

HILL COLLEGE

Annual Financial Report

**For the Fiscal Year Ended
August 31, 2022**

HILL COLLEGE
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HILL COLLEGE
ORGANIZATIONAL DATA
For the Fiscal Year 2021 - 2022

BOARD OF REGENTS

Officers

David Teel	President
Bill Galiga	Vice-President
Karen Brackin	Secretary

Members

		<u>Term Expires</u>
Dr. William Auvenshine	Hillsboro, Texas	2024
Karen Brackin	Itasca, Texas	2024
Kent Eubank	Whitney, Texas	2026
Bill Galiga	Hillsboro, Texas	2028
Dr. Allen Lane	Whitney, Texas	2024
Jolene Lehmann	Bynum, Texas	2026
Dwight Lloyd	Itasca, Texas	2028
Tony Marley	Hillsboro, Texas	2026
Jennifer Nowlin	Whitney, Texas	2028
Kevin Ray	Covington, Texas	2026
Rick Sullins	Abbott, Texas	2024
David Teel	Hillsboro, Texas	2028

PRINCIPAL ADMINISTRATIVE OFFICERS

Dr. Tom Mills	President
Jessyca Brown	Vice-President of External Affairs
Billy Don Curbo	Vice-President of Administrative Services
Dr. Kerry Schindler	Vice-President of Instruction
Lizza Trenkle	Vice-President of Student Services
Jessie White	Vice-President of Information Technology
Craig Balch	Dean of Students, JCC
Brian Bennett	Dean of Instruction, Business & Industry Pathways
Dr. Agapito Flores	Dean of Instruction, Health & Public Service Pathway
Nancy McKenzie	Dean of Instruction, Academic Pathways
Kathryn McVicker	Comptroller
Kathleen Pustejovski	Dean of Enrollment
John Versluis	Dean of Texas Heritage Museum



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

20 SOUTH FOURTH STREET 254/778/4783
POST OFFICE BOX 160 800/460/4783
TEMPLE, TEXAS 76503 FAX 254/778/4792

KILLEEN • COPPERAS COVE • TEMPLE

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

INDEPENDENT AUDITOR'S REPORT

Board of Regents
Hill College
Hillsboro, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position and the Statements of Cash Flows of Hill College, as of and for the year ended August 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Hill College's basic financial statements as listed in the table of contents.

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, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hill College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 2 to the financial statements, in fiscal year ending August 31, 2022, the College adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hill College's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hill College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hill College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of College's Share of Net Pension Liability, the Schedule of College's Contributions for Pensions, the Schedule of College's Share of Net OPEB Liability, the Schedule of College's Contributions for OPEB, and the Notes to Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hill College's basic financial statements. The Supplementary Schedules (Schedules A-F), which include the Schedule of Expenditures of Federal Awards (Schedule E) and the Schedule of Expenditures of State Awards (Schedule F), as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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, Supplementary Schedules (Schedules A-F), which include the Schedule of Expenditures of Federal Awards (Schedule E) and the Schedule of Expenditures of State Awards (Schedule F) are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Organizational Data but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2023, on our consideration of the Hill 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hill College's 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 Hill College's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Jatt, Vernon & Co. P.C." The signature is written in a cursive, flowing style.

Temple, Texas
May 25, 2023

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, 2022. This annual report contains financial statements which are in conformance with Governmental Accounting Standards Board (GASB). There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The following summary and management's discussion and analysis is intended to provide readers with an overview of the basic financial statements. This discussion should be read in conjunction with the accompanying financial statements, notes to the financial statements, and supplemental information.

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued in June 2015 and amended GASB Statement No. 45. It became effective for governmental financial statements of employers for fiscal years beginning after June 15, 2017. Together these statements define how Other Postemployment Benefit (OPEB) liabilities are calculated by plans and reported by employers and other non-employer contributing entities who prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP). An employer's proportion is a measure of the proportionate relationship of (1) the employer to (2) all employers and all non-employer contributing entities. The basis for the employer's proportion should be consistent with the manner in which contributions to the OPEB plan are determined. TRS has determined that using one year of historical contributions is the best representation of this requirement.

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 21 in the Notes to the Financial Statements.

Statement of Financial Position of Unrestricted Net Position, Exclusive of Plant Assets and Plant-Related Debt

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets:			
Current Assets	\$ 25,293,934	\$ 23,294,122	\$ 19,384,387
Capital Assets	25,537,337	25,183,971	25,477,516
Other Noncurrent Assets	4,658,783	4,765,404	4,074,734
Total Assets	<u>\$ 55,490,054</u>	<u>\$ 53,243,497</u>	<u>\$ 48,936,637</u>
Deferred Outflows of Resources:			
Deferred Outflows Related to Pensions	\$ 1,344,472	\$ 1,763,757	\$ 2,274,553
Deferred Outflows Related to OPEB	3,203,429	3,556,046	4,725,636
Total Deferred Outflows of Resources	<u>4,547,901</u>	<u>5,319,803</u>	<u>7,000,189</u>
Liabilities:			
Current Liabilities	\$ 6,777,506	\$ 5,957,273	\$ 5,864,902
Noncurrent Liabilities	16,857,581	18,568,185	19,219,300
Total Liabilities	<u>\$ 23,635,087</u>	<u>\$ 24,525,458</u>	<u>\$ 25,084,202</u>
Deferred Inflows of Resources:			
Deferred Inflows Related to Pensions	\$ 2,450,038	\$ 911,451	\$ 1,155,780
Deferred Inflows Related to OPEB	2,912,422	3,156,922	3,053,048
Total Deferred Inflows of Resources	<u>5,362,460</u>	<u>4,068,373</u>	<u>4,208,828</u>
Net Position:			
Invested in Capital Assets, Net of Related Debt	\$ 25,537,337	\$ 25,183,971	\$ 25,477,516
Restricted-nonexpendable	2,356,119	2,333,942	2,089,909
Restricted-expendable	(522,302)	(92,656)	137,896
Unrestricted	3,669,254	2,544,212	(1,061,525)
Total Net Position	<u>\$ 31,040,408</u>	<u>\$ 29,969,469</u>	<u>\$ 26,643,796</u>
<i>GASB 68 and 75 Impact on Net Position:</i>			
Total Net Position	\$ 31,040,408	\$ 29,969,469	\$ 26,643,796
Deferred Outflows Related to Pensions	(1,344,472)	(1,763,757)	(2,274,553)
Deferred Outflows Related to OPEB	(3,203,429)	(3,556,046)	(4,725,636)
Deferred Inflows Related to Pensions	2,450,038	911,451	1,155,780
Deferred Inflows Related to OPEB	2,912,422	3,156,922	3,053,048
Net Pension Liability	1,897,300	4,211,736	4,277,618
Net OPEB Liability	14,877,531	14,279,449	14,862,932
Net OPEB Liability-Current Portion	312,173	492,748	486,491
Total Impact of GASB 68 & 75	<u>17,901,563</u>	<u>17,732,503</u>	<u>16,835,680</u>
Net Position Net of GASB 68 & 75 Impact	<u>48,941,971</u>	<u>47,701,972</u>	<u>43,479,476</u>
Less:			
Invested in Capital Assets, Net of Related Debt	25,537,337	25,183,971	25,477,516
Restricted-nonexpendable	2,356,119	2,333,942	2,089,909
Restricted-expendable	(522,302)	(92,656)	137,896
Unrestricted Net Position, Exclusive of Plant Assets and Plant-Related Debt	<u>21,570,817</u>	<u>20,276,715</u>	<u>15,774,155</u>

Changes in the “Statement of Unrestricted Net Position, Exclusive of Plant Assets and Plant-Related Debt” 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, \$23,403,986, net of accumulated depreciation. The buildings owned by Hill College are only 37% depreciated, which is an indication of the age of the facilities. Most buildings are relatively new and are in good repair. The \$2,246,557 increase in total assets from FY21 to FY22 is due to a \$1,999,812 increase in current assets, which is primarily the result of an increase in the HEERF grant revenue receivable.

Other than \$82,750 “Dorm Deposits Payable”, all other noncurrent liabilities are the result of GASB 68 pension liability and GASB 75 Other Postemployment Benefit (OPED) liability.

It is important to note that current liabilities are only 27% 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 \$1,070,939 increase in Total Net Position from FY21 to FY 22 is primarily the result of a \$1,200,487 increase in Federal Revenue, Non-Operating, related to student financial aid. When adjusted for the impact of GASB 68 pension liability and GASB 75 Other Postemployment Benefit (OPEB) liability, there is an increase in “Unrestricted Net Position, Exclusive of Plant Assets and Plant-Related Debt” of \$3,077 818 in FY20, \$4,502,560 in FY21, and \$1,294,102 in FY22, which is an indication the college is living within its means and is in good financial condition.

The College’s financial position is strong and stable as reflected in Exhibit 1 once it is adjusted for the impact of GASB 68 and GASB 75, as reflected in the above statement of Net Position. 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.

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

	2022	2021	2020
Operating Revenues:			
Tuition and fees (net of discounts)	\$ 3,189,828	\$ 4,187,928	\$ 5,810,161
Federal grants and contracts	7,087,673	4,995,640	1,158,960
State grants and contracts	615,704	351,612	325,573
Non-governmental grants and contracts	1,977,700	1,968,357	1,641,050
Auxiliary enterprises (net of discounts)	394,026	462,011	598,389
Other operating revenues	170,066	2,792,709	156,609
Total Operating Revenues	13,434,997	14,758,257	9,690,742
Operating Expenses:			
Instruction	9,213,504	10,039,486	10,731,539
Public Service	-	-	-
Academic support	2,111,659	2,171,412	2,244,466
Student services	2,389,480	2,481,201	2,732,525
Institutional support	5,973,868	7,927,045	5,193,592
Operation and maintenance of plant	2,863,818	2,722,292	2,443,994
Scholarships and fellowships	8,423,637	4,704,371	3,414,504
Auxiliary enterprises	1,591,195	1,086,017	1,032,587
Depreciation	992,856	979,236	991,927
Total Operating Expenses	33,560,017	32,111,060	28,785,134
Operating Loss	(20,125,020)	(17,352,803)	(19,094,392)
Non-Operating Revenues (Expenses):			
State Appropriations	8,255,710	8,983,618	9,344,752
Maintenance ad valorem taxes	2,046,393	1,993,510	1,910,393
Branch campus maintenance tax	4,726,365	4,184,475	3,783,404
Federal revenue, non-operating	5,753,496	4,553,009	3,553,592
Gifts	126,823	100,403	43,690
Investment income (loss)	(86,342)	781,217	822,795
Interest on capital-related debt	-	-	-
Other non-operating revenues (expenses)	309,450	(3,706)	(12,358)
Net Non-Operating Revenues	21,131,895	20,592,526	19,446,268
Income Before Other Revenues (Expenses)	1,006,875	3,239,723	351,876
Other Revenues (Expenses):			
Additions to permanent endowments	64,064	85,950	351,054
Increase (Decrease) in Net Position	1,070,939	3,325,673	702,930
Net Position, Beginning of Year, as Previously Reported	29,969,469	26,643,796	24,700,437
Cumulative Effect of Change in Accounting Principle	-	-	-
Prior Period Adjustment	-	-	1,240,429
Net Position, Beginning of Year, as Restated	29,969,469	26,643,796	25,940,866
Net Position at End of Year	\$ 31,040,408	\$ 29,969,469	\$ 26,643,796

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.

The \$998,100 decrease in “Tuition and fees (net of discounts)” in FY22 compared to FY21 is an indication of decreased enrollment. The \$2,092,033 increase in “Federal Grants and Contracts” from FY21 to FY22 and the \$3,836,680 increase from FY20 to FY21 is due to “Higher Education Emergency Relief Funds (HEERF)” received due to COVID-19. The \$2,622,643 decrease in “General Operating Revenues” from FY21 to FY22 is due to the extraordinary events in FY21 with the receipt of \$564,364 insurance proceeds due to the February 2021 ice storm and over \$2,000,000 received from HEERF to cover lost revenue for the year and salaries of employees who were paid, but not able to work effectively from home during the COVID-19 shut down. The increase in “Operating Expense” from FY21 to FY22 is mainly due to an increase in Scholarship expense, specifically HEERF student grants of \$3,575,980. The increase in “Operating Expense” from FY20 to FY21 is a combination of 3% employee raises in FY21 and HEERF disbursements to students in the amount of \$947,779.

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

Condensed Statement of Cash Flows

	2022	2021	2020
Cash Flows from			
Operating Activities	\$ (18,622,564)	\$ (13,501,633)	\$ (15,564,475)
Noncapital Financing Activities	19,642,553	18,035,325	16,748,259
Capital and Related Financing Activities	(1,346,222)	(685,692)	(634,894)
Investing Activities	(1,079)	(267,512)	255,330
Net Increase in Cash and Cash Equivalents	(327,312)	3,580,488	804,220
Cash at Beginning of Year	12,228,123	8,647,635	7,843,415
Cash at End of Year	\$ 11,900,811	\$ 12,228,123	\$ 8,647,635

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

Hill College made its final bond payment May 2019 and is currently debt free.

For additional information concerning Capital Assets, see Note 5.

Discussion of Currently Known Facts, Decisions, or Conditions

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

Hill College increased tuition \$10 per SCH and added a \$10 per SCH technology fee effective Fall 2022.

Hill College will move into the new Burleson Higher Education Center during Spring 2023.

FINANCIAL STATEMENTS

Hill College
Exhibit 1
Statement of Net Position
August 31, 2022 and August 31, 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	11,470,541	11,823,726
Short Term Investments	7,488,432	7,441,217
Accounts Receivable (Net)	5,662,995	3,447,037
Deferred Charges	510,267	442,817
Prepaid Expenses	161,439	139,325
Other Current Assets	260	-
Total Current Assets	<u>25,293,934</u>	<u>23,294,122</u>
Noncurrent Assets		
Restricted Cash and Cash Equivalents	430,270	404,397
Restricted Investments	111,734	110,693
Endowment Investments	1,988,795	1,982,219
Other Noncurrent Investments	2,127,984	2,267,995
Deferred Charges	-	100
Capital Assets, (Net) (Note 5)	25,537,337	25,183,971
Total Noncurrent Assets	<u>30,196,120</u>	<u>29,949,375</u>
Total Assets	<u>55,490,054</u>	<u>53,243,497</u>
Deferred Outflows of Resources:		
Deferred Outflows Related to Pensions	1,344,472	1,763,757
Deferred Outflows Related to OPEB	3,203,429	3,556,046
Total Deferred Outflows of Resources	<u>4,547,901</u>	<u>5,319,803</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	317,245	467,549
Accrued Liabilities	77,871	85,430
Funds Held for Others	173,677	212,307
Deferred Revenue	5,896,540	4,699,239
Net OPEB Liability - Current Portion	312,173	492,748
Total Current Liabilities	<u>6,777,506</u>	<u>5,957,273</u>
Noncurrent Liabilities		
Dorm Deposits Payable	82,750	77,000
Net Pension Liability	1,897,300	4,211,736
Net OPEB Liability	14,877,531	14,279,449
Total Noncurrent Liabilities	<u>16,857,581</u>	<u>18,568,185</u>
Total Liabilities	<u>23,635,087</u>	<u>24,525,458</u>
Deferred Inflows of Resources:		
Deferred Inflows Related to Pensions	2,450,038	911,451
Deferred Inflows Related to OPEB	2,912,422	3,156,922
Total Deferred Inflows of Resources	<u>5,362,460</u>	<u>4,068,373</u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	25,537,337	25,183,971
Restricted for:		
Nonexpendable		
Student Aid	2,356,119	2,333,942
Expendable		
Student Aid	(522,302)	(92,656)
Unrestricted	3,669,254	2,544,212
Total Net Position (Schedule D)	<u>31,040,408</u>	<u>29,969,469</u>

Hill College Foundation
Exhibit 1-A
Statement of Financial Position
August 31, 2021 and August 31, 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 359,082	\$ 525,331
Investments	714,268	475,249
Internal balances	2,255	4,366
	<u>1,075,605</u>	<u>1,004,946</u>
Total Current Assets		
Noncurrent Assets:		
Receivables-restricted	107,852	113,256
Investments-restricted	8,491,372	7,055,219
Capital Assets, net of accumulated depreciation	1,523,218	1,179,694
	<u>10,122,442</u>	<u>8,348,169</u>
Total Noncurrent Assets		
Total Assets	<u>11,198,047</u>	<u>9,353,115</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities:		
Accounts Payable	73,700	15,369
	<u>73,700</u>	<u>15,369</u>
Total Current Liabilities		
 NET ASSETS		
Without donor restrictions:		
Operating	704,756	654,479
Fixed Assets	1,523,218	1,179,694
Total without donor restrictions	<u>2,227,974</u>	<u>1,834,173</u>
With donor restrictions	8,896,373	7,503,573
Total Net Assets	<u>11,124,347</u>	<u>9,337,746</u>
 Total Liabilities and Net Assets	<u>\$ 11,198,047</u>	<u>\$ 9,353,115</u>

Hill College

Exhibit 2

**Statement of Revenues, Expenses, and Changes in Net Position
Years Ended August 31, 2022 and August 31, 2021**

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Tuition and Fees (net of discounts of \$4,346,255 and \$4,485,085 respectively)	\$ 3,189,828	\$ 4,187,928
Federal Grants and Contracts	7,087,673	4,995,640
State Grants and Contracts	615,704	351,612
Non-Governmental Grants and Contracts	1,977,700	1,968,357
Auxiliary Enterprises (net of discounts of \$562,017 and \$441,875 respectively)	394,026	462,011
General Operating Revenues	<u>170,066</u>	<u>2,792,709</u>
Total Operating Revenues (Schedule A)	13,434,997	14,758,257
Operating Expenses		
Instruction	9,213,504	10,039,486
Academic Support	2,111,659	2,171,412
Student Services	2,389,480	2,481,201
Institutional Support	5,973,868	7,927,045
Operation and Maintenance of Plant	2,863,818	2,722,292
Scholarships	8,423,637	4,704,371
Auxiliary Enterprises	1,591,195	1,086,017
Depreciation	<u>992,856</u>	<u>979,236</u>
Total Operating Expenses (Schedule B)	33,560,017	32,111,060
Operating Loss	(20,125,020)	(17,352,803)
Non-Operating Revenues (Expenses)		
State Appropriations	8,255,710	8,983,618
Maintenance Ad Valorem Taxes	2,046,393	1,993,510
Branch Campus Maintenance Tax	4,726,365	4,184,475
Federal Revenue, Non Operating	5,753,496	4,553,009
Gifts	126,823	100,403
Investment Income	(86,342)	781,217
Other Non-Operating Revenues (Expenses)	<u>309,450</u>	<u>(3,706)</u>
Net Non-Operating Revenues (Schedule C)	21,131,895	20,592,526
Income Before Other Revenues (Expenses)	1,006,875	3,239,723
Other Revenues (Expenses)		
Additions to Permanent and Term Endowments	<u>64,064</u>	<u>85,950</u>
Total Other Revenues	64,064	85,950
Increase (decrease) in Net Position	1,070,939	3,325,673
Net Position		
Net Position - Beginning of Year	29,969,469	26,643,796
Net Position - End of Year	<u>\$ 31,040,408</u>	<u>\$ 29,969,469</u>

Hill College Foundation
Exhibit 2-A
Statement of Activities
Years Ended August 31, 2021 and August 31, 2020

	<u>2021</u>	<u>2020</u>
Revenues, Gains and Other Support:		
Interest and Dividends	\$ 214,889	\$ 188,194
Gain/(Loss) on Sale of Securities	795,306	230,848
Unrealized Gain/(Loss)	573,252	279,810
Farm and Lease Revenue	114,814	111,383
Other Miscellaneous Revenue	534	12,974
	<hr/>	<hr/>
Total revenues, gains and other support	1,698,795	823,209
	<hr/>	<hr/>
Expenses:		
Programs:		
Contribution to Hill College	117,110	11,004
Total programs	<hr/> 117,110	<hr/> 11,004
Investment Management Fees	122,766	103,549
Legal Fees	-	138
Accounting Fees	2,955	3,561
Property Taxes	6,592	6,786
Insurance	4,754	8,569
Other Expenses	1,541	2,038
	<hr/>	<hr/>
Total Expenses	255,718	135,645
	<hr/>	<hr/>
Increase in Net Assets	1,443,077	687,564
Net Assets, Beginning of Year	<hr/> 9,337,746	<hr/> 8,650,182
Prior Period Adjustment	343,524	-
Net Assets, End of Year	<u><u>\$ 11,124,347</u></u>	<u><u>\$ 9,337,746</u></u>

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

Hill College
Exhibit 3
Statement of Cash Flows
Years Ended August 31, 2022 and August 31, 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from students and other customers	\$ 6,951,640	\$ 4,982,968
Receipts from grants and contracts	5,325,139	7,160,096
Payments to suppliers for goods and services	(8,581,857)	(10,835,878)
Payments to or on behalf of employees	(14,156,632)	(12,833,126)
Payments for scholarships	(8,423,637)	(4,704,371)
Other receipts	262,783	2,728,678
Net cash used by operating activities	(18,622,564)	(13,501,633)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from state appropriations	6,839,758	7,097,880
Receipts from nonoperating federal revenues	5,753,496	4,553,009
Receipts from ad valorem taxes	6,587,592	6,177,984
Receipts from student organizations and other agency transactions	113,780	99,894
Payments to student organizations and other agency transactions	(152,410)	(75,300)
Gifts for other than capital purposes	190,887	186,353
Other payments	309,450	(4,495)
Net cash provided by noncapital financing activities	19,642,553	18,035,325
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	(1,346,222)	(685,692)
Other receipts	-	0
Net cash used by capital and related financing activities	(1,346,222)	(685,692)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,507,931)	(1,307,546)
Sale of investments	1,306,533	849,196
Interest on investments	200,319	190,838
Net cash provided (used) by investing activities	(1,079)	(267,512)
Increase (decrease) in cash and cash equivalents	(327,312)	3,580,488
Cash and cash equivalents - September 1	12,228,123	8,647,635
Cash and cash equivalents - August 31	\$ 11,900,811	\$ 12,228,123
Reconciliation of net operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (20,125,020)	\$ (17,352,803)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	992,856	979,236
Payments made directly by state for benefits	1,415,952	1,885,738
Changes in assets and liabilities:		
Receivables (net)	(2,212,046)	55,466
Deferred charges	(67,350)	936,602
Prepaid expenses	(22,114)	(65,009)
Other assets	(260)	75
Accounts payable, Accrued Liabilities, Dorm Room Deposits, OPEB, and Pension	(2,049,042)	38,356
Deferred revenue, Deferred Outflows, and Deferred Inflows	3,444,460	20,706
Net cash used by operating activities	\$ (18,622,564)	\$ (13,501,633)

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

1. Reporting Entity

The authorization to establish Hill College was issued in 1921 by the Attorney General of the State of Texas under the name of Hillsboro Junior College. The College first enrolled students in September of 1923. Hillsboro Junior College operated continuously until July of 1950 when it closed after an attempt to establish a countywide college system failed. The college lay dormant for eleven years during which time the charter was protected from forfeiture through the efforts of the late Senator Crawford Martin of Hillsboro. On March 3, 1962, a bond issue was passed for the purpose of building a new campus. The college opened for business in September of 1962 under a new name, Hill Junior College. The new college district was expanded by the voluntary annexation of five Hill County school districts other than the original Hillsboro school district. In 1974, the college opened an extension center in Cleburne, Texas, located in Johnson County. In 1997 and 1998, the citizens of eight Johnson County school districts approved a local maintenance and operation tax for the purpose of supporting the branch campus of Hill College in Johnson County. The Hill Junior College District is considered to be a special purpose, primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement 14. While the College receives funding from local, state, and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

2. Summary of Significant Accounting Policies

Reporting Guidelines

The significant accounting policies followed by the College in preparing these financial statements are in accordance with the *Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community 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, 2022 and 2021

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 of current assets in excess of current liabilities in an amount that equals at least 25 percent of the total current funds budgeted expenditures. For the years ended August 31, 2022 and August 31, 2021, respectively, the minimum unrestricted fund balance to be maintained was \$6,228,717 and \$6,188,123. 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 College is aware the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are only permitted to report deferred outflows in circumstances specifically authorized by the GASB. A typical deferred outflow for community colleges is a deferred charge on a refunding debt.

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, the College reports investments 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 \$5,309,463 and \$5,278,943 at August 31, 2022 and August 31, 2021 to be short-term investments. Long-term investments have an original maturity of greater than one year at the time of purchase.

Capital Assets

The college records capital assets 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.

Other Post-Employment Benefits (OPEB)

The fiduciary net position of the Employees Retirement System of Texas (ERS) State Retirement Health Plan (SRHP) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits; OPEB expense; and information about assets, liabilities and additions to/deductions from SRHP's fiduciary net position. Benefit payments are recognized when due and are payable in accordance with the benefit terms.

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 using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

Deferred Revenue

Tuition and fees of \$4,682,138, dorm rental and food service fees of \$535,900, federal and state grants of \$427,322, and taxes of \$251,180, have been reported as deferred revenues at August 31, 2022.

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 is not 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.

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 college food service are not performed by the College.

New Accounting Pronouncements: Accounting Standards Adopted in Fiscal Year 2022

In June 2017, GASB issued Statement No. 87, Leases (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The College adopted GASB 87 effective September 1, 2021, for the August 31, 2022, reporting year, with no material impact upon the College's financial statements.

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

3. Authorized Investments

Hill College is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

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

4. Deposits and Investments

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

Cash and Deposits

	<u>2022</u>	<u>2021</u>
Bank Deposits		
Demand Deposits	\$ 11,897,071	\$ 12,224,383
Cash and Cash Equivalents		
Petty Cash on Hand	<u>3,740</u>	<u>3,740</u>
Total Cash and Deposits	<u>\$ 11,900,811</u>	<u>\$ 12,228,123</u>

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

Reconciliation of Deposits and Investments to Exhibit 1:

Type of Security	Market Value August 31, 2022	Market Value August 31, 2021
Total Cash and Deposits	\$ 11,900,811	\$ 12,228,123
Certificate of Deposit	1,791,728	2,272,967
Investment Pools	5,309,463	5,278,943
Stocks	2,127,984	2,267,995
Equity/Stock Mutual Funds	2,389,544	1,882,430
Short-Term Mutual Funds	98,226	99,789
Money Market Mutual Funds	-	-
Total Investments	<u>\$ 11,716,945</u>	<u>\$ 11,802,124</u>
Total Deposits and Investments	<u>\$ 23,617,756</u>	<u>\$ 24,030,247</u>
Cash and Cash Equivalents (Exhibit 1)	11,470,541	11,823,726
Restricted Cash and Cash Equivalents (Exhibit 1)	430,270	404,397
Short Term Investments (Exhibit 1)	7,488,432	7,441,217
Restricted Investments (Exhibit 1)	111,734	110,693
Endowment Investments (Exhibit 1)	1,988,795	1,982,219
Other Noncurrent Investments (Exhibit 1)	<u>2,127,984</u>	<u>2,267,995</u>
Total Deposits and Investments (Exhibit 1)	<u>\$ 23,617,756</u>	<u>\$ 24,030,247</u>

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

As of August 31, 2022, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1 to 2</u>	<u>Greater than 2</u>	<u>N/A</u>
Certificates of Deposit	\$ 1,791,728	\$ 1,791,728	\$ -	\$ -	\$ -
Investment Pools	5,309,463	5,309,463	-	-	-
Equity/Stock Mutual Funds	2,389,544	-	-	2,389,544	-
Short-Term Mutual Funds	98,226	98,226	-	-	-
Stocks	2,127,984	-	-	-	2,127,984
Total Fair Value	\$ 11,716,945	\$ 7,199,417	\$ -	\$ 2,389,544	\$ 2,127,984

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, 2022 and 2021

5. Capital Assets

Capital assets activity for the year ended August 31, 2022 was as follows:

	Balance September 1, 2021	Increases	Decreases	Balance August 31, 2022
Not Depreciated:				
Land	\$ 405,370	\$ -	\$ -	\$ 405,370
Collections	28,907	-	-	28,907
Construction in Progress	175,827	128,626	-	304,453
Subtotal	<u>610,104</u>	<u>128,626</u>	<u>-</u>	<u>738,730</u>
Buildings and Other Capital Assets:				
Buildings and Building Improvements	33,840,718	1,044,321	-	34,885,039
Other Real Estate Improvements	<u>2,522,717</u>	<u>-</u>	<u>-</u>	<u>2,522,717</u>
Total Buildings and Other Real Estate Improvements	36,363,435	1,044,321	-	37,407,756
Library Books	491,390	16,035	69,146	438,279
Furniture, Machinery, and Equipment	<u>5,513,810</u>	<u>157,240</u>	<u>-</u>	<u>5,671,050</u>
Total Buildings and Other Capital Assets	<u>42,368,635</u>	<u>1,217,596</u>	<u>69,146</u>	<u>43,517,085</u>
Accumulated Depreciation:				
Buildings and Building Improvements	12,292,579	607,785	-	12,900,364
Other Real Estate Improvements	<u>1,009,721</u>	<u>93,685</u>	<u>-</u>	<u>1,103,406</u>
Total Buildings and Other Real Estate Improvements	13,302,300	701,470	-	14,003,770
Library Books	292,223	30,469	69,146	253,546
Furniture, Machinery, and Equipment	<u>4,200,245</u>	<u>260,917</u>	<u>-</u>	<u>4,461,162</u>
Total Accumulated Depreciation	<u>17,794,768</u>	<u>992,856</u>	<u>69,146</u>	<u>18,718,478</u>
Net Capital Assets	<u>\$ 25,183,971</u>	<u>\$ 353,366</u>	<u>\$ -</u>	<u>\$ 25,537,337</u>

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

Capital assets activity for the year ended August 31, 2021 was as follows:

	Balance September 1, 2020	Increases	Decreases	Balance August 31, 2021
<u>Not Depreciated:</u>				
Land	\$ 393,110	\$ 12,260	\$ -	\$ 405,370
Collections	28,907	-	-	28,907
Construction in Progress	175,827	-	-	175,827
Subtotal	<u>597,844</u>	<u>12,260</u>	<u>-</u>	<u>610,104</u>
<u>Buildings and Other Capital Assets:</u>				
Buildings and Building Improvements	33,502,686	338,032		33,840,718
Other Real Estate Improvements	<u>2,522,717</u>		-	<u>2,522,717</u>
Total Buildings and Other Real Estate Improvements	36,025,403	338,032	-	36,363,435
Library Books	564,241	8,287	81,138	491,390
Furniture, Machinery, and Equipment	<u>5,186,697</u>	<u>327,113</u>		<u>5,513,810</u>
Total Buildings and Other Capital Assets	<u>41,776,341</u>	<u>673,432</u>	<u>81,138</u>	<u>42,368,635</u>
<u>Accumulated Depreciation:</u>				
Buildings and Building Improvements	11,721,497	571,082		12,292,579
Other Real Estate Improvements	<u>916,035</u>	<u>93,686</u>		<u>1,009,721</u>
Total Buildings and Other Real Estate Improvements	12,637,532	664,768	-	13,302,300
Library Books	341,915	31,446	81,138	292,223
Furniture, Machinery, and Equipment	<u>3,917,222</u>	<u>283,023</u>		<u>4,200,245</u>
Total Accumulated Depreciation	<u>16,896,669</u>	<u>979,237</u>	<u>81,138</u>	<u>17,794,768</u>
Net Capital Assets	<u>\$ 25,477,516</u>	<u>\$ (293,545)</u>	<u>\$ -</u>	<u>\$ 25,183,971</u>

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

6. Noncurrent Liabilities

Noncurrent liability activity for the year ended August 31, 2022 was as follows:

	Balance September 1, 2021	Additions	Reductions	Balance August 31, 2022	Current Portion
Net Pension Liability	4,211,736	-	2,314,436	\$ 1,897,300	N/A
Net OPEB Liability	14,772,197	417,507	-	15,189,704	312,173
Total Noncurrent Liabilities	<u>\$ 18,983,933</u>	<u>\$ 417,507</u>	<u>\$ 2,314,436</u>	<u>\$ 17,087,004</u>	<u>\$ 312,173</u>

Noncurrent liability activity for the year ended August 31, 2021 was as follows:

	Balance September 1, 2020	Additions	Reductions	Balance August 31, 2021	Current Portion
Net Pension Liability	4,277,618	-	65,882	\$ 4,211,736	N/A
Net OPEB Liability	15,349,423	-	577,226	14,772,197	492,748
Total Noncurrent Liabilities	<u>\$ 19,627,041</u>	<u>\$ -</u>	<u>\$ 643,108</u>	<u>\$ 18,983,933</u>	<u>\$ 492,748</u>

7. Debt Obligations

Hill College had no debt obligations as of August 31, 2022.

8. 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. Hill 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). The 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.

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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 is available at https://www.trs.texas.gov/TRS Documents/cafr_2020.pdf or write to TRS at 1000 Red River Street, Austin, Texas, 78701-2698.

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.

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

Contributions. Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increase employee and employer contribution rates for fiscal years 2020 through 2025.

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Contribution Rates

	2022	2021
Member	8.0%	7.7%
Non-Employer Contributing Entity (State)	7.75%	7.5%
Employers	7.75%	7.5%
FY 2021 College Contributions	\$ 316,116	
FY 2021 State of Texas On-Behalf Contributions	\$ 292,955	
FY 2021 Member Contributions	\$ 627,470	

The College's contributions to the TRS pension plan in 2022 were \$350,629 as reported in the Schedule of Hill College's Contributions for pensions in the Required Supplementary Information section of these financial statements. Estimated State of Texas on-behalf contributions for 2022 were \$292,955.

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

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

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

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Actuarial Assumptions. The total pension liability in the August 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.25%
Long-term Expected Rate	7.25%
Municipal Bond Rate as of August 2020	1.95% - The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally taxexempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"
Last year ending August 31 in Projection Period (100 years)	2120
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad Hoc Post-Employment Benefit Changes	None

Source: Teacher Retirement System of Texas 2021 Comprehensive Annual Financial Report

The actuarial methods and assumptions were selected by the TRS Board of Trustees based upon analysis and recommendations by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the Plan. The actuarial methods and assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2020.

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Discount Rate. The discount rate used to measure the total pension liability was 7.25 percent. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers, and the non-employer contributing entity will be made at the rates set by the Legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

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 7.25 percent. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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Best estimates of geometric real rates of return for each major asset class included in the system's target asset allocation as of August 31, 2021 are summarized below:

<u>Asset Class</u>	<u>Target Allocation¹</u> %	<u>Long-Term Expected Geometric Real Rate of Return²</u>	<u>Expected Contribution to Long-Term Portfolio Returns</u>
Global Equity			
USA	18.0 %	3.6 %	0.94 %
Non-U.S. Developed	13.0	4.4	0.83
Emerging Markets	9.0	4.6	0.74
Private Equity	14.0	6.3	1.36
Stable Value			
Government Bonds	16.0 %	(0.2) %	0.01 %
Absolute Return (including Credit Sensitive Investments)	0.0	1.1	0.00
Stable Value Hedge Funds	5.0	2.2	0.12
Real Return			
Real Estate	15.0 %	4.5 %	1.00 %
Energy, Natural Resources and Infrastructure	6.0	4.7	0.35
Commodities	0.0	1.7	0.00
Risk Parity			
Risk Parity	8.0 %	2.8 %	0.28 %
Asset Allocation Leverage			
Cash	2.0 %	(0.7) %	(0.01) %
Asset Allocation Leverage	(6.0)	(0.5)	0.03
Inflation Expectation			2.20 %
Volatility Drag ³			(0.95) %
Expected Return	100.00 %		6.90 %

¹Target allocations are based on the FY2021 policy model.

²Capital Market Assumptions come from Aon Hewitt (as of 8/31/2021).

³The volatility drag results from the conversion between arithmetic and geometric mean returns.

Source: Teacher Retirement System of Texas 2021 Comprehensive Annual Financial Report

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Discount Rate Sensitivity Analysis. The following table presents the Net Pension Liability using the discount rate of 7.25 percent, and what the Net Pension Liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) and one percentage point higher (8.25 percent) than the current rate.

	1% Decrease in Discount Rate 6.25%	Discount Rate 7.25%	1% Increase in Discount Rate 8.25%
Hill College's proportionate share of the net pension liability:	4,145,901	1,897,300	\$ 73,002

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2022, the College reported a liability of \$1,897,300 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	\$ 1,897,300
State's proportionate share that is associated with Hill College	<u>1,748,229</u>
Total	<u>\$ 3,645,529</u>

The total pension liability was measured as of August 31, 2020. Update procedures were used to roll forward the total pension liability to August 31, 2021. The total pension liability used to calculate the net pension liability is determined by an annual actuarial valuation. 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, 2020 through August 31, 2021.

At the measurement date of August 31, 2021, the employer's proportion of the collective net pension liability was 0.007450190%, which was a decrease of 0.0004136937% from its proportion measured as of August 31, 2020.

For the year ended August 31, 2022, the College recognized pension expense of \$6,989 and revenue of \$6,989 for support provided by the State.

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At August 31, 2022, the College reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 3,175	\$ 133,571
Changes in actuarial assumptions	670,658	292,350
Differences between projected and actual investment earnings	117,847	1,708,708
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	202,163	315,409
Contributions paid to TRS subsequent to the measurement date	350,629	-
Total	<u>\$ 1,344,472</u>	<u>\$ 2,450,038</u>

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

<u>Year Ended August 31:</u>	<u>Pension Expense Amount</u>
2023	\$ (260,400)
2024	(228,771)
2025	(382,469)
2026	(520,574)
2027	(50,893)
Thereafter	(13,088)

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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 3.30% and 6.65%, respectively. The College contributes 3.30% plus an additional 1.0% for employees participating in the optional retirement program. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program. Senate Bill (SB)1812, 83rd Texas Legislature, Regular Session, 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 \$88,606 and \$91,025 for the fiscal years ended August 31, 2022 and 2021, 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 \$12,334,075 and \$11,803,341 for fiscal years 2022 and 2021, respectively. The total payroll of employees covered by the Teacher Retirement System was \$8,444,890 and \$8,213,817 for fiscal years 2022 and 2021, respectively. The total payroll of employees covered by the Optional Retirement System was \$2,712,521 and \$2,771,860 for fiscal years 2022 and 2021, respectively. The total payroll of employees covered by the PARS plan was \$805,845 and \$778,921 for fiscal years 2022 and 2021, respectively.

9. 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 \$20,500 and \$19,500 for tax years 2022 and 2021, respectively, with a make-up provision for individuals fifty years or older of \$6,500 in both tax years. Thirty employees of the College contributed a total of \$187,500 under this plan for the year 2022, and thirty employees contributed a total of \$194,118 under this plan for 2021. The College does not contribute to this

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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.

10. 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 \$52,098 for 2022 and \$61,147 for 2021. 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.

11. 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 \$624.82 for employees, \$982.36 for employee and spouse, \$864.20 for employee and child, and \$1,221.74 for employee and family and totaled \$1,186,591 for the year ended August 31, 2022. For the year ended August 31, 2021, the state's contribution per full-time employee for HealthSelect of Texas was \$624.82 for employees, \$982.36 for employee and spouse, \$864.20 for employee and child, and \$1,221.74 for employee and family and totaled \$1,209,879. The cost of providing those benefits for 82 retirees in the year ended 2022 was \$346,477 (retiree benefits for 77 retirees cost \$314,310 for the year ended 2021). For 203 active employees, the cost of providing benefits was \$840,114 for the year ended 2022 (active employee benefits for 207 employees cost \$895,569 for the year ended 2021). S.B. 1812, 83rd Texas Legislature, Regular Session, effective September 1, 2013, limits the amount of the state's contribution to 50% of eligible employees in the reporting district.

12. Other Post-Employment Benefits (OPEB)

(In accordance with GASB Statement 75)

Plan Description. The college participates in a cost-sharing multiple-employer defined-benefit other post-employment benefit (OPEB) plan with a special funding situation. The Texas Employees Group Benefits Program (GBP) is administered by the Employees Retirement System of Texas (ERS). The GBP provides certain post-employment health care, life and dental insurance benefits to retired employees of participating universities, community colleges, and State agencies in accordance with Chapter 1551, Texas Insurance Code. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the State and retire with at least 10 years of service to eligible entities. Surviving spouses and dependents of these retirees are also covered. Benefit and contribution provisions of the GBP are authorized by State law and may be amended by the Texas Legislature.

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OPEB Plan Fiduciary Net Position. Detailed information about the GBP’s fiduciary net position is available in the separately issued ERS Comprehensive Annual Financial Report (CAFR) which includes financial statements, notes to the financial statements and required supplementary information. That report may be obtained by visiting <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management>; or by writing to ERS at: 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377.

Benefits Provided. Retiree health benefits offered through the GBP are available to most State of Texas retirees and their eligible dependents. Participants need at least ten years of service credit with an agency or institution that participates in the GBP to be eligible for GBP retiree insurance. The GBP provides self-funded group health (medical and prescription drug) benefits for eligible retirees under HealthSelect. The GBP also provides a fully insured medical benefit option for Medicare-primary participants under the HealthSelect Medicare Advantage Plan and life insurance benefits to eligible retirees via a minimum premium funding arrangement. The authority under which the obligations of the plan members and employers are established and/or may be amended is Chapter 1551, Texas Insurance Code.

Contributions. 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. The employer and member contribution rates are determined annually by the ERS Board of Trustees based on the recommendations of ERS staff and its consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated, and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds. There are no long-term contracts for contributions to the plan.

The following table summarizes the maximum monthly employer contribution toward eligible retirees’ health and basic life premium, which is based on a blended rate. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. As the non-employer contributing entity (NECE), the State of Texas pays part of the premiums for the junior and community colleges.

Maximum Monthly Employer Contribution
Retiree Health and Basic Life Premium
Fiscal Year 2021

Retiree only	\$	624.82
Retiree & Spouse		1,339.90
Retiree & Children		1,103.58
Retiree & Family		1,818.66

*Source: Employees Retirement System of Texas (ERS) FY2021
Annual Comprehensive Financial Report*

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Contributions of premiums to the GBP plan for the current and prior fiscal year by source are summarized in the following table.

Premium Contributions by Source
Group Benefits Program Plan
For the Years Ended August 31, 2022 and 2021

	2022	2021
Employers	\$ 766,689,167	\$ 748,369,212
Members (Employees)	\$ 192,426,941	\$ 230,151,101
Nonemployer Contributing Entity (State of Texas)	\$ 39,188,518	\$ 37,736,903

Source: Employees Retirement System of Texas (ERS) FY2021 Annual Comprehensive Financial Report

Investment Policy. The State Retiree Health Plan is a pay-as-you-go plan and does not accumulate funds in advance of retirement. The System’s Board of Trustees adopted the amendment to the investment policy in August 2017 to require that all funds in the plan be invested in short-term fixed income securities and specify the expected rate of return on these investments is 2.4%.

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Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of August 31, 2021 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	August 31, 2021
Actuarial Cost Method	Entry Age
Last Experience Study	Higher Education Members: 7-year period from September 1, 2010 to August 31, 2017
Actuarial Assumptions:	
Discount Rate	2.14%
Projected Annual Salary Increase	2.3% to 9.05%, including inflation
Annual Healthcare Trend Rate	<p><u>HealthSelect</u> 5.25% for FY2023, 5.15% for FY2024, 5.00% for FY2025, 4.75% for FY2026, 4.60% for FY2027, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2030 and later years</p> <p><u>HealthSelect Medicare Advantage</u> 0.00% for FY2023, 66.67% for FY2024, 24.00% for FY2025, 4.75% for FY2026, 4.60% for FY2027, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY2030 and later years</p> <p><u>Pharmacy</u> 10.00% for FY2023 and FY2023, decreasing 100 basis points per year to 5.00% for FY2029 and 4.30% for FY2030 and later years</p>
Inflation Assumption Rate	2.30%
Ad hoc Postemployment Benefit Changes	None
Mortality Rate	<p><u>Higher Education Members</u></p> <p>* <i>Service Retirees, Survivors and other Inactive Members:</i> Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018</p> <p>* <i>Disability Retirees:</i> Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members</p> <p>* <i>Active Members:</i> Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014</p>

Source: Employees Retirement System of Texas (ERS) 2021 Annual Comprehensive Financial Report

The actuarial valuations involve estimates of the value of reported amount and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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Discount Rate. Because the GBP does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bonds rate. The discount rate used to determine the total OPEB liability as of the beginning of the measurement year was 2.20%. The discount rate used to measure the total OPEB liability as of the end of the measurement year was 2.14%, which amounted to an decrease of .06%. The source of the municipal bond rate was the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard and Poor's Corp's AA rating. Projected cash flows into the plan are equal to projected benefit payments out of the plan. Because the plan operates on a pay-as-you-go basis and is not intended to accumulate assets, there is no long-term expected rate of return on plan assets, and therefore the years of projected benefit payments to which the long-term expected rate of return is applicable is zero years.

Discount Rate Sensitivity Analysis. The following schedule shows the impact on the College's proportionate share of the collective net OPEB liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used (2.14%) in measuring the net OPEB liability.

	1% Decrease in Discount Rate (1.14%)	Discount Rate (2.14%)	1% Increase in Discount Rate (3.14%)
Hill College's proportionate share of the net OPEB liability:	\$ 18,091,514	\$ 15,189,704	\$ 12,919,471

Healthcare Trend Rate Sensitivity Analysis. The initial healthcare trend rate is 5.25% for HealthSelect and 0% for HealthSelect Medicare Advantage and the ultimate rate is 4.3% for both. The following schedule shows the impact on the College's proportionate share of the collective net OPEB liability if the discount and healthcare trend rates used were 1 percent less than and 1 percent greater than the discount and healthcare trend rates used in measuring the net OPEB liability.

	1% Decrease (HealthSelect: 4.25% decreasing to 3.30%; HealthSelect Medicare Advantage: -1.0% to 3.30% Pharmacy: 9.00% to 3.30%)	Current Healthcare Cost Trend Rates (HealthSelect: 5.25% decreasing to 4.30%; HealthSelect Medicare Advantage: 0% to 4.30% Pharmacy: 10.00% to 4.30%)	1% Increase in (HealthSelect: 6.25% decreasing to 5.30%; HealthSelect Medicare Advantage: 1.0% to 5.30% Pharmacy: 11.00% to 5.30%)
Hill College's proportionate share of the net OPEB liability:	\$12,719,589	\$15,189,704	\$18,425,994

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OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At August 31, 2022, the College reported a liability of \$15,189,704 for its proportionate share of the ERS's net OPEB Liability. This liability reflects a reduction for State support provided to the College for OPEB. The amount recognized by the College as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the College were as follows:

Hill College's proportionate share of the collective net OPEB liability	\$ 15,189,704
State's proportionate share that is associated with Hill College	14,959,695
Total	\$ 30,149,399

The net OPEB liability was measured as of August 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2020 through August 31, 2021.

At the measurement date of August 31, 2021, the employer's proportion of the collective net OPEB liability was .04234004%, which was a decrease of .0023637% from its proportion measured as of August 31, 2020.

For the year ended August 31, 2022, the College recognized OPEB expense of (\$182,521) and revenue of (\$182,521) for support provided by the State.

Changes Since the Prior Actuarial Valuation – The following assumptions have been changed since the previous Other Postemployment Benefits (OPEB) valuation:

- Percentage of current retirees and retiree spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and retiree spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- The proportion of future retirees assumed to elect health coverage at retirement and proportion of future retirees expected to receive the Opt-Out Credit at retirement.
- The proportion of future retirees assumed to be married and electing coverage for their spouse.
- Percentage of Higher Education vested terminated members assumed to have terminated less than one year before the valuation date
- Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations.
- Annual rate of increase in the PatientCentered Outcomes Research Institute fee payable under the Affordable Care Act has been updated to reflect recent health plan experience and its effects on our short-term expectations.

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- Assumed expenses directly related to the payment of GBP HealthSelect medical benefits have been updated to reflect recent contract revisions.
- The discount rate assumption was changed from 2.20% as of August 31, 2020 to 2.14% as of August 31, 2021 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

Changes of Benefit Terms Since Prior Measurement Date – Minor benefit changes that will become effective September 1, 2021 are not expected to have a significant impact on plan costs for fiscal year 2022 and are provided for in the fiscal year 2022 Assumed Per Capita Health Benefit Costs.

At August 31, 2022, the College reported its proportionate share of the ERS plan’s collective deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 372,586
Changes in actuarial assumptions	1,039,947	1,691,793
Differences between projected and actual investment earnings	2,690	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,940,328	848,043
Contributions paid to ERS subsequent to the measurement date	220,464	-
Total	<u>\$ 3,203,429</u>	<u>\$ 2,912,422</u>

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

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

Year Ended August 31:	Pension Expense Amount
2023	\$ 163,119
2024	308,744
2025	(144,954)
2026	(203,761)
2027	(52,605)
Thereafter	-

13. Disaggregation of Receivables and Payables Balances

Receivables

Receivables at August 31, 2022 and 2021 were as follows:

	2022	2021
Student Receivables	\$ 1,340,066	\$ 3,327,057
Taxes Receivables	470,105	469,946
Federal Receivables	5,344,836	721,228
State Receivables	47,152	-
Other Receivables	5,692	99,563
Subtotal	7,207,851	4,617,794
Allowance for doubtful accounts	(1,544,856)	(1,170,757)
Total Receivables	\$ 5,662,995	\$ 3,447,037

Payables

Payables at August 31, 2022 and 2021 were as follows:

	2022	2021
Vendors Payable	\$ 317,245	\$ 467,549
Total Payables	\$ 317,245	\$ 467,549

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

14. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the American Institute of Certified Public Accountants (AICPA) audit and accounting guide, *State and Local Governments*, 8.99. For federal contract and grant awards, funds expended but not collected are reported as Federal Receivables on Exhibit 1. Non-federal contract and grant awards for which funds are expended but not collected are reported as Accounts Receivable 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 (e.g., revenue and expenses are not reported). Contract and grant award funds received, but not yet expended are reported as Deferred Revenue.

15. 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>2022</u>	<u>2021</u>
Assessed Valuation of the District	\$ 2,944,817,588	\$ 2,767,917,601
Less: Exemptions	<u>505,986,521</u>	<u>486,223,883</u>
Net Taxable	2,438,831,067	2,281,693,718
Less: Freeze Taxable	<u>443,814,986</u>	<u>407,094,309</u>
Freeze Adjusted Taxable	<u>\$ 1,995,016,081</u>	<u>\$ 1,874,599,409</u>

Authorized Tax Rate per \$100 valuation (current operations-maximum per enabling legislation)	.500000	.500000
Assessed Tax Rate per \$100 valuation (current operations)	.085265	.089146

Taxes levied for the year ended August 31, 2022 and 2021 amounted to \$2,251,401 and \$1,944,874, respectively. This amount includes the actual taxes calculated for disabled persons and persons over 65 up to their individual tax ceilings. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

	2022	2021
	Current Operations	Current Operations
Current Taxes Collected	\$ 1,933,294	\$ 1,881,997
Delinquent Taxes Collected	64,022	56,946
Penalties and Interest Collected	49,077	54,567
Total Collections	\$ 2,046,393	\$ 1,993,510

Tax collections for the year ended August 31, 2022 and 2021 were 96.46% and 96.77%, 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.

16. Tax Abatements

Hill College has entered into a property tax abatement agreement with IKO Southwest, Inc. as authorized under Chapter 312 of the Texas Tax Code. Under this Act, the College is authorized to grant tax abatements to property owners within designated reinvestment zones for the purpose of expanding primary employment within and attracting investment to the zone.

Commencing on or before March 31, 2019 and continuing annually through the next 10 years, IKO will provide written certification to the College confirming that IKO has continued to employ at least forty (40) individuals in FTE jobs. Additionally, as a condition to the obligation of Hill College, IKO shall maintain the taxable assessed value of the Taxable Property, as reasonably determined by the Hill County Appraisal District for each calendar year, at not less than \$25,000,000.00.

For a period of ten (10) years, beginning January 1, 2019, Hill College shall annually abate the ad valorem taxes assessed against IKO's Taxable Property, including all components thereof which may be abated under Chapter 312 of the Tax Code, in an amount equal to ninety percent (90%) of the amount IKO would otherwise be required to pay in ad valorem taxes on the Taxable Property.

For the fiscal years ended August 31, 2022 and August 31, 2021, respectively, Hill College abated property taxes totaling \$75,016 and \$73,360.

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

17. Branch Campus Maintenance Tax

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

Independent School District	Collections in Fiscal Year 2022 (including penalties and interest)	Collections in Fiscal Year 2021 (including penalties and interest)
Alvarado	\$ 899,217	\$ 810,189
Cleburne	1,708,105	1,511,694
Godley	286,293	240,587
Grandview	227,184	202,886
Joshua	1,096,628	959,960
Keene	112,809	105,173
Rio Vista	131,817	125,866
Venus	264,312	228,120
Total	<u>\$ 4,726,365</u>	<u>\$ 4,184,475</u>

18. Income Taxes

The College is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, Etc., although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The College had no unrelated business income tax liability for the year ended August 31, 2022 and 2021.

19. Component Unit

Hill College Foundation – Discrete Component Unit

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

Hill College
Notes to Financial Statements
August 31, 2022 and 2021

Accordingly, the Foundation financial statements are included in the College's annual report as a discrete component unit (see table of contents). Fiscal year 2022 financial statements were not included, as the audit for 2022 was not completed by the date the College's financial statements were audited and submitted. Complete financial statements of the Hill Junior College Development Foundation, Inc. can be obtained from the administrative offices of Hill College.

20. Related Parties

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

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

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

Fiscal year ending August 31*	2022	2021	2020	2019	2018	2017	2016	2015
College's proportionate share of collective net pension liability (NPL) (%)	0.0074502%	0.0078639%	0.0082289%	0.0076235%	0.0072722%	0.0069101%	0.0079268%	0.0090791%
College's proportionate share of collective net pension liability (\$)	\$ 1,897,300	\$ 4,211,736	\$ 4,277,618	\$ 4,196,185	\$ 2,325,245	\$ 2,611,232	\$ 2,802,018	\$ 2,425,153
State's total proportionate share of NPL associated with College	1,748,229	3,776,692	3,745,228	3,626,346	2,064,195	2,351,637	2,452,737	2,117,111
Total	3,645,529	7,988,428	8,022,846	7,822,531	4,389,440	4,962,869	5,254,755	4,542,264
College's covered payroll amount	\$ 8,444,890	\$ 8,213,817	\$ 8,297,814	\$ 7,841,179	\$ 7,212,626	\$ 6,666,918	\$ 6,200,385	\$ 6,541,689
College's proportionate share of collective NPL as a percentage of covered payroll	22.47%	51.28%	51.55%	53.51%	32.24%	39.17%	45.19%	37.07%
Plan fiduciary net position as a percentage of the total pension liability	88.79%	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

*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 Hill College's Pension Contributions
Last Eight Fiscal Years**

Fiscal year ending August 31*	2022	2021	2020	2019	2018	2017	2016	2015
Legally required contributions	\$ 350,629	\$ 316,116	\$ 324,335	\$ 287,977	\$ 257,186	\$ 238,340	\$ 219,552	\$ 234,602
Actual contributions	350,629	316,116	324,335	287,977	257,186	238,340	219,552	234,602
Contributions deficiency (excess)	-	-	-	-	-	-	-	-
College's covered employee payroll amount	\$ 8,444,890	\$ 8,213,817	\$ 8,297,814	\$ 7,841,179	\$ 7,212,626	\$ 6,666,918	\$ 6,200,385	\$ 6,541,689
Contributions as a percentage of covered employee payroll	4.15%	3.85%	3.91%	3.67%	3.57%	3.57%	3.54%	3.59%

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

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

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

Hill College
Schedule of Hill College's Proportionate Share of Net OPEB Liability
Employee Retirement System of Texas
State Retiree Health Plan
For the Last Five Fiscal Years**

Fiscal year ending August 31*	2022	2021	2020	2019	2018
College's proportionate share of collective net OPEB liability (%)	0.0423400%	0.0447038%	0.0444104%	0.0419377%	0.0295774%
College's proportionate share of collective net OPEB liability (\$)	\$ 15,189,704	\$ 14,772,197	\$ 15,349,423	\$ 12,429,393	\$ 10,077,909
State's proportionate share of net OPEB liability associated with College	14,959,695	13,776,174	14,812,814	12,515,488	9,808,608
Total	30,149,399	28,548,371	30,162,237	24,944,881	19,886,517
College's covered payroll amount	\$ 12,334,075	\$ 10,625,680	\$ 10,357,199	\$ 10,613,426	\$ 10,780,859
College's proportionate share of collective net OPEB liability as a percentage of covered payroll	123.15%	139.02%	148.20%	117.11%	93.48%
Plan fiduciary net position as a percentage of the total OPEB liability	0.38%	0.32%	0.17%	1.27%	2.04%

*The amounts presented above are as of the measurement date of the collective net OPEB 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 OPEB Contributions
Employee Retirement System of Texas
State Retiree Health Plan
For the Last Five Fiscal Years**

Fiscal year ending August 31*	2022	2021	2020	2019	2018
Legally required contributions	\$ 220,464	\$ 244,288	\$ 231,716	\$ 119,915	\$ 275,770
Actual contributions	220,464	244,288	231,716	119,915	275,770
Contributions deficiency (excess)	-	-	-	-	-
College's covered employee payroll amount	\$ 12,334,075	\$ 10,625,680	\$ 10,357,199	\$ 10,613,426	\$ 10,780,859
Contributions as a percentage of covered payroll	1.79%	2.30%	2.24%	1.13%	2.56%

*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 (RSI) Schedules for Pensions Year Ended August 31, 2022

1. Changes of Benefit Terms:

There were no changes to the college's salary and wages effective September 1, 2021 for full time faculty/administrators and staff.

2. Changes of Assumptions

The actuarial assumptions used in the determination of the total pension liability are the same assumptions use in the actuarial valuation as of August 21, 2020.

- The total pension liability as of August 31, 2021 was developed using a roll-forward method from the August 31, 2020 valuation.
- The Municipal Bond Rate decreased from 2.33% as of August 31, 2020 to 1.95% as of August 31, 2021.
- The Public education employer contribution rate changed from 1.5% in 2020 to 1.6% in 2021.

Hill College

Notes to Required Supplementary Information (RSI) Schedules for OPEB Year Ended August 31, 2022

1. Changes of Benefit Terms:

Minor benefit revisions became effective September 1, 2021. These changes, which are not expected to have a significant impact on plan costs for FY2022, are provided for in the FY2022 Assumed Per Capita Health Benefit Costs. There are not benefit changes for HealthSelect retirees and dependents for whom Medicare is primary.

2. Changes of Assumptions

The following assumptions have been updated since the previous valuation to reflect recent plan experience and expected trends:

- The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- The proportion of future retirees assumed to be married and electing coverage for their spouse.
- The proportion of future retirees assumed to elect health coverage at retirement and proportion of future retirees expected to receive the Opt-Out Credit at retirement.
- The percentage of Higher Education vested terminated members assumed to have terminated less than one year before the valuation date.
- Assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent health plan experience and its effects on our short-term expectations. The annual rate of increase in the Patient-Centered Outcomes Research Institute Fee payable under the Affordable Care Act has been updated to reflect recent health plan experience and its effects on our short-term expectations. Assumed expenses directly related to the payment of GBP HealthSelect medical benefits have been updated to reflect recent contract revisions.
- The discount rate was changed from 2.20% as of August 31, 2020 to 2.14% as of August 31, 2021 as a result of requirements by GASB No. 75 to utilize the yield or index rate for 20-year, tax exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

SUPPLEMENTARY SCHEDULES

Hill College
Schedule A
Schedule of Operating Revenues
Year Ended August 31, 2022 (With Memorandum Totals for the Year Ended August 31, 2021)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Educational Activities</u>	<u>Auxiliary Enterprises</u>	<u>2022 Total</u>	<u>2021 Total</u>
Tuition:						
State Funded Credit Courses:						
In-District Resident Tuition	\$ 2,681,777	\$ -	\$ 2,681,777	\$ -	\$ 2,681,777	\$ 3,056,703
Out-of-District Resident Tuition	2,102,263	-	2,102,263	-	2,102,263	2,421,778
Non-Resident Tuition	328,395	-	328,395	-	328,395	313,440
TPEG - Credit (set aside)*	-	298,811	298,811	-	298,811	347,161
State-Funded Continuing Education	61,251	-	61,251	-	61,251	125,935
TPEG - Credit (set aside)*	-	8,578	8,578	-	8,578	5,072
Non-State Funded Continuing Education	-	-	-	-	-	20,829
Total Tuition	5,173,686	307,389	5,481,075	-	5,481,075	6,290,918
Fees:						
Out of District Fee	752,920	-	752,920	-	752,920	847,509
General Fees	235,877	-	235,877	-	235,877	295,444
Student Service Fee	-	-	-	268,007	268,007	303,666
Building Use Fee	-	-	-	653,873	653,873	752,965
Laboratory Fee	144,331	-	144,331	-	144,331	182,512
Total Fees	1,133,128	-	1,133,128	921,880	2,055,008	2,382,095
Scholarship Allowances and Discounts:						
Remissions and Exemptions - State	-	-	-	(151,469)	(151,469)	(213,663)
Title IV Federal Grants	(1,509,885)	-	(1,509,885)	-	(1,509,885)	(1,592,329)
TPEG Awards	(483,159)	-	(483,159)	-	(483,159)	(320,141)
Other State Grants	(208,465)	-	(208,465)	-	(208,465)	(63,137)
Other Local Grants	(1,993,277)	-	(1,993,277)	-	(1,993,277)	(2,295,816)
Total Scholarship Allowances	(4,194,786)	-	(4,194,786)	(151,469)	(4,346,255)	(4,485,085)
Total Net Tuition and Fees	2,112,028	307,389	2,419,417	770,411	3,189,828	4,187,928
Additional Operating Revenues:						
Federal Grants and Contracts	44,046	7,043,627	7,087,673	-	7,087,673	4,995,640
State Grants and Contracts	-	615,704	615,704	-	615,704	351,612
Non-Governmental Grants and Contracts	-	1,977,700	1,977,700	-	1,977,700	1,968,357
General Operating Revenues	170,066	-	170,066	-	170,066	2,792,709
Total Additional Operating Revenues	214,112	9,637,031	9,851,143	-	9,851,143	10,108,318
Auxiliary Enterprises:						
Residential Life	-	-	-	900,106	900,106	813,818
Less Discounts	-	-	-	(562,017)	(562,017)	(441,875)
Bookstore	-	-	-	2,725	2,725	49,038
Cosmetology	-	-	-	11,824	11,824	2,711
Concessions	-	-	-	41,388	41,388	38,319
Total Net Auxiliary Enterprises	-	-	-	394,026	394,026	462,011
Total Operating Revenues	\$ 2,326,140	\$ 9,944,420	\$ 12,270,560	\$ 1,164,437	\$ 13,434,997 (Exhibit 2)	\$ 14,758,257 (Exhibit 2)

*In accordance with Education Code 56.033, \$307,389 and \$352,233 for years August 31, 2022 and 2021, 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, 2022 (With Memorandum Totals for the Year Ended August 31, 2021)

	Operating Expenses					2021 Total
	Salaries and Wages	Benefits		Other Expenses	2022 Total	
		State	Local			
Unrestricted - Educational Activities						
Instruction	\$ 7,108,932	\$ 759,678	\$ 319,543	\$ 617,117	\$ 8,805,270	\$ 8,753,361
Public Service	-	-	-	-	-	-
Academic Support	1,350,508	158,757	132,867	469,527	2,111,659	1,929,079
Student Services	1,634,448	245,602	197,254	134,594	2,211,898	2,042,817
Institutional Support	1,753,592	228,813	1,391,341	2,556,076	5,929,822	4,406,220
Operation and Maintenance of Plant	307,395	23,103	73,045	1,461,080	1,864,623	2,691,510
Scholarships and Fellowships	-	-	-	-	-	-
Total Unrestricted Educational Activities	12,154,875	1,415,953	2,114,050	5,238,394	20,923,272	19,822,987
Restricted - Educational Activities						
Instruction	\$ -	\$ -	\$ -	\$ 408,234	\$ 408,234	\$ 1,286,125
Public Service	-	-	-	-	-	-
Academic Support	-	-	-	-	-	242,333
Student Services	37,972	-	11,235	128,375	177,582	438,384
Institutional Support	-	-	-	44,046	44,046	3,520,825
Operation and Maintenance of Plant	-	-	-	999,195	999,195	30,782
Scholarships and Fellowships	-	-	-	8,423,637	8,423,637	4,704,371
Total Restricted Educational Activities	37,972	-	11,235	10,003,487	10,052,694	10,222,820
Total Educational Activities	12,192,847	1,415,953	2,125,285	15,241,881	30,975,966	30,045,807
Auxiliary Enterprises	-	-	-	1,591,195	1,591,195	1,086,017
Depreciation Expense - Buildings and Other Real Estate Improvements	-	-	-	701,470	701,470	664,767
Depreciation Expense - Equipment and Furniture	-	-	-	291,386	291,386	314,469
Total Operating Expenses	\$ 12,192,847	\$ 1,415,953	\$ 2,125,285	\$ 17,825,932	\$ 33,560,017 (Exhibit 2)	\$ 32,111,060 (Exhibit 2)

Hill College
Schedule C
Schedule of Non-Operating Revenues and Expenses
Year Ended August 31, 2022 (With Memorandum Totals for the Year Ended August 31, 2021)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary Enterprises</u>	<u>2022 Total</u>	<u>2021 Total</u>
NON-OPERATING REVENUES:					
State Appropriations:					
Education and General State Support	\$ 6,530,886	\$ -	\$ -	\$ 6,530,886	\$ 6,772,754
State Group Insurance	1,004,070	-	-	1,004,070	1,047,338
State Retirement Matching	411,882	-	-	411,882	838,400
Texas Heritage Museum	308,872	-	-	308,872	325,126
Total State Appropriations	8,255,710	-	-	8,255,710	8,983,618
Maintenance Ad Valorem Taxes	2,046,393	-	-	2,046,393	1,993,510
Branch Campus Maintenance Tax	4,726,365	-	-	4,726,365	4,184,475
Federal Revenue, Non Operating	-	5,753,496	-	5,753,496	4,553,009
Gifts	78,388	-	48,435	126,823	100,403
Investment Income	113,880	65,923	2,253	182,056	175,089
Gain (Loss) on Sale of Investments	15,325	71,926	-	87,251	192,494
Unrealized Gain on Investments	(205,515)	(150,134)	-	(355,649)	413,634
Other Non-Operating Revenue	309,450	-	-	309,450	6,491
Total Non-Operating Revenues	15,339,996	5,805,275	50,688	12,876,185	20,602,723
NON-OPERATING EXPENSES:					
Interest on Capital Related Debt	-	-	-	-	-
Other Non-Operating Expense	-	-	-	-	10,197
Interfund Transfers	6,381,100	(6,164,019)	(217,081)	-	-
Total Non-Operating Expenses	6,381,100	(6,164,019)	(217,081)	-	10,197
Net Non-Operating Revenues	\$ 21,721,096	\$ (358,744)	\$ (166,393)	\$ 21,131,895 (Exhibit 2)	\$ 20,592,526 (Exhibit 2)

Hill College
Schedule D
Schedule of Net Position by Source and Availability
Year Ended August 31, 2022 (With Memorandum Totals for the Year Ended August 31, 2021)

	Detail by Source				Available for Current Operations		
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 7,806	\$ -	\$ -	\$ -	\$ 7,806	\$ 7,806	\$ -
Board Designated	3,778,982	-	-	-	3,778,982	3,778,982	-
Restricted	-	(522,302)	-	-	(522,302)	-	(522,302)
Auxiliary Enterprises	(117,534)	-	-	-	(117,534)	(117,534)	-
Loan	-	-	-	-	-	-	-
Endowment	-	-	2,356,119	-	2,356,119	-	2,356,119
Plant:							
Investment in Plant	-	-	-	25,537,337	25,537,337	-	25,537,337
Total Net Position, August 31, 2022	3,669,254	(522,302)	2,356,119	25,537,337	31,040,408 (Exhibit 1)	3,669,254	27,371,154
Total Net Position, August 31, 2021	2,544,212	(92,656)	2,333,942	25,183,971	29,969,469 (Exhibit 2)	2,544,212	27,425,257
Net Increase (Decrease) in Net Position	\$ 1,125,042	\$ (429,646)	\$ 22,177	\$ 353,366	\$ 1,070,939 (Exhibit 2)	\$ 1,125,042	\$ (54,103)

HILL COLLEGE
Schedule E
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2022

<u>Federal Grantor/ Pass Through Grantor / Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass Through Grantors Number</u>	<u>Expenditures and Pass Through Disbursements</u>
<i>U.S. Department of Education</i>			
Student Financial Aid Assistance Cluster			
Federal Supplemental Educational Opportunity Grant	84.007		\$ 88,892
Federal College Work Study Program	84.033		11,393
Federal Pell Grant Program	84.063		5,653,211
Direct Loans	84.268		4,601,136
Total Student Financial Aid Assistance Cluster			<u>10,354,632</u>
Higher Education Institutional Aid			
CARES Act: Higher Education Emergency Relief Fund	84.425E		3,570,580
CARES Act: Higher Education Emergency Relief Fund - Institutional Portion	84.425F		3,304,325
Total Higher Education Institutional Aid			<u>6,874,905</u>
Pass-Through From:			
Texas Higher Education Coordinating Board Carl Perkins Vocational Education-Basic	84.048	214230	168,722
<i>Total U.S. Department of Education</i>			<u><u>17,398,259</u></u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 17,398,259</u></u>

Notes to Schedule on following page.

HILL COLLEGE
Schedule E (Continued)
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2022

Note 1: Federal Assistance Reconciliation

Federal Grants and Contracts Revenue per Schedule A	\$ 7,087,673
Less: Indirect/Administrative Costs Recoveries	(44,046)
Add: Non-Operating Federal Revenue from Schedule C	5,753,496
Total Federal Revenues per Statement of Revenues, Expenses and Changes in Net Position	<u>\$ 12,797,123</u>
Reconciling Item:	
Add: Direct Student Loans	\$ 4,601,136
Total Federal Revenues per Schedule of Expenditures of Federal Awards	<u><u>\$ 17,398,259</u></u>

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, 2022

<u>Grantor Agency / Program Title</u>	<u>Grant Contract Number</u>	<u>Expenditures</u>
<i>Texas Higher Education Coordinating Board</i>		
TX Educational Opportunity Grant Program		\$ 291,774
Texas College Work Study Program		26,990
Governor's Emergency Education Relief (GEER) - Reporting Modernization	25547	7,534
Reskilling/Upskilling for Education Fund	25713	253,110
<i>Total Texas Higher Education Coordinating Board</i>		<u>579,408</u>
<i>Texas Workforce Commission</i>		
Skills Development Fund Covid-19 Special Initiative	1320COS003	<u>36,296</u>
<i>Greater Texas Foundation</i>		
Texas Emergency Aid Grant Program		<u>\$ -</u>
TOTAL EXPENDITURES OF STATE AWARDS		<u><u>\$ 615,704</u></u>

Notes to Schedule on following page.

HILL COLLEGE
Schedule F (Continued)
Schedule of Expenditures of State Awards
For the Year Ended August 31, 2022

Note 1: State Assistance Reconciliation

State Revenues - per Schedule A	
State Grants and Contracts	\$ 615,704
Less: Indirect/Administrative Cost Recoveries	-
Total State Revenues per Schedule of Expenditures of State Awards	<u>\$ 615,704</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

20 SOUTH FOURTH STREET 254/778/4783
POST OFFICE BOX 160 800/460/4783
TEMPLE, TEXAS 76503 FAX 254/778/4792

KILLEEN • COPPERAS COVE • TEMPLE

Member of
American Institute & Texas Society of
Certified Public Accountants

**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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the College’s basic financial statements, and have issued our report thereon dated May 25, 2023.

Report on 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) as a basis for designing 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.

**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)**

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 any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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.

Jatt, Vernon & Co. P.C.

Temple, Texas
May 25, 2023



LOTT, VERNON & COMPANY, P.C.
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POST OFFICE BOX 160 800/460/4783
TEMPLE, TEXAS 76503 FAX 254/778/4792

KILLEEN • COPPERAS COVE • TEMPLE

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

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

Opinion on Each Major Federal Program

We have audited Hill College's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Hill College's major federal programs for the year ended August 31, 2022. Hill College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Hill College and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Hill College's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Hill College's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Hill College's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Hill College's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Hill College's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Hill College's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Hill College's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Jatt, Vernon & Co. P.C.

Temple, Texas
May 25, 2023

HILL COLLEGE
Schedule of Findings and Questioned Costs
August 31, 2022

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>	<u>Federal CFDA Number</u>
U.S. Department of Education	
Student Financial Aid Cluster:	
SEOG	84.007
Federal College Work Study Program	84.033
Federal Pell Grant Program	84.063
William D Ford Direct Loans	84.268
CARES Act: HEERF	84.425E
CARES Act: HEERF	84.425F

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, 2022

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

II. Financial Statement Findings

None.

III. Federal and State Awards Findings and Questioned Costs

None.