,395,060	1,422,434
Godley	131,216	128,867
Grandview	145,500	155,599
Joshua	665,634	598,744
Keene	73,601	68,617
Rio Vista	86,497	83,779
Venus	126,472	113,544
Total	<u>\$ 3,256,737</u>	<u>\$ 3,142,351</u>



**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 2013

**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, 2014 and 2013.

**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). 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/>.

**Hill College**  
Notes to Financial Statements  
August 31, 2014 and 2013

*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, 2014, 2013, and 2012, were \$1,818,265, \$1,673,431, and \$1,543,361, respectively, which equaled the required contributions each year.

**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>

**23. Subsequent Events**

Implementation of GASB Statement No. 68

GASB statement No. 68, Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27, was issued June 2012 and will apply to the College's financial statements beginning with the year ended August 31, 2015. This statement will require the College to recognize a liability for its proportionate share of the net pension liability.

**SUPPLEMENTARY SCHEDULES**

Hill College  
Schedule A  
Schedule of Operating Revenues  
Year Ended August 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2014 Total</u>	<u>2013 Total</u>
<b>Tuition:</b>						
State Funded Credit Courses:						
In-District Resident Tuition	\$ 3,002,508	\$ -	\$ 3,002,508	\$ -	\$ 3,002,508	\$ 2,883,862
Out-of-District Resident Tuition	1,901,715	-	1,901,715	-	1,901,715	2,150,945
Non-Resident Tuition	175,722	-	175,722	-	175,722	156,995
TPEG - Credit (set aside)*	-	299,532	299,532	-	299,532	318,822
State-Funded Continuing Education	144,252	-	144,252	-	144,252	90,729
TPEG - Credit (set aside)*	-	15,671	15,671	-	15,671	5,560
Non-State Funded Continuing Education	14,425	-	14,425	-	14,425	19,723
<b>Total Tuition</b>	<b>5,238,622</b>	<b>315,203</b>	<b>5,553,825</b>	<b>-</b>	<b>5,553,825</b>	<b>5,626,636</b>
<b>Fees:</b>						
Out of District Fee	838,794	-	838,794	-	838,794	917,079
General Fees	378,779	-	378,779	-	378,779	398,713
Student Service Fee	-	-	-	361,891	361,891	384,216
Building Use Fee	-	-	-	888,600	888,600	908,505
Laboratory Fee	285,423	-	285,423	-	285,423	317,802
<b>Total Fees</b>	<b>1,502,996</b>	<b>-</b>	<b>1,502,996</b>	<b>1,250,491</b>	<b>2,753,487</b>	<b>2,926,315</b>
<b>Scholarship Allowances and Discounts:</b>						
Remissions and Exemptions - State	-	-	-	(217,951)	(217,951)	(167,760)
Title IV Federal Grants	(2,473,638)	-	(2,473,638)	-	(2,473,638)	(2,933,935)
TPEG Awards	(291,239)	-	(291,239)	-	(291,239)	(246,190)
Other State Grants	(192,278)	-	(192,278)	-	(192,278)	(65,444)
Other Local Grants	(1,625,770)	-	(1,625,770)	-	(1,625,770)	(1,581,599)
<b>Total Scholarship Allowances</b>	<b>(4,582,925)</b>	<b>-</b>	<b>(4,582,925)</b>	<b>(217,951)</b>	<b>(4,800,876)</b>	<b>(4,994,928)</b>
<b>Total Net Tuition and Fees</b>	<b>2,158,693</b>	<b>315,203</b>	<b>2,473,896</b>	<b>1,032,540</b>	<b>3,506,436</b>	<b>3,558,023</b>
<b>Additional Operating Revenues:</b>						
Federal Grants and Contracts	38,350	430,289	468,639	-	468,639	490,377
State Grants and Contracts	-	482,821	482,821	-	482,821	664,197
Non-Governmental Grants and Contracts	-	1,217,542	1,217,542	-	1,217,542	1,041,557
General Operating Revenues	208,154	-	208,154	-	208,154	213,017
<b>Total Additional Operating Revenues</b>	<b>246,504</b>	<b>2,130,652</b>	<b>2,377,156</b>	<b>-</b>	<b>2,377,156</b>	<b>2,409,148</b>
<b>Auxiliary Enterprises:</b>						
Residential Life	-	-	-	999,624	999,624	969,684
Less Discounts	-	-	-	(564,790)	(564,790)	(581,757)
Bookstore	-	-	-	256,343	256,343	276,372
Cosmetology	-	-	-	26,964	26,964	28,117
Concessions	-	-	-	115,868	115,868	120,440
Miscellaneous Income	-	-	-	110	110	45
<b>Total Net Auxiliary Enterprises</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>834,119</b>	<b>834,119</b>	<b>812,901</b>
<b>Total Operating Revenues</b>	<b>\$ 2,405,197</b>	<b>\$ 2,445,855</b>	<b>\$ 4,851,052</b>	<b>\$ 1,866,659</b>	<b>\$ 6,717,711</b>	<b>\$ 6,780,072</b>
					(Exhibit 2)	(Exhibit 2)

\*In accordance with Education Code 56.033, \$315,203 and \$324,382 for years August 31, 2014 and 2013, respectively, of tuition was set aside for Texas Public Education Grants (TPEG).

Hill College  
Schedule B  
Schedule of Operating Expenses by Object  
Year Ended August 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)

	Operating Expenses					2014 Total	2013 Total
	Salaries and Wages	Benefits		Other Expenses			
		State	Local				
<b>Unrestricted - Educational Activities</b>							
Instruction	\$ 6,497,201	\$ -	\$ 131,802	\$ 735,513	\$ 7,364,516	\$ 7,086,365	
Public Service	-	-	-	-	-	-	
Academic Support	1,103,691	-	21,604	430,806	1,556,101	1,391,763	
Student Services	1,257,834	-	20,248	199,329	1,477,411	1,411,953	
Institutional Support	1,705,626	-	1,262,830	1,515,980	4,484,436	3,998,211	
Operation and Maintenance of Plant	306,485	-	62,436	2,246,422	2,615,343	2,267,241	
Scholarships and Fellowships	-	-	-	-	-	-	
<b>Total Unrestricted Educational Activities</b>	<b>10,870,837</b>	<b>-</b>	<b>1,498,920</b>	<b>5,128,050</b>	<b>17,497,807</b>	<b>16,155,533</b>	
<b>Restricted - Educational Activities</b>							
Instruction	\$ 17,721	\$ 623,032	\$ -	\$ 42,023	\$ 682,776	\$ 884,208	
Public Service	2,619	-	-	-	2,619	16,226	
Academic Support	106	142,196	-	5,000	147,302	129,527	
Student Services	191,893	200,486	-	133,689	526,068	791,371	
Institutional Support	4,766	224,011	-	-	228,777	206,533	
Operation and Maintenance of Plant	-	37,224	-	-	37,224	56,004	
Scholarships and Fellowships	-	-	-	4,776,676	4,776,676	5,157,089	
<b>Total Restricted Educational Activities</b>	<b>217,105</b>	<b>1,226,949</b>	<b>-</b>	<b>4,957,388</b>	<b>6,401,442</b>	<b>7,240,958</b>	
<b>Total Educational Activities</b>	<b>11,087,942</b>	<b>1,226,949</b>	<b>1,498,920</b>	<b>10,085,438</b>	<b>23,899,249</b>	<b>23,396,491</b>	
<b>Auxiliary Enterprises</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,267,268</b>	<b>1,267,268</b>	<b>1,191,163</b>	
<b>Depreciation Expense - Buildings and Other Real Estate Improvements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>507,930</b>	<b>507,930</b>	<b>462,616</b>	
<b>Depreciation Expense - Equipment and Furniture</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>286,097</b>	<b>286,097</b>	<b>317,352</b>	
<b>Total Operating Expenses</b>	<b>\$ 11,087,942</b>	<b>\$ 1,226,949</b>	<b>\$ 1,498,920</b>	<b>\$ 12,146,733</b>	<b>\$ 25,960,544</b>	<b>\$ 25,367,622</b>	
					(Exhibit 2)	(Exhibit 2)	

Hill College  
Schedule C  
Schedule of Non-Operating Revenues and Expenses  
Year Ended August 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2014 Total</u>	<u>2013 Total</u>
<b>NON-OPERATING REVENUES:</b>					
State Appropriations:					
Education and General State Support	\$ 7,268,228	\$ -	\$ -	\$ 7,268,228	\$ 6,531,540
State Group Insurance	-	880,045	-	880,045	646,513
State Retirement Matching	-	306,799	-	306,799	568,164
Texas Heritage Museum	356,504	-	-	356,504	256,500
<b>Total State Appropriations</b>	<b>7,624,732</b>	<b>1,186,844</b>	<b>-</b>	<b>8,811,576</b>	<b>8,002,717</b>
Maintenance Ad Valorem Taxes	1,464,810	-	-	1,464,810	1,427,422
Branch Campus Maintenance Tax	3,256,737	-	-	3,256,737	3,142,351
Federal Revenue, Non Operating	7,152,324	-	-	7,152,324	8,045,509
Investment Income	63,194	12,826	16,517	92,537	123,406
Gifts	546,164	-	-	546,164	2,730
Other Non-Operating Revenue	55,911	-	-	55,911	252,396
<b>Total Non-Operating Revenues</b>	<b>20,163,872</b>	<b>1,199,670</b>	<b>16,517</b>	<b>21,380,059</b>	<b>20,996,531</b>
<b>NON-OPERATING EXPENSES:</b>					
Interest on Capital Related Debt	75,239	-	-	75,239	81,880
(Gain) Loss on Disposal of Capital Assets	7,619	-	-	7,619	(8,246)
Other Non-Operating Expense	-	-	-	-	-
<b>Total Non-Operating Expenses</b>	<b>82,858</b>	<b>-</b>	<b>-</b>	<b>82,858</b>	<b>73,634</b>
<b>Net Non-Operating Revenues</b>	<b>\$ 20,081,014</b>	<b>\$ 1,199,670</b>	<b>\$ 16,517</b>	<b>\$ 21,297,201</b>	<b>\$ 20,922,897</b>
				(Exhibit 2)	(Exhibit 2)

Hill College  
Schedule D  
Schedule of Net Position by Source and Availability  
Year Ended August 31, 2014 (With Memorandum Totals for the Year Ended August 31, 2013)

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 6,839,237	\$ -	\$ -	\$ -	\$ 6,839,237	\$ 6,839,237	\$ -
Board Designated	3,778,982	-	-	-	3,778,982	3,778,982	-
Restricted	-	14,366	-	-	14,366	-	14,366
Auxiliary Enterprises	505,170	-	-	-	505,170	505,170	-
Loan	-	-	-	-	-	-	-
Endowment	-	-	1,309,649	-	1,309,649	-	1,309,649
Plant:							
Debt Service	-	794,465	-	-	794,465	-	794,465
Investment in Plant	-	-	-	20,802,072	20,802,072	-	20,802,072
<b>Total Net Position, August 31, 2014</b>	<b>11,123,389</b>	<b>808,831</b>	<b>1,309,649</b>	<b>20,802,072</b>	<b>34,043,941</b> (Exhibit 1)	<b>11,123,389</b>	<b>22,920,552</b>
<b>Total Net Position, August 31, 2013</b>	<b>9,717,362</b>	<b>1,546,334</b>	<b>1,146,057</b>	<b>19,406,884</b>	<b>31,816,637</b> (Exhibit 1)	<b>9,717,362</b>	<b>22,099,275</b>
<b>Net Increase (Decrease) in Net Position</b>	<b>\$ 1,406,027</b>	<b>\$ (737,503)</b>	<b>\$ 163,592</b>	<b>\$ 1,395,188</b>	<b>\$ 2,227,304</b> (Exhibit 2)	<b>\$ 1,406,027</b>	<b>\$ 821,277</b>

HILL COLLEGE  
 Schedule E  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended August 31, 2014

<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		\$ 69,321
Federal College Work Study Program	84.033		7,837
Federal Pell Grant Program	84.063		7,075,166
Direct Loans	84.268		8,792,429
TRIO: Student Support Services	84.042		202,724
Pass-Through From:			
Texas Higher Education Coordinating Board			
Carl Perkins Vocational Education-Basic	84.048	142040	225,565
Statewide Longitudinal Data Systems	84.372		2,000
<b><i>Total U. S. Department of Education</i></b>			<b><u>16,375,042</u></b>
<b>Total Federal Financial Assistance</b>			<b><u>\$ 16,375,042</u></b>

Notes to Schedule on following page.



**HILL COLLEGE**  
**Schedule E (Continued)**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended August 31, 2014**

**Note 1: Federal Assistance Reconciliation**

Federal Grants and Contracts Revenue per Schedule A	\$	468,639
Less: Indirect/Administrative Costs Recoveries		(38,350)
Add: Non-Operating Federal Revenue from Schedule C		7,152,324
		<hr/>
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Assets	\$	7,582,613
		<hr/>
Reconciling Item:		
Add: Direct Student Loans	\$	8,792,429
		<hr/>
Total Federal Revenues per Schedule of Expenditures of Federal Awards	\$	16,375,042
		<hr/> <hr/>

**Note 2: Significant Accounting Policies Used in Preparing the Schedule**

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

**HILL COLLEGE**  
**Schedule F**  
**Schedule of Expenditures of State Awards**  
**For the Year Ended August 31, 2014**

<b>Grantor Agency / Program Title</b>	<b>Grant Contract Number</b>	<b>Expenditures</b>
<i>Texas Higher Education Coordinating Board</i>		
TEXAS Grant Program		\$ 318,510
TX Educational Opportunity Grant Program		114,640
Texas College Work Study Program		21,941
ABE Community College Grants	07047	27,504
Nursing and Allied Health	13044	226
<i>Total Texas Higher Education Coordinating Board</i>		<u>482,821</u>
<b>Total State Financial Assistance</b>		<u><u>\$ 482,821</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, 2014**

**Note 1: State Assistance Reconciliation**

State Revenues - per Schedule A	
State Grants and Contracts	\$ 482,821
Less: Indirect/Administrative Cost Recoveries	-
<b>Total State Revenues per Schedule of Expenditures of State Awards</b>	<b>\$ 482,821</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**



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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, 2014 and 2013, 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 12, 2014.

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)**

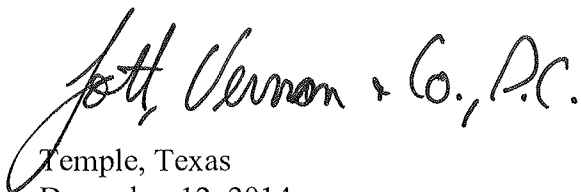
any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

  
Temple, Texas  
December 12, 2014



**LOTT, VERNON & COMPANY, P.C.**

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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**

Board of Regents  
Hill College  
Hillsboro, Texas

Report on Compliance for Each Major Federal Program

We have audited Hill College's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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

Report on Internal Control Over Compliance (continued)

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

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

Temple, Texas  
December 12, 2014

**HILL COLLEGE**  
**Schedule of Findings and Questioned Costs**  
**August 31, 2014**

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  no  
 Significant deficiencies identified that are  
 not considered to be material  
 weakness(es)?                                     yes  none reported
3. Noncompliance material to financial  
 statements noted?                                 yes  no

**Federal and State Awards**

4. Internal control over major programs:  
 Material weakness(es) identified?             yes  no  
 Significant deficiencies identified that are  
 not considered to be material  
 weakness(es)?                                     yes  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?                 yes  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:		N/A – State financial assistance was less than \$500,000 in fiscal year ending August 31, 2014.
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, 2014**

8. Dollar threshold used to distinguish between type A and type B federal programs: \$300,000

9. Auditee qualified as low-risk auditee for federal single audit?  X  yes   no

II. Financial Statement Findings  
- None.

III. Federal and State Awards Findings and Questioned Costs  
- None.