

HILL COLLEGE

Annual Financial Report

For the Fiscal Year Ended

August 31, 2016

HILL COLLEGE
Table of Contents

	Page
Organizational Data	1
Independent Auditors' Report	2
Management's Discussion and Analysis	5
 Financial Statements	
Statement of Net Position (Exhibit 1).....	12
Statement of Financial Position (discretely presented component unit - Exhibit 1-A).....	13
Statement of Revenues, Expenses, and Changes in Net Position (Exhibit 2).....	14
Statement of Activities (discretely presented component unit -Exhibit 2-A).....	15
Statement of Cash Flows (Exhibit 3).....	16
Notes to Financial Statements.....	17
 Required Supplementary Information (RSI) Schedules	
Schedule of College's Share of Net Pension Liability.....	38
Schedule of College's Contributions.....	39
Notes to Required Supplementary Information.....	40
 Supplementary Schedules	
Schedules	
A Schedule of Operating Revenues.....	41
B Schedule of Operating Expenses by Object.....	42
C Schedule of Non-Operating Revenues and Expenses.....	43
D Schedule of Net Position by Source and Availability.....	44
E Schedule of Expenditures of Federal Awards.....	45
Notes to Schedule of Expenditures of Federal Awards.....	46
F Schedule of Expenditures of State Awards.....	47
Notes to Schedule of Expenditures of State Awards.....	48
 Auditors' Reports on Controls and Compliance	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Perfirmed in Accordance with <i>Government Auditing Standards</i>	49
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.....	51
Schedule of Findings and Questioned Costs.....	54

HILL COLLEGE

ORGANIZATIONAL DATA

For the Fiscal Year 2015 - 2016

BOARD OF REGENTS

Officers

David Teel	President
Bill Galiga	Vice-President
Karen Brackin	Secretaiy

Members

Tenn Expires

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

PRINCIPAL ADMINISTRATIVE OFFICERS

Dr. Pain Boelnn	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 Math and Sciences
Debbie Gerik	Dean of Financial Services
Bill Gilker	Dean of Students / Campus Manager, JCC
Nancy McKenzie	Dean of Arts and Humanities
Lori Moseley	Dean of Health and Community Services
John Versluis	Dean, Texas Heritage Museum



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

INDEPENDENT AUDITORS' REPORT

Board of Regents
Hill College
Hillsboro, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Hill College, (the College) as of and for the years ended August 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hill College as of August 31, 2016, and 2015, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

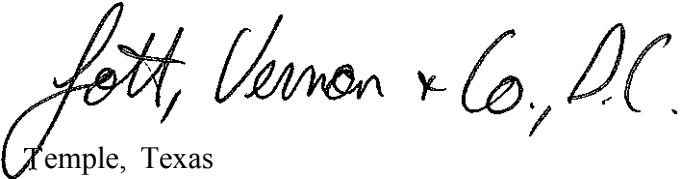
The supplemental schedules, the schedule of expenditures of federal awards and the schedule of expenditures of state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.


Jett, Vernon & Co., P.C.

Temple, Texas
December 13, 2016

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, 2016. This annual report contains financial statements which are in conformance with Governmental Accounting Standards Board (GASB). There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The following summary and management's discussion and analysis is intended to provide readers with an overview of the basic financial statements. This discussion should be read in conjunction with the accompanying financial statements, notes to the financial statements, and supplemental information.

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

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

Statement of Net Position

Condensed Statement of Net Position

	2016	2015	2014
Assets:			
Current Assets	\$ 16,073,580	\$17,660,332	\$ 18,187,109
Capital Assets	28,034,362	23,577,711	23,077,072
Other Noncurrent Assets	1,837,577	1,673,427	1,541,292
Total Assets	\$ 45,945,519	\$42,911,470	\$ 42,805,473
Deferred Outflows of Resources:			
Deferred Outflows Related to Pensions	1,071,922	429,746	
Total Deferred Outflows of Resources	1,071,922	429,746	
Liabilities:			
Current Liabilities	\$ 6,941,266	\$ 5,529,664	\$ 6,568,515
Noncurrent Liabilities	3,954,929	4,107,724	2,193,017
Total Liabilities	\$ 10,896,195	\$ 9,637,388	\$ 8,761,532
Deferred Inflows of Resources:			
Deferred Inflows Related to Pensions	1,027,503	741,862	
Total Deferred Inflows of Resources	1,027,503	741,862	
Net Position:			
Invested in Capital Assets, Net of Related Debt	\$ 26,774,361	\$ 21,802,711	\$ 20,802,072
Restricted-nonexpendable	1,595,508	1,425,032	1,309,649
Restricted-expendable	1,050,183	926,554	808,831
Unrestricted	5,673,691	8,807,669	11,123,389
Total Net Position	\$ 35,093,743	\$32,961,966	\$ 34,043,941

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

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

The largest component of "Capital Assets" is the College's investment in buildings and other real estate improvements, \$25,984,619. The buildings owned by Hill College are only 28% depreciated, which is an indication of the age of the facilities. Most buildings are relatively new and are in good repair. The \$4,456,651 increase in "Capital Assets" was due to the renovation/development of the HVAC building at the Cleburne Technical Center and a district wide energy/water efficiency project. The \$1,586,752 reduction in current assets was used to help fund the above mentioned projects.

The \$1,258,807 increase in "Total Liabilities" when compared to the prior year is primarily the result of (1) an increase of \$1,009,990 in accounts payable, \$729,977 of which was a timing difference in paying the bookstore for Fall 2016 student financial aid vouchers and \$232,477 is accounts payable due for the balance of the renovations of the HVAC building at the Cleburne Technical Center and (2) a \$152,795 reduction in "Noncurrent Liabilities" which is payment on 2012 revenue bonds.

It is also important to note that current liabilities are only 43% 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 \$4,971,650 increase in "Invested in Capital Assets, Net of Related Debt" is due to the development/renovation of the HVAC building at the Cleburne Technical Center and a district wide energy/water conservation project. The \$3,133,978 reduction in "Unrestricted Net Position" is the result of the above mentioned projects being funded from a combination of current revenue and reserves.

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

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

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

	2016	2015	2014
Operating Revenues:			
Tuition and fees (net of discounts)	\$ 3,443,149	\$ 3,487,270	\$ 3,506,436
Federal grants and contracts	248,072	502,864	468,639
State grants and contracts	436,150	606,924	482,821
Non-governmental grants and contracts	1,609,011	1,235,832	1,217,542
Auxiliary enterprises (net of discounts)	763,457	753,607	834,119
Other operating revenues	286,387	168,194	208,154
Total Operating Revenues	6,786,226	6,754,691	6,717,711
Operating Expenses:			
Instruction	7,797,010	8,078,453	8,047,292
Public Service		2,315	2,619
Academic support	1,582,335	1,855,712	1,703,403
Student services	1,958,820	2,161,539	2,003,479
Institutional support	4,459,098	4,573,907	4,713,213
Operation and maintenance of plant	2,767,911	2,397,385	2,652,567
Scholarships and fellowships	4,436,339	4,336,927	4,776,676
Auxiliary enterprises	1,231,437	1,225,047	1,267,268
Depreciation	920,310	826,880	794,027
Total Operating Expenses	25,153,260	25,458,165	25,960,544
Operating Loss	(18,367,034)	(18,703,474)	(19,242,833)
Non-Operating Revenues (Expenses):			
State Appropriations	8,106,647	8,863,227	8,811,576
Maintenance ad valorem taxes	1,611,934	1,507,984	1,464,810
Branch campus maintenance tax	3,471,084	3,323,119	3,256,737
Federal revenue, non-operating	6,395,823	6,400,966	7,152,324
Gifts	626,617	8,787	546,164
Investment income	96,986	99,824	92,537
Interest on capital-related debt	(53,952)	(65,314)	(75,239)
Gain (loss) on disposal of capital assets	194	214	(7,619)
Other non-operating revenues	53,170	91,860	55,911
Net Non-Operating Revenues	20,308,503	20,230,667	21,297,201
Income Before Other Revenues (Expenses)	1,941,469	1,527,193	2,054,368
Other Revenues (Expenses):			
Additions to permanent endowments	190,308	138,539	172,936
Increase (Decrease) in Net Position	2,131,777	1,665,732	2,227,304
Net Position, Beginning of Year, as Previously Reported	32,961,966	34,043,941	
Cumulative Effect of Change in Accounting Principle		(2,747,707)	
Net Position, Beginning of Year, as Restated	32,961,966	31,296,234	31,816,637
Net Position at End of Year	\$ 35,093,743	\$ 32,961,966	\$ 34,043,941

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

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

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

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

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

While there was an approximately 2% decline in enrollment, there was not any significant change in "Operating Revenue" due to a \$5 per semester credit hour increase in tuition and a \$2 per semester credit hour increase in out-of-district fee. There was a \$77,836 decline in "Non-Operating Revenue" which was primarily the net effect of a \$756,580 decrease in "State Appropriations" and a \$617,830 increase in "Gifts" from the Hill College Foundation. There was also a decrease of \$304,905 in "Operating Expense" which was the result of the College responding to the enrollment decline. There were noticeable reductions in "Instruction", "Academic Support", "Student Services" and "Institutional Support" due to no salary increases and new and replacement hires being limited to mission critical positions. These reductions were offset somewhat by a \$370,526 increase in "Operation and Maintenance of the Plant" to renovate the Libnuy on the Hillsboro Campus and to replace roofs on three other buildings. There was a \$99,412 increase in "Scholarships and Fellowships" due to the increase in tuition and fees. There was also a \$93,430 increase in "Depreciation" due to the renovations/development of a HVAC building at the Cleburne Technical Center and a district wide energy/water conservation project.

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

	2016	2015	2014
Cash Flows from			
Operating Activities	\$ (15,242,225)	\$ (17,508,100)	\$ (16,782,468)
Noncapital Financing Activities	18,548,821	19,002,443	19,867,613
Capital and Related Financing Activities	(5,041,603)	(1,799,734)	(1,176,355)
Investing Activities	72,652	76,066	(1,401,262)
Net Increase in Cash and Cash Equivalents	(1,662,355)	(229,325)	507,528
Cash at Beginning of Year	11,925,516	12,154,841	11,647,313
Cash at End of Year	\$ 10,263,161	\$ 11,925,516	\$ 12,154,841

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

(1) Cash Flows from Operating Activities

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

(2) Cash Flows from Noncapital Financing Activities

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

(3) Cash Flows from Capital and Related Financing Activities

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

(4) Cash Flows from Investing Activities

This reflects cash flows resulting from investing activities.

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

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

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

Capital Asset and Debt Administration

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

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

Discussion of Currently Known Facts, Decisions, or Conditions

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

Effective fall 2016, the Hill College Board of Regents approved a \$10 per semester credit hour increase in tuition, except for Dual Credits Students whose tuition and fees rate remain frozen at the 14/15 rate.

FINANCIAL STATEMENTS

Hill College
Exhibit 1
Statement of Net Position
August 31, 2016 and August 31, 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 8,530,419	\$ 10,356,298
Short Term Investments	3,547,406	3,522,562
Accounts Receivable (Net)	3,264,352	3,165,449
Deferred Charges	545,330	508,942
Prepaid Expenses	186,073	107,081
Total Current Assets	16,073,580	17,660,332
Noncurrent Assets		
Restricted Cash and Cash Equivalents	1,732,742	1,569,218
Endowment Investments	104,500	103,874
Deferred Charges	335	335
Capital Assets, (Net) (Note 5)	28,034,362	23,577,711
Total Noncurrent Assets	29,871,939	25,251,138
Total Assets	45,945,519	42,911,470
Deferred Outflows of Resources:		
Deferred Outflows Related to Pensions	<u>1,071,922</u>	<u>429,746</u>
Total Deferred Outflows of Resources	1,071,922	429,746
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,207,004	197,014
Accrued Liabilities	101,564	114,277
Funds Held for Others	238,782	242,164
Deferred Revenue	4,863,916	4,461,209
Bonds Payable - Current Portion	530,000	515,000
Total Current Liabilities	6,941,266	5,529,664
Noncurrent Liabilities		
Bond Deposits Payable	116,125	111,500
Bonds Payable	1,036,786	1,571,071
Net Pension Liability	2,802,018	2,425,153
Total Noncurrent Liabilities	3,954,929	4,107,724
Total Liabilities	10,896,195	9,637,388
Deferred Inflows of Resources:		
Deferred Inflows Related to Pensions	<u>1,027,503</u>	<u>741,862</u>
Total Deferred Inflows of Resources	1,027,503	741,862
NET POSITION		
Invested in Capital Assets, Net of Related Debt	26,774,361	21,802,711
Restricted for:		
Nonexpendable		
Student Aid	1,595,508	1,425,032
Expendable		
Student Aid	233,145	121,117
Debt Service	817,038	805,437
Unrestricted	5,673,691	8,807,669
Total Net Position (Schedule D)	\$ 35,093,743	\$ 32,961,966

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

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

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

Illl College
Exhibit 2
Statement of Revenues, Expenses, and Changes in Net Position
Years Ended August 31, 2016 and August 31, 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Tuition and Fees (net of discounts of \$4,524,376 and \$4,272,228, respectively)	\$ 3,443,149	\$ 3,487,270
Federal Grants and Contracts	248,072	502,864
State Grants and Contracts	436,150	606,924
Non-Governmental Grants and Contracts	1,609,011	1,235,832
Auxiliary Enterprises (net of discounts)	763,457	753,607
General Operating Revenues	286,387	168,194
	<hr/>	<hr/>
Total Operating Revenues (Schedule A)	6,786,226	6,754,691
Operating Expenses		
Instruction	7,797,010	8,078,453
Public Service		2,315
Academic Support	1,582,335	1,855,712
Student Services	1,958,820	2,161,539
Institutional Support	4,459,098	4,573,907
Operation and Maintenance of Plant	2,767,911	2,397,385
Scholarships and Fellowships	4,436,339	4,336,927
Auxiliary Enterprises	1,231,437	1,225,047
Depreciation	920,310	826,880
	<hr/>	<hr/>
Total Operating Expenses (Schedule B)	25,153,260	25,458,165
Operating Loss	(18,367,034)	(18,703,474)
Non-Operating Revenues (Expenses)		
State Appropriations	8,106,647	8,863,227
Maintenance Ad Valorem Taxes	1,611,934	1,507,984
Branch Campus Maintenance Tax	3,471,084	3,323,119
Federal Revenue, Non Operating	6,395,823	6,400,966
Gifts	626,617	8,787
Investment Income	96,986	99,824
Interest on Capital Related Debt	(53,952)	(65,314)
Gain (Loss) on Disposal of Capital Assets	194	214
Other Non-Operating Revenues	53,170	91,860
	<hr/>	<hr/>
Net Non-Operating Revenues (Schedule C)	20,308,503	20,230,667
Income Before Other Revenues (Expenses)	1,941,469	1,527,193
Other Revenues (Expenses)		
Additions to Permanent and Term Endowments	190,308	138,539
	<hr/>	<hr/>
Total Other Revenues	190,308	138,539
Increase in Net Position	2,131,777	1,665,732
Net Position		
Net Position - Beginning of Year, as Previously Reported	32,961,966	34,043,941
Cumulative Effect of Change in Accounting Principle (Note 2)		(2,747,707)
Net Position, Beginning of Year, as Restated	32,961,966	31,296,234
	<hr/>	<hr/>
Net Position - End of Year	\$ 35,093,743	\$ 32,961,966

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

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

	<u>2016</u>	-
Operating Revenues:		
Interest and Dividends	\$ 215,556	
Gain/(Loss) on Sale of Securities	78,638	
Unrealized Gain/(Loss)	153,667	
Farm and Lease Revenue	69,861	
Other Miscellaneous Revenue	<u>251,555</u>	-
 Total Operating Revenue	 <u>769,277</u>	 -
 Operating Expenses:		
Contribution to Hill College	628,066	
Investment Management Fees	104,151	
Legal Fees	3,281	
Accounting Fees	3,690	
Property Taxes	5,909	
Insurance	4,945	
Other Operating Expenses	<u>8,028</u>	-
 Total Operating Expenses	 758,070	 -
 Increase in Net Assets	 11,207	
 Net Assets, Beginning of Year	 <u>8,498,208</u>	 -
 Net Assets, End of Year	 <u>\$ 8,509,415</u>	 -

Hill College
Exhibit 3
Statement of Cash Flows
Years Ended August 31, 2016 and August 31, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from students and other customers	\$ 6,400,099	\$ 4,402,297
Receipts from grants and contracts	472,508	2,430,222
Payments to suppliers for goods and services	(5,634,206)	(7,348,807)
Payments to or on behalf of employees	(12,229,764)	(12,831,411)
Payments for scholarships	(4,436,339)	(4,336,927)
Other receipts	185,477	176,526
Net cash used by operating activities	<u>(15,242,225)</u>	<u>(17,508,100)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from state appropriations	6,884,006	7,617,015
Receipts from nonoperating federal revenues	6,395,823	6,400,966
Receipts from ad valorem taxes	5,083,018	4,831,103
Receipts from student organizations and other agency transactions	169,700	210,493
Payments to student organizations and other agency transactions	(174,034)	(195,674)
Additions to permanent and temporary endowments	190,308	138,540
Net cash provided by noncapital financing activities	<u>18,548,821</u>	<u>19,002,443</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipts from gifts	626,617	8,787
Proceeds from the sale of capital assets	194	2,774
Insurance proceeds	53,170	93,913
Purchases of capital assets	(5,144,484)	(1,333,108)
Payments on capital debt - principal	(515,000)	(500,000)
Payments on capital debt - interest	(62,100)	(72,100)
Net cash used by capital and related financing activities	<u>(5,041,603)</u>	<u>(1,799,734)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments		
Interest on investments	<u>72,652</u>	<u>76,066</u>
Net cash provided (used) by investing activities	<u>72,652</u>	<u>76,066</u>
Increase (decrease) in cash and cash equivalents	(1,662,355)	(229,325)
Cash and cash equivalents - September 1	11,925,516	12,154,841
Cash and cash equivalents - August 31	<u>\$ 10,263,161</u>	<u>\$ 11,925,516</u>
Reconciliation of net operating loss to net cash provided (used)		
by operating activities:		
Operating loss	\$ (18,367,034)	\$ (18,703,474)
Adjustments to reconcile operating loss to net cash used		
by operating activities:		
Depreciation expense	920,310	826,880
Payments made directly by state for benefits	1,222,641	1,246,212
Changes in assets and liabilities:		
Receivables (net)	(94,027)	241,162
Prepaid expenses	(78,992)	(20,434)
Accounts payable	773,288	(1,092,359)
Deferred revenue	397,647	20,686
Deferred charges	(16,058)	(26,773)
Net cash used by operating activities	<u>\$ (15,242,225)</u>	<u>\$ (17,508,100)</u>

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

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

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, primarily 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, 2016 and 2015

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, 2016 and August 31, 2015, respectively, the minimum unrestricted fund balance to be maintained was \$5,590,574 and \$5,434,845. The College exceeded this minimum required fund balance for both years.

Cash and Cash Equivalents

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

Deferred Outflows

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

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. The governing board has designated public funds investment pools comprised of \$504,431 and \$502,353 at 2016 and 2015 to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Renovations of \$100,000 to building, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred.

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

Pensions

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

Deferred Revenue

Tuition and fees of \$3,795,822 and \$3,482,503, dorm rental and food service fees of \$573,984 and \$539,888 and federal, state and local grants of \$113,008 and \$62,775 have been reported as deferred revenues at August 31, 2016 and 2015, respectively.

Deferred Inflows

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

Estimates

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

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

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.

Prior Year Restatement

In the year of implementation of GASB Statement 68, as amended by GASB Statement 71, a restatement to beginning net position was required for the recording of the beginning net pension liability and for the recording of deferred outflows of resources for contributions made after the measurement date of the beginning net pension liability and the beginning of the reporting entity's fiscal year.

Beginning net position as of September 1, 2014, has been restated as follows for the implementation of GASB Statement 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Beginning Net Position	\$ 34,043,941
Prior Period Adjustment-Implementation of GASB 68:	
Net Pension Liability (Measurement Date as of August 31, 2014)	(2,977,882)
Deferred Outflows - College Contributions Made During FY 2014	230,181
Recognition of Additional Contribution Adjustment	<u>(6)</u>
Beginning Net Position, as Restated	<u>\$ 31,296,234</u>

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, 2016 and 2015

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>2016</u>	<u>2015</u>
Bank Deposits		
Demand Deposits	\$ 8,914,092	\$ 10,752,204
Time Deposits	<u>1,345,119</u>	<u>1,169,162</u>
	10,259,211	11,921,366
Cash and Cash Equivalents		
Petty Cash on Hand	<u>3,950</u>	<u>4,150</u>
Total Cash and Deposits	<u>\$ 10,263,161</u>	<u>\$ 11,925,516</u>

Reconciliation of Deposits and Investments to Exhibit 1:

Type of Security	Market Value August 31, 2016	Market Value August 31, 2015
Total Cash and Deposits	\$ 10,263,161	\$ 11,925,516
Certificate of Deposit	3,147,475	3,124,083
Investment Pools	<u>504,431</u>	<u>502,353</u>
Total Investments	\$ 3,651,906	\$ 3,626,436
Total Deposits and Investments	<u>\$ 13,915,067</u>	<u>\$ 15,551,952</u>
Cash and Cash Equivalents (Exhibit 1)	8,530,419	10,356,298
Restricted Cash and Cash Equivalents (Exhibit 1)	1,732,742	1,569,218
Short Term Investments (Exhibit 1)	3,547,406	3,522,562
Endowment Investments (Exhibit 1)	<u>104,500</u>	<u>103,874</u>
Total Deposits and Investments (Exhibit 1)	<u>\$ 13,915,067</u>	<u>\$ 15,551,952</u>

Hill College
 Notes to Financial Statements
 August 31, 2016 and 2015

As of August 31, 2016, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			<u>N/A</u>
		<u>Less than 1</u>	<u>1 to 2</u>	<u>Greater than 2</u>	
Certificates of Deposit	\$ 3,147,475	\$ 3,147,475	\$	\$	\$
Investment Pool	504,431	504,431			
Total Fair Value	\$ 3,651,906	\$ 3,651,906	\$	\$	\$

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, 2016 and 2015

5. Capital Assets

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

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

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

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

	Balance September 1, 2014	Increases	De creases	Balance August 31, 2015
Not De2reciated:				
Land	\$ 393,110	\$	\$	\$ 393,110
Collections	28,907			28,907
Construction in Progress	53,527	1,018,559		1,072,086
Subtotal	475,544	1,018,559		1,494,103
Buildings and Other Ca2ital Assets:				
Buildings and Building Improvements	28,522,826			28,522,826
Other Real Estate Improvements	1,332,923			
Total Buildings and Other Real Estate Improvements	29,855,749			29,855,749
Library Books	955,120	31,559	79,225	907,454
Furniture, Machinery, and Equipment	3,798,229	279,961	31,183	4,047,007
Total Buildings and Other Capital Assets	34,609,098	311,520	110,408	34,810,210
Accumulated De2reciation:				
Buildings and Building Improvements	8,453,708	480,702		8,934,410
Other Real Estate Improvements	456,958	40,144		497,102
Total Buildings and Other Real Estate Improvements	8,910,666	520,846		9,431,512
Library Books	686,214	40,365	79,225	647,354
Furniture, Machinery, and Equipment	2,410,690	265,669	28,623	2,647,736
Total Accumulated Depreciation	12,007,570	826,880	107,848	12,726,602
Net Capital Assets	\$ 23,077,072	\$ 503,199	\$ 2,560	\$ 23,577,711

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

6. Noncurrent Liabilities

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

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

Long-term liability activity for the year ended August 31, 2015 was as follows:

	Balance September 1, 2014	Additions	Reductions	Balance August 31, 2015	Current Portion
Bonds:					
Revenue Bonds	\$ 2,570,000	\$	\$ 500,000	\$ 2,070,000	\$515,000
Unamortized Bond Premium	20,357		4,286	16,071	
Subtotal	2,590,357		504,286	2,086,071	515,000
Net pension Liability		2,425,153		2,425,153	
Total Long-term Liabilities	<u>\$ 2,590,357</u>	<u>\$2,425,153</u>	<u>\$ 504,286</u>	<u>\$ 4,511,224</u>	<u>\$515,000</u>

Hill College
 Notes to Financial Statements
 August 31, 2016 and 2015

7. Debt Obligations

Debt service requirements as of August 31, 2016 were as follows:

For the Year Ended	Revenue Bonds		
<u>August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	530,000	42,675	572,675
2018	545,000	26,662	571,662
2019	480,000	10,800	490,800
Total	\$ 1,555,000	\$ 80,137	\$ 1,635,137

8. Bonds Payable

General information related to bonds payable is summarized below:

Revenue Refunding Bonds. Series 2012:

To refund Series 1998, 2000, and 2002 bonds
 Issued June 1, 2012
 \$3,550,000; all authorized bonds have been issued
 \$1,555,000 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, 2016, the College was in compliance with all significant covenants and restrictions that are contained in the various bond indentures.

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

9. Advanced Refunding Bonds

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

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

10. Employees' Retirement Plan

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

Teacher Retirement System of Texas -Defined Benefit Pension Plan

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, whose formulas use the three highest annual salaries.

The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule.

There are no automatic post-employment benefit changes; including automatic cost of living adjustments (COLA). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate allllual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amottization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017.

The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates

	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
FY 2015 College Contributions	\$ 234,717	
FY 2015 State of Texas On-Behalf Contributions	\$ 205,519	
FY 2015 Member Contributions	\$ 438,876	

The College's contributions to the TRS pension plan in 2016 were \$219,552 as repmted in the Schedule of College Contributions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for 2016 were \$205,519.

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any patt or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for celtain instrcnctional or administrative employees; and 100% of the state contribution rate for all other employees.

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

- In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Actuarial Assumptions

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term Expected Investment Rate of Return*	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

**Includes Inflation Rate of 2.5%*

The actuarial methods and assumptions were updated based on a study of actual experience for the four-year period ending August 31, 2014 and adopted on September 24, 2015 by the TRS Board of Trustees, who have sole authority to determine the actuarial assumptions used for the plan. The most significant changes were related to the update of the post-retirement mortality rates based on the most recent TRS member experience and the decrease in the assumption for general wage inflation from 3.0% to 2.5%. Other changes to overall assumptions and methods had a minor impact on the results of the actuarial valuation and the related pension liability.

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

the expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

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

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

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

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.00% ²)	Discount Rate (8.00% ²)	1% Increase in Discount Rate (9.00% ²)
Hill College's proportionate share of the net pension liability:	4,390,235	2,802,018	1,479,133

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

At August 31, 2016, the College reported a liability of \$2,802,018 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the College. The amount recognized by the College as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the College were as follows:

Hill College's proportionate share of the collective net pension liability	2,802,018
State's proportionate share that is associated with Hill College	<u>2,452,737</u>
Total	<u>5,254,755</u>

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

At the measurement date of August 31, 2015, the employer's proportion of the collective net pension liability was 0.0079268%, which was a decrease of 0.0011523% from its proportion measured as of August 31, 2014.

For the year ended August 31, 2016, the College recognized pension expense of \$194,988 and revenue of \$194,988 for support provided by the State.

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 31,193	\$ 107,684
Changes in actuarial assumptions	131,102	99,964
Differences between projected and actual investment earnings	690,075	555,920
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions		263,935
Contributions paid to TRS subsequent to the measurement date	219,552	
Total	\$ 1,071,922	\$ 1,027,503

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

Year Ended August 31:	Pension Expense Amount
2017	(59,846)
2018	(59,846)
2019	(59,848)
2020	125,459
2021	(49,003)
Thereafter	(72,049)

Optional Retirement Plan -Defined Contribution Plan

Plan Description. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.60% and 6.65%, respectively. The College contributes an additional 1.0% for employees participating in the optional retirement program. Benefits fully vest after one year plus one day of employment.

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

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

The retirement expense to the state for the College was \$108,126 and \$105,937 for the fiscal years ended August 31, 2016 and 2015, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the College.

Public Agency Retirement System -Defined Contribution Plan

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

The total payroll for all College employees was \$10,434,517 and \$11,188,614 for fiscal years 2016 and 2015, respectively. The total payroll of employees covered by the Teacher Retirement System was \$6,200,385 and \$6,541,689 for fiscal years 2016 and 2015, respectively. The total payroll of employees covered by the Optional Retirement System was \$3,007,494 and \$3,235,408 for fiscal years 2016 and 2015, respectively. The total payroll of employees covered by the PARS plan was \$1,146,410 and \$1,283,319 for fiscal years 2016 and 2015, respectively.

11. Deferred Compensation Plan

Under Section 403(b) of the Internal Revenue Code, all employees of the College are eligible to defer from taxable income amounts they choose to contribute to a Tax Sheltered Annuity (TSA). Authority for this program is granted under Government Code 609.001. The general maximum contribution limit was \$18,000 for tax years 2016 and 2015, with a make-up provision for individuals fifty years or older of \$6,000 in 2016 and 2015. Nineteen employees of the College contributed a total of \$70,677 under this plan for the year 2016, and twenty-two employees contributed a total of \$76,639 under this plan for 2015. The College does not contribute to this plan. The deferred compensation program is not included in the basic financial statements because the program's assets are assets of the plan participants and not of the College.

12. Compensable Absences

Effective September 1, 2006, full-time employees earn vacation leave of six and two-thirds hours per month for a maximum of eighty hours per year. A maximum of forty hours may be carried over to the next fiscal year. The College recognized the accrued liability for the unpaid vacation leave in the amount of \$57,120 for 2016 and \$60,957 for 2015. 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, 2016 and 2015

13. Health Care and Life Insurance Benefits

Certain health care and life insurance benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums. The state's contribution per full-time employee for HealthSelect of Texas was \$576.54 for employees, \$906.78 for employee and spouse, \$797.66 for employee and child, and \$1,127.90 for employee and family and totaled \$919,527 for the year ended August 31, 2016. For the year ended August 31, 2015, the state's contribution per full-time employee for HealthSelect of Texas was \$537.66 for employees, \$845.54 for employee and spouse, \$743.80 for employee and child, and \$1,051.68 for employee and family and totaled \$944,552. The cost of providing those benefits for 62 retirees in the year ended 2016 was \$234,962 (retiree benefits for 57 retirees cost \$201,943 for the year ended 2015). For 207 active employees, the cost of providing benefits was \$684,565 for the year ended 2016 (active employee benefits for 206 employees cost \$742,609 for the year ended 2015). S.B. 1812, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

14. Postemployment Benefits Other than Pensions

Plan Description. In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the state. The College contributes to the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer, defined benefit postretirement healthcare plan administered by the Employees Retirement System of Texas (ERS). SRHP provides medical benefits to retired employees of participating universities, community colleges and state agencies in accordance with Chapter 1551, Texas Insurance Code. Benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Texas legislature.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained from ERS via their website at <http://www.ers.state.tx.us/>.

Funding Policy. Section 1551.055 of Chapter 1551, Texas Insurance Code provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS board of trustees. Plan members or beneficiaries receiving benefits pay any premium over and above the employer contribution.

The employer's share of the cost of retiree healthcare coverage for the current year is known as the implicit rate subsidy. It is the difference between the claims costs for the retirees and the amounts contributed by the retirees. The ERS board of trustees sets the employer contribution rate based on the implicit rate subsidy, which is actuarially determined in accordance with the parameters of GASB statement 45.

The employer contribution rate represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

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

The College's contributions to SRHP for the years ended August 31, 2016, 2015, and 2014, were \$2,149,719, \$2,006,865, and \$1,818,265, respectively, which equaled the required contributions each year.

15. Disaggregation of Receivables and Payables Balances

Receivables

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

	<u>2016</u>	<u>2015</u>
Student Receivables	\$ 294,633	\$ 2,037,179
Taxes Receivables	414,242	408,742
Federal Receivables	3,679,018	1,807,626
State Receivables	13,401	13,836
Other Receivables	<u>223,860</u>	<u>122,459</u>
Subtotal	4,625,154	4,389,842
Allowance for doubtful accounts	(1,360,802)	(1,224,393)
Total Receivables	<u>3,264,352</u>	<u>3,165,449</u>

Payables

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

	<u>2016</u>	<u>2015</u>
Vendors Payable	\$ 1,207,004	\$ 197,014
Total Payables	<u>\$ 1,207,004</u>	<u>\$ 197,014</u>

16. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Guide, *Audits of Colleges and Universities*. Revenues are recognized on Exhibit 2 and Schedule A. For federal contract and grant awards, funds expended, but not collected, are reported as Federal Receivables on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards already committed, e.g., multi-year awards, or funds awarded during the fiscal year for which monies have not been received nor funds expended totaled \$348,420 (state grants) for 2015. There were none for 2016.

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

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>2016</u>	<u>2015</u>
Assessed Valuation of the District	\$ 2,076,248,354	\$ 1,898,993,938
Less: Exemptions	<u>278,729,962</u>	<u>185,698,021</u>
Net Taxable	1,797,518,392	1,713,295,917
Less: Freeze Taxable	<u>297,231,610</u>	<u>278,846,331</u>
Freeze Adjusted Taxable	<u>1,500,286,782</u>	<u>1,434,449,586</u>

Authorized Tax Rate per \$100 valuation (current operations-maximum per enabling legislation)	.500000	.500000
Assessed Tax Rate per \$100 valuation (current operations)	.093012	.089479

Taxes levied for the year ended August 31, 2016 and 2015 amounted to \$1,602,732 and \$1,479,303, 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>2016</u>	<u>2015</u>
	Current Operations	Current Operations
Current Taxes Collected	\$ 1,541,146	\$ 1,437,164
Delinquent Taxes Collected	40,637	42,615
Penalties and Interest Collected	<u>30,151</u>	<u>28,205</u>
Total Collections	<u>\$ 1,611,934</u>	<u>\$ 1,507,984</u>

Tax collections for the year ended August 31, 2016 and 2015 were 96.16% and 97.15%, respectively, of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to maintenance and operations expenditures.

18. Branch Campus Maintenance Tax

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

Hill College
Notes to Financial Statements
August 31, 2016 and 2015

Indepe ndent School District	Collections in Fiscal Year 2016 (including pe nalties and inte rest)	Collections in Fiscal Year 2015 (including pe nalties and inte rest)
Alvarado	\$ 761,155	\$ 702,797
Cleburne	1,383,408	1,358,456
Godley	137,717	126,344
Grandview	152,962	149,887
Joshua	720,625	695,203
Keene	81,529	77,768
Rio Vista	92,708	85,928
Venus	140,980	126,736
Total	<u>\$ 3,471,084</u>	<u>\$ 3,323,119</u>

19. Income Taxes

The College is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Muunicipalities, 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, 2016 and 2015.

20. Component Unit

Hill College Foundation -Discrete Component Unit

Hill College Foundation (the Foundation) was established as a separate nonprofit organization in 1975 for the purpose of providing student scholarships and assistance in the development and growth of the College. Under Governmental Standards Board Statement No. 39, Dete lmining 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.

21. Related Parties

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

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

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

Fiscal year ending August 31*	2016	2015
College's proportionate share of collective net pension liability (%)	0.0079268%	0.0090791%
College's proportionate share of collective net pension liability (\$)	\$ 2,802,018	\$ 2,425,153
Portion of NECE's total proportionate share of NPL associated with College	2,452,737	2,117,111
Total	5,254,755	4,542,264
College's covered payroll amount	\$ 6,541,689	\$ 6,477,580
Ratio of ER proportionate share of collective NPL / ER's covered payroll amount	42.83%	37.44%

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

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

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

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

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

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

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

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

Hill College
Notes to Required Supplementary Information
August 31, 2016

1. Changes of Benefit Terms:

There were no changes of benefit terms for the year ended August 31, 2016.

2. Changes of Assumptions

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

SUPPLEMENTARY SCHEDULES

Hill College
Schedule A
Schedule of Operating Revenues
Year Ended August 31, 2016 (With Memorandum Totals for the Year Ended August 31, 2015)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2016 Total	2015 Total
Tuition:						
State Funded Credit Courses:						
In-District Resident Tuition	\$ 2,841,869	\$ -	\$ 2,841,869	\$ -	\$ 2,841,869	\$ 2,818,527
Out-of-District Resident Tuition	1,979,468	-	1,979,468	-	1,979,468	1,826,461
Non-Resident Tuition	232,421	-	232,421	-	232,421	197,785
TPEG - Credit (set aside)*	-	306,942	306,942	-	306,942	285,956
State-Funded Continuing Education	87,509	-	87,509	-	87,509	143,790
TPEG - Credit (set aside)*	-	2,650	2,650	-	2,650	11,900
Non-State Funded Continuing Education	5,600	-	5,600	-	5,600	2,076
Total Tuition	5,146,867	309,592	5,456,459	-	5,456,459	5,286,495
Fees:						
Out of District Fee	849,537	-	849,537	-	849,537	774,969
General Fees	340,183	-	340,183	-	340,183	329,776
Student Service Fee	-	-	-	320,252	320,252	327,890
Building Use Fee	-	-	-	782,859	782,859	801,091
Laboratory Fee	218,235	-	218,235	-	218,235	239,277
Total Fees	1,407,955	-	1,407,955	1,103,111	2,511,066	2,473,003
Scholarship Allowances and Discounts:						
Remissions and Exemptions - State	-	-	-	(233,006)	(233,006)	(196,153)
Title IV Federal Grants	(1,979,568)	-	(1,979,568)	-	(1,979,568)	(2,087,585)
TPEG Awards	(415,231)	-	(415,231)	-	(415,231)	(199,250)
Other State Grants	(99,280)	-	(99,280)	-	(99,280)	(175,400)
Other Local Grants	(1,797,291)	-	(1,797,291)	-	(1,797,291)	(1,613,840)
Total Scholarship Allowances	(4,291,370)	-	(4,291,370)	(233,006)	(4,524,376)	(4,272,228)
Total Net Tuition and Fees	2,263,452	309,592	2,573,044	870,105	3,443,149	3,487,270
Additional Operating Revenues:						
Federal Grants and Contracts	24,325	223,747	248,072	-	248,072	502,864
State Grants and Contracts	-	436,150	436,150	-	436,150	606,924
Non-Governmental Grants and Contracts	-	1,609,011	1,609,011	-	1,609,011	1,235,832
General Operating Revenues	286,387	-	286,387	-	286,387	168,194
Total Additional Operating Revenues	310,712	2,268,908	2,579,620	-	2,579,620	2,513,814
Auxiliary Enterprises:						
Residential Life	-	-	-	1,009,576	1,009,576	1,022,789
Less Discounts	-	-	-	(586,366)	(586,366)	(628,679)
Bookstore	-	-	-	217,171	217,171	231,746
Cosmetology & Massage Therapy	-	-	-	33,313	33,313	24,910
Concessions	-	-	-	89,763	89,763	102,686
Miscellaneous Income	-	-	-	-	-	155
Total Net Auxiliary Enterprises	-	-	-	763,457	763,457	753,607
Total Operating Revenues	\$ 2,574,164	\$ 2,578,500	\$ 5,152,664	\$ 1,633,562	\$ 6,786,226	\$ 6,754,691
					(Exhibit 2)	(Exhibit 2)

*In accordance with Education Code 56.033, \$309,592 and \$297,856 for years August 31, 2015 and 2014, 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, 2016 (With Memorandum Totals for the Year Ended August 31, 2015)

	Operating Expenses					2016 Total	2015 Total
	Salaries and Wages	Benefits		Other Expenses			
		State	Local				
Unrestricted - Educational Activities							
Instruction	\$ 6,010,674	\$ -	\$ 297,555	\$ 670,891	\$ 6,979,120	\$ 7,242,504	
Public Service	-	-	-	-	-	-	
Academic Support	1,147,027	-	57,899	230,302	1,435,228	1,704,854	
Student Services	1,287,170	-	60,757	200,842	1,548,769	1,472,967	
Institutional Support	1,481,082	-	1,382,267	1,372,902	4,236,251	4,332,960	
Operation and Maintenance of Plant	317,197	-	63,139	2,359,958	2,740,294	2,389,086	
Scholarships and Fellowships	-	-	-	-	-	-	
Total Unrestricted Educational Activities	10,243,150	-	1,861,617	4,834,895	16,939,662	17,142,371	
Restricted - Educational Activities							
Instruction	\$ 29,325	\$ 634,261	\$ -	\$ 154,304	\$ 817,890	\$ 835,949	
Public Service	-	-	-	-	-	2,315	
Academic Support	9,941	137,166	-	-	147,107	150,858	
Student Services	83,772	214,187	-	112,092	410,051	688,572	
Institutional Support	353	222,494	-	-	222,847	240,947	
Operation and Maintenance of Plant	-	27,617	-	-	27,617	8,299	
Scholarships and Fellowships	-	-	-	4,436,339	4,436,339	4,336,927	
Total Restricted Educational Activities	123,391	1,235,725	-	4,702,735	6,061,851	6,263,867	
Total Educational Activities	10,366,541	1,235,725	1,861,617	9,537,630	23,001,513	23,406,238	
Auxiliary Enterprises	-	-	-	1,231,437	1,231,437	1,225,047	
Depreciation Expense - Buildings and Other Real Estate Improvements	-	-	-	590,563	590,563	520,846	
Depreciation Expense - Equipment and Furniture	-	-	-	329,747	329,747	306,034	
Total Operating Expenses	\$ 10,366,541	\$ 1,235,725	\$ 1,861,617	\$ 11,689,377	\$ 25,153,260	\$ 25,458,165	
					(Exhibit 2)	(Exhibit 2)	

Hill College
Schedule C
Schedule of Non-Operating Revenues and Expenses
Year Ended August 31, 2016 (With Memorandum Totals for the Year Ended August 31, 2015)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2016 Total</u>	<u>2015 Total</u>
NON-OPERATING REVENUES:					
State Appropriations:					
Education and General State Support	\$ 6,527,502	\$ -	\$ -	\$ 6,527,502	\$ 7,260,511
State Group Insurance	-	919,527	-	919,527	944,552
State Retirement Matching	-	303,114	-	303,114	301,660
Texas Heritage Museum	356,504	-	-	356,504	356,504
Total State Appropriations	6,884,006	1,222,641	-	8,106,647	8,863,227
Maintenance Ad Valorem Taxes	1,611,934	-	-	1,611,934	1,507,984
Branch Campus Maintenance Tax	3,471,084	-	-	3,471,084	3,323,119
Federal Revenue, Non Operating	6,395,823	-	-	6,395,823	6,400,966
Investment Income	69,129	13,959	13,898	96,986	99,824
Gifts	626,617	-	-	626,617	8,787
Other Non-Operating Revenue	53,170	-	-	53,170	91,860
Total Non-Operating Revenues	19,111,763	1,236,600	13,898	20,362,261	20,295,767
NON-OPERATING EXPENSES:					
Interest on Capital Related Debt	53,952	-	-	53,952	65,314
(Gain) Loss on Disposal of Capital Assets	(194)	-	-	(194)	(214)
Other Non-Operating Expense	-	-	-	-	-
Total Non-Operating Expenses	53,758	-	-	53,758	65,100
Net Non-Operating Revenues	\$ 19,058,005	\$ 1,236,600	\$ 13,898	\$ 20,308,503	\$ 20,230,667
				(Exhibit 2)	(Exhibit 2)

Hill College
Schedule D
Schedule of Net Position by Source and Availability
Year Ended August 31, 2016 (With Memorandum Totals for the Year Ended August 31, 2015)

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 1,389,539	\$ -	\$ -	\$ -	\$ 1,389,539	\$ 1,389,539	\$ -
Board Designated	3,778,982	-	-	-	3,778,982	3,778,982	-
Restricted	-	233,145	-	-	233,145	-	233,145
Auxiliary Enterprises	505,170	-	-	-	505,170	505,170	-
Loan	-	-	-	-	-	-	-
Endowment	-	-	1,595,508	-	1,595,508	-	1,595,508
Plant:							
Debt Service	-	817,038	-	-	817,038	-	817,038
Investment in Plant	-	-	-	26,774,361	26,774,361	-	26,774,361
Total Net Position, August 31, 2016	5,673,691	1,050,183	1,595,508	26,774,361	35,093,743 (Exhibit 1)	5,673,691	29,420,052
Total Net Position, August 31, 2015	8,807,669	926,554	1,425,032	21,802,711	32,961,966 (Exhibit 2)	8,807,669	24,154,297
Net Increase (Decrease) in Net Position	\$ (3,133,978)	\$ 123,629	\$ 170,476	\$ 4,971,650	\$ 2,131,777 (Exhibit 2)	\$ (3,133,978)	\$ 5,265,755

HILL COLLEGE
 Schedule E
 Schedule of Expenditures of Federal Awards
 For the Year Ended August 31, 2016

<u>Federal Grantor/ Pass Through Grantor / Program Title</u>	Federal CFDA Number	Pass Through Grantors Number	Expenditures and Pass Through Disbursements
<i>U. S. Department of Education</i>			
Direct Programs:			
Student Financial Aid Cluster			
Federal Supplemental Educational Opportunity Grant	84.007		\$ 82,598
Federal College Work Study Program	84.033		37,669
Federal Pell Grant Program	84.063		6,275,556
Direct Loans	84.268		<u>6,807,560</u>
Total Student Financial Aid Cluster			13,203,383
TRIO: Student Support Services	84.042		<u>30,298</u>
Total Direct Programs			13,233,681
Texas Higher Education Coordinating Board			
Carl Perkins Vocational Education-Basic	84.048	164232	193,449
<i>Total U. S. Department of Education</i>			<u>13,427,130</u>
			\$ 13,427,130
Total Federal Financial Assistance			

Notes to Schedule on following page.

Hill College
Notes to Schedule of Expenditures of Federal Awards
August 31, 2016

Note 1: Federal Assistance Reconciliation

Federal Grants and Contracts Revenue per Schedule A	\$	248,072
Less: Indirect/Administrative Costs Recoveries		(24,325)
Add: Non-Operating Federal Revenue from Schedule C		6,395,823
		6,619,570
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Position	\$	6,619,570
Reconciling Item:		
Add: Direct Student Loans	\$	6,807,560
		13,427,130
Total Federal Revenues per Schedule of Expenditures of Federal Awards	\$	13,427,130

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, 2016

Grantor Agency / Program Title	Grant Contract Number	Expenditures
<i>Texas Higher Education Coordinating Board</i>		
TEXAS Grant Program		\$ 8,615
TX Educational Opportunity Grant Program		283,383
Texas College Work Study Program		23,875
ABE Community College Grants	07047	51,127
Nursing Innovation Grant Program (NIGP)	13068	165
<i>Total Texas Higher Education Coordinating Board</i>		<u>367,165</u>
<i>Texas Workforce Commission</i>		
Skills Development	0415SDF007	62,801
TANF - Summer Merit Program	1316SMPOOO	6,184
<i>Total Texas Workforce Commission</i>		<u>68,985</u>
Total State Financial Assistance		<u>\$ 436,150</u>

Notes to Schedule on following page.

Hill College
Notes to Schedule of Expenditures of State Awards
August 31, 2016

Note 1: State Assistance Reconciliation

State Revenues - per Schedule A	
State Grants and Contracts	\$ 436,150
Less: Indirect/Administrative Cost Recoveries	
Total State Revenues per Schedule of Expenditures of State Awards	<u>\$ 436,150</u>

Note 2: Significant Accounting Policies Used in Preparing the Schedule

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

AUDITORS' REPORT ON CONTROLS AND COMPLIANCE

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

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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, 2016 and 2015, 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 13, 2016.

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)**

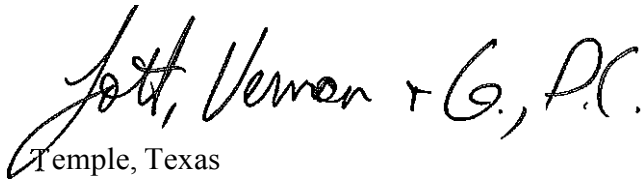
any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 13, 2016

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 THE UNIFORM GUIDANCE

Board of Regents
Hill College
Hillsboro, Texas

Report on Compliance for Each Major Federal Program

We have audited Hill College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

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

A handwritten signature in black ink that reads "Jett, Keenan & Co., P.C." in a cursive script.

Temple, Texas
December 13, 2016

HILL COLLEGE
Schedule of Findings and Questioned Costs
August 31, 2016

I. Summary of Audit Results

Financial Statements

- 1. Type of auditor's report issued: *unmodified*
- 2. Internal control over financial reporting:
 Material weakness(es) identified? yes 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 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: *unmodified*
- 6. Any audit findings disclosed that are required to be reported in accordance with section 200.516a of the Uniform Guidance? yes no

7. Identification of major programs:

<u>Name of Federal Programs</u>	Federal CFDA Number
U.S. Department of Education	
Student Financial Aid Cluster:	
SEOG	84.007
Federal College Work Study Program	84.033
Federal Pell Grant Program	84.063
William D Ford Direct Loans	84.268
Carl Perkins Vocational	
Education-Basics	84.048

- 8. Dollar threshold used to distinguish between type A and type B federal programs: \$750,000

HILL COLLEGE
Schedule of Findings and Questioned Costs (Continued)
August 31, 2016

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

II. Financial Statement

Findings None.

III. Federal and State Awards Findings and Questioned Costs

None.