

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER

Financial Statements

June 30, 2021

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Hill Center, Inc.
D/B/A Hill Learning Center
Durham, North Carolina

We have audited the accompanying financial statements of The Hill Center, Inc. D/B/A Hill Learning Center (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Hill Center, Inc. D/B/A Hill Learning Center as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Thomas, Judy & Packer, P.A.

Durham, North Carolina
September 22, 2021

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF FINANCIAL POSITION
June 30, 2021

	Without Donor Restriction	With Donor Restriction	Total
<u>ASSETS</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 3,080,079	\$ 2,121,196	\$ 5,201,275
Tuition Receivable, Net	90,715		90,715
Other Accounts Receivable	133,224		133,224
Prepaid Expenses	63,675		63,675
Pledges Receivable - Current	240	324,911	325,151
Investments	2,286,487	10,571,416	12,857,903
	<u>5,654,420</u>	<u>13,017,523</u>	<u>18,671,943</u>
Total Current Assets			
	<u>5,654,420</u>	<u>13,017,523</u>	<u>18,671,943</u>
Property and Equipment:			
Land	201,331		201,331
Land Improvements	50,000		50,000
Building and Improvements	9,407,155		9,407,155
Equipment	1,098,887		1,098,887
Furniture and Fixtures	370,203		370,203
Software	632,314		632,314
Work in Progress - Equipment	15,216		15,216
	<u>11,775,106</u>		<u>11,775,106</u>
Less Accumulated Depreciation	<u>4,845,624</u>		<u>4,845,624</u>
Net Property and Equipment	<u>6,929,482</u>		<u>6,929,482</u>
Other Assets:			
Pledges Receivable - Long Term Portion, Net		8,862	8,862
Total Other Assets		<u>8,862</u>	<u>8,862</u>
Total Assets	<u>\$ 12,583,902</u>	<u>\$ 13,026,385</u>	<u>\$ 25,610,287</u>

	Without Donor Restrictions	With Donor Restrictions	Total
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Accounts Payable	\$ 117,333	\$	\$ 117,333
Accrued Salaries and Other Expenses	74,361		74,361
Revenue Bonds Payable, Current Portion	225,540		225,540
Note Payable	724,765		724,765
Deferred Revenue - Tuition and Fees, Current Portion	1,332,261		1,332,261
Deferred Revenue - Workshops	139,770		139,770
Total Current Liabilities	2,614,030		2,614,030
Noncurrent Liabilities:			
Deferred Revenue - Tuition and Fees, Net	153,918		153,918
Revenue Bonds Payable, Net	2,595,261		2,595,261
Total Noncurrent Liabilities	2,749,179		2,749,179
Total Liabilities	5,363,209		5,363,209
Net Assets:			
Without Donor Restrictions:			
Undesignated	825,525		825,525
Designated by the Board	2,286,487		2,286,487
Investment in Plant, Net of Debt	4,108,681		4,108,681
With Donor Restrictions:			
Perpetual in Nature		6,020,553	6,020,553
Purpose Restrictions		7,005,832	7,005,832
Total Net Assets	7,220,693	13,026,385	20,247,078
Total Liabilities and Net Assets	\$ 12,583,902	\$ 13,026,385	\$ 25,610,287

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Student Programs:			
Tuition and Fees	\$ 3,610,678	\$	\$ 3,610,678
Less: Financial Aid	354,073		354,073
Tuition and Fees, Net	<u>3,256,605</u>		<u>3,256,605</u>
Student Enrichment Revenue	<u>993,319</u>		<u>993,319</u>
Total Student Programs Revenue	4,249,924		4,249,924
Professional Development Revenues	1,165,822		1,165,822
Contributions	361,834	516,482	878,316
Gift-in-Kind Revenue - Property and Equipment	54,422		54,422
Investment Returns	531,711	2,244,356	2,776,067
Other Income	<u>6,815</u>		<u>6,815</u>
Total Revenue and Support	6,370,528	2,760,838	9,131,366
Net Assets Released from Restrictions	<u>1,332,362</u>	<u>(1,332,362)</u>	
Total Revenue and Net Assets Released from Restrictions	<u>7,702,890</u>	<u>1,428,476</u>	<u>9,131,366</u>
Program Expenses:			
Student Programs	4,131,010		4,131,010
Professional Development	1,480,742		1,480,742
Supporting Services:			
Administration	1,181,926		1,181,926
Fundraising	<u>316,048</u>		<u>316,048</u>
Total Expenses and Loss	<u>7,109,726</u>		<u>7,109,726</u>
Change in Net Assets	593,164	1,428,476	2,021,640
Net Assets, Beginning of Year	<u>6,627,529</u>	<u>11,597,909</u>	<u>18,225,438</u>
Net Assets, End of Year	<u>\$ 7,220,693</u>	<u>\$ 13,026,385</u>	<u>\$ 20,247,078</u>

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	Program					
	Student Programs	Professional Development	Total Program Support	Administration	Fundraising	Total
Salaries	\$ 2,969,569	\$ 693,602	\$ 3,663,171	\$ 542,265	\$ 216,379	\$ 4,421,815
Retirement Plan Contributions	138,777	37,939	176,716	30,744	9,449	216,909
Other Employee Benefits	269,935	59,734	329,669	83,267	27,584	440,520
Payroll Taxes	221,989	48,681	270,670	37,143	14,989	322,802
Accounting and Legal Fees	1,438	1,240	2,678	19,189		21,867
Advertising	5,254	436	5,690	39,255		44,945
Consulting and Contracted Services		251,433	251,433	22,250	2,390	276,073
Instructional and Office Supplies	18,588	2,779	21,367	1,743	268	23,378
Technology and Equipment	35,351	45,349	80,700	74,825	7,894	163,419
Printing and Publications					946	946
Travel	683		683	2,873	56	3,612
Employee Professional Development	41,743	6,039	47,782	5,119	199	53,100
Events and Meals	6,939		6,939	1,630	8,961	17,530
Dues and Subscriptions	46,295	3,833	50,128	3,338	7,738	61,204
Facilities Expense	49,413	17,361	66,774	19,036	4,662	90,472
Utilities and Maintenance	107,395	37,733	145,128	40,065	2,504	187,697
Depreciation	152,479	240,013	392,492	54,248	8,177	454,917
Interest Expense	55,397	19,464	74,861	10,347	1,560	86,768
Loss on Disposal of Property and Equipment				165,482		165,482
Miscellaneous	9,765	15,106	24,871	29,107	2,292	56,270
Total Expenses	<u>\$ 4,131,010</u>	<u>\$ 1,480,742</u>	<u>\$ 5,611,752</u>	<u>\$ 1,181,926</u>	<u>\$ 316,048</u>	<u>\$ 7,109,726</u>

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF CASH FLOWS
Year Ended June 30, 2021

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 2,021,640
Adjustments to Reconcile Change in Net Assets to Net	
Cash Used in Operating Activities:	
Depreciation	454,917
Amortization of Bond Issuance Costs	6,286
Net Realized and Unrealized Gains on Investments	(2,810,387)
Loss on Disposal of Property and Equipment	165,482
Gift-in-Kind Revenue - Property and Equipment	(50,572)
Contributions Restricted for Long-Term Purposes	(9,200)
Changes in Assets and Liabilities that	
Provided (Used) Cash:	
Tuition Receivable	4,874
Other Accounts Receivable	(26,691)
Prepaid Expenses	(13,935)
Pledges Receivable	436,767
Accounts Payable	20,898
Accrued Salaries and Other Expenses	(3,845)
Deferred Revenue - Tuition and Fees	318,374
Deferred Revenue - Workshops	73,040
Net Cash Provided by Operating Activities	<u>587,648</u>
Cash Flows from Investing Activities:	
Purchases of Property and Equipment	(758,280)
Net Investment Activity, Purchases of Investments	
and Proceeds from Sales of Investments	<u>995,100</u>
Net Cash Provided by Investing Activities	<u>236,820</u>
Cash Flows from Financing Activities:	
Contributions Restricted for Long-Term Purposes	9,200
Payments on Bonds Payable	<u>(219,070)</u>
Net Cash Used in Financing Activities	<u>(209,870)</u>
Increase in Cash and Cash Equivalents	614,598
Cash and Cash Equivalents, Beginning of Year	<u>4,586,677</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 5,201,275</u></u>
Supplemental Disclosure of Cash Flow Information	
Cash Paid During the Year for Interest	<u><u>\$ 80,522</u></u>

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. Summary of Significant Accounting Policies

Operations

Founded in 1977, The Hill Center, Inc. D/B/A Hill Learning Center ("Hill" or "Organization") is a hub for equitable and differentiated, research-based practices for supporting students with learning differences and/or attention challenges. Through a range of K-12 student and educator programs, and strategic partnerships with leaders in the field, Hill aspires to ensure students with learning and attention challenges receive the instruction and support they need, regardless of where they attend school or whether they have a formal diagnosis. Hill is accredited by the Southern Association of Colleges and Schools and is a member of the National Association of Independent Schools. Hill is also approved by the North Carolina Department of Public Instruction as an "alternative" school for children with learning disabilities, and Hill's Professional Development Training Program is accredited by the International Multisensory Structured Language Education Council. In September 2018, the Organization was rebranded as Hill Learning Center.

Hill's revenues are primarily derived from the following programs:

Student Programs: Hill Learning Center has a range of programs for K-12 students with learning differences or attention challenges. All programs are differentiated, research-based, and focused on helping students develop the academic, organizational, and self-advocacy skills they need to succeed in school, and in life. Students attending Hill have been diagnosed as having a Learning Disability and/or Attention Deficit Disorder. Hill Summer and Hill Tutoring programs serve any student needing additional support in reading, writing, math, or executive functioning.

Professional Development: Hill Learning Center offers a range of in-person, online, and blended professional development experiences for educators, with a particular focus on reading, writing, math, executive function, and meeting the needs of students with learning differences and/or attention challenges.

Hill has developed Hill Learning System ("HLS") which is a virtual learning hub that helps educators serve struggling readers and is utilized both in its student and professional development programs. The HillRAP Digital app is an integral component of HLS and it leverages technology to deliver teacher-led, individualized, small group instruction to struggling readers.

Financial Statement Presentation

Hill reports its net assets, revenues and expenses according to the following net asset classifications:

Net Assets without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Hill. These net assets may be used at the discretion of Hill's management and the Board of Directors.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

Net Assets with Donor Restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Hill or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed into service. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash Equivalents

For purposes of the statements of financial position and cash flows, Hill considers short-term, highly liquid investments that are readily convertible to known amounts of cash with an original maturity at date of purchase of three months or less to be cash equivalents. Hill had cash equivalents of \$1,468,770 at June 30, 2021.

Tuition Receivable

Tuition receivable represents uncollateralized enrollee obligations for tuition and fees, due within 30 days of the invoice date. The carrying amount of accounts receivable is reduced by an allowance that reflects management's best estimate of uncollectible balances. Management reviews each past due balance for the amount that will not be collected, then further applies historical collection rates to the total of receivable balances in determining the amount of the allowance. Tuition receivable is written off when deemed uncollectible.

Deferred Revenue – Student Programs and Professional Development

Tuition collected in advance is recognized over the related school period. Prepaid observation and registration fees for professional development workshops collected in advance are recognized when the activity is completed.

Pledges Receivable

Contributions are recognized when the donor makes a pledge to give to Hill that is, in substance, unconditional. An allowance for uncollectible pledges is recorded based on an analysis of collection histories. Donor-restricted contributions are reported as increases in donor-restricted net assets. When a restriction expires, with donor-restricted net assets are reclassified to without donor-restricted net assets.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

Investments

Investments consist primarily of assets invested in marketable equity funds and bond funds. The Organization accounts for investments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-320, *Accounting for Certain Investments Held By Not-for-Profit Organizations*. This standard requires that investments in equity funds with readily determinable fair value and all investments in bond funds be measured at fair value in the statement of financial position. Fair value of marketable equity funds and bond funds is based on quoted market prices. The realized and unrealized gain or loss on investments is reflected as investment returns in the statement of activities.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Investments held in trust by others consist of the Hill's share of certain trusts for which Hill has an irrevocable right to the income from the trusts but will never receive any portion of the trusts' corpus.

Property and Equipment

It is the policy of Hill to capitalize all long-lived assets, including those purchased in bulk, costing more than \$5,000. Property and equipment purchased are recorded at cost at the date of acquisition or at the approximate fair market value at date of donation in the case of gifts. Improvements or betterments of a permanent nature are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The costs of assets retired or otherwise disposed of, and the related accumulated depreciation, are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations upon disposal. Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land Improvements	10 years
Building and Improvements	5 to 50 years
Equipment, Furniture and Fixtures	3 to 10 years
Software	3 years

Depreciation expense for the year ended June 30, 2021 was \$454,917.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

Impairment of Assets

Accounting principles generally accepted in the United States of America ("GAAP") require that long-lived assets and certain identifiable tangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of an asset may not be recoverable. There was no impairment loss recognized during the year ended June 30, 2021.

Functional Allocations of Expenses

The statement of functional expenses reports certain categories of expenses that are attributable to one or more program or supporting functions of Hill. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. All other expenses are directly identified with either programs or in administration or fundraising.

These expenses that are allocated include the following:

Expense	Method of Allocation
Salaries	Time and Effort
Retirement Plan Contributions	Time and Effort
Other Employee Benefits	Time and Effort
Payroll Taxes	Time and Effort
Facilities Expense	Square Footage
Utilities and Maintenance	Square Footage
Depreciation	Square Footage
Interest Expense	Square Footage

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$44,945 for the year ended June 30, 2021.

Income Taxes

Hill is exempt from income taxes as a not-for-profit organization under Internal Revenue Service ("IRS") code section 501(c)(3). During the year ended June 30, 2021, Hill reported no unrelated business taxable income which is defined by the IRS as gross income derived from any unrelated trade or business that is not substantially related to the organization's tax-exempt purpose. Accordingly, no provision for income taxes has been recorded.

Hill adopted the provisions of FASB ASC 740, *Accounting for Uncertainty in Income Taxes*. Under this provision, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained. The implementation had no impact on Hill's financial statements. Hill does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. Hill is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax years in progress. At June 30, 2021, Hill had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

The preparation of Hill's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amounts of revenues and expenses included in the statement of activities. Actual results could differ from those estimates.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Hill adopted the new standard effective July 1, 2020, the first day of Hill's fiscal year, using the full retrospective adoption approach. The adoption of the ASU had no impact on net assets as of July 1, 2020 as the revenue recognition guidance under the ASU did not change the timing of Hill's revenue recognition.

Revenue Recognition

Hill accounts for revenue in accordance with FASB ASC 606, *Revenue from Contracts with Customers*, in the related school period. At the inception of each contract with a customer, Hill determines the performance obligations under the contract and the contract's transaction price. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is defined as the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when the performance obligation is satisfied.

The majority of Hill's contracts have a single performance obligation as the promise to transfer services is not separately identifiable from other promises in the contracts and is, therefore, not distinct. Hill's performance obligations are satisfied over time as work progresses based on the transfer of control of services to its customers.

Tuition and Fees

Hill entered into contracts with families to provide highly differentiated instruction to their students who have specific learning differences or attention deficit disorders and guide them to develop into confident, independent thinkers. Hill offers a half-day program to students in grades 1-12 during the school year and a five-week program of daily instruction in reading, writing, and math in rising 1-8 grades during the summer. Revenues from these services are recognized over time as the year progresses and Hill satisfies the performance obligation.

Student Enrichment

Hill entered into contracts with families to provide individual tutoring and small-group classes that are built upon research, individualized instruction, and successful teaching techniques. Revenue from these services are recognized over time as the tutoring services commence and invoices are submitted to families at the agreed upon tutoring rate and Hill satisfies the performance obligation.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Professional Development

Hill entered into contracts with districts, schools and educators to provide a range of online, self-paced, and blended professional development experiences, with a particular focus on reading, writing, math, executive function, and meeting the needs of students with learning differences and/or attention challenges. Revenues from these services are recognized over time as the services commence and invoices are submitted to the districts, schools, or educators at the agreed upon rate and Hill satisfies the performance obligation.

2. Availability and Liquidity

The following represents Hill's financial assets as of June 30, 2021:

Financial Assets at Year-End:

Cash and Cash Equivalents	\$ 5,201,275
Tuition Receivable – Net	90,715
Other Accounts Receivable	133,224
Pledges Receivable – Current	325,151
Investments	<u>12,857,903</u>

Total Financial Assets	18,608,268
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Less Amounts not Available to Meet General Expenditures over the Next Twelve Months:

Net Assets with Donor Restrictions	(7,005,832)
Board-Designated Funds	(2,286,487)
Perpetual Endowments	<u>(6,020,553)</u>

Financial Assets Available to Meet General Expenditures Over the Next Twelve Months

\$ 3,295,396

Hill's board-designated funds of \$2,286,487 as of June 30, 2021 is subject to the Board's spending policy. Although the Organization does not intend to spend from this board-designated fund (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

Hill has a formal liquidity policy, whereas the total target minimum for the liquidity fund and Board-designated operating reserves is equal to 3 months of average recurring operating costs, of which there should be a minimum of 2 months of average recurring operating costs in the liquidity fund.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

3. Concentration of Credit Risk

Hill occasionally maintains deposits in excess of federally insured limits. Accounts at each institution are insured by the Federal Deposit Insurance Corporations up to \$250,000. FASB ASC 825, *Financial Instruments*, identifies these items as a concentration of credit risk requiring disclosure, regardless of risk. The uninsured balance at June 30, 2021 was \$4,224,067. The risk is managed by maintaining all deposits in high quality financial institutions.

4. Pledges Receivable

Pledges receivable represent unconditional pledges from various organizations and individuals. Pledges are recorded after discounting to the present value of the future cash flows using a discount rate of 5% for the year ended June 30, 2021.

Pledges receivable at June 30, 2021 are as follows:

Receivable in Less Than One Year	\$ 325,151
Receivable in More Than One Year	<u>10,333</u>
	335,484
Less Discounts to Present Value	(1,004)
Less Allowance for Doubtful Pledges	<u>(467)</u>
	<u><u>\$ 334,013</u></u>

5. Investments

The following schedule summarizes the investment return and its classification in the statements of activities for the year ended June 30, 2021:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Investment Income, Net of Fees of \$54,168	\$ (4,645)	\$ (29,675)	\$ (34,320)
Realized and Unrealized Gains	<u>536,356</u>	<u>2,274,031</u>	<u>2,810,387</u>
	<u><u>\$ 531,711</u></u>	<u><u>\$ 2,244,356</u></u>	<u><u>\$ 2,776,067</u></u>

The composition of investments at June 30, 2021 is as follows:

Equity Funds	\$ 6,162,107
Bond Funds	1,772,113
Investments in Trusts Held by Outside Agencies	<u>4,923,683</u>
	<u><u>\$ 12,857,903</u></u>

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. Fair Value Measurements

FASB ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Hill believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth the level within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2021:

	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Total
Investments in Trusts:		
<i>Equity Securities</i>	\$ 3,708,595	\$ 3,708,595
<i>Mutual Funds</i>	1,215,088	1,215,088
Total Assets in Fair Value Hierarchy	4,923,683	4,923,683
Investments Measured at Net Asset Value		7,934,220
Investments at Fair Value	\$ 4,923,683	\$ 12,857,903

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7. Endowment Fund

Hill's endowment consists of 20 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In accordance with the Uniform Prudent and Management of Institutional Funds Act ("UPMIFA"), Hill has exercised prudence and appropriate care and its investment actions and decisions are based solely on the best interests of the Organization. Hill has managed its funds as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. UPMIFA requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of Hill's investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to Hill. In making and implementing investment decisions, Hill has a duty to diversify the investments unless, under special circumstances, the purposes of the Organization are better served without diversifying.

Endowment net assets as of June 30, 2021 consist of the following:

	<u>With Donor Restriction</u>
Donor Restricted Endowment Funds	
Accumulated Investment Gains	\$ 4,586,298
Funds to be Kept in Perpetuity	<u>5,996,706</u>
Total	<u>\$ 10,583,004</u>

Changes in the endowment net assets for the year ended June 30, 2021 are as follows:

	<u>With Donor Restriction</u>
Endowment Fund Net Assets, June 30, 2020	\$ 8,644,714
Contributions	21,688
Investment Return	2,244,356
Appropriation of Endowment Assets for Expenditure	<u>(327,754)</u>
Endowment Fund Net Assets, June 30, 2021	<u>\$ 10,583,004</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below what the donor requires Hill to retain as funds kept in perpetuity. Deficiencies of this nature result from unfavorable market fluctuations and would be included in purpose restricted net assets. As of June 30, 2021, there were no deficiencies.

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7. Endowment Fund (Continued)

Hill has adopted investment and spending policies where the objective is to preserve and enhance the purchasing power of its investment portfolio over time and to provide a dependable source of income for current operations, as needed. Under this policy, the endowment assets are invested in an allocation of approximately 50 - 90% equity exposure, 0 – 40% diversifying strategies exposure, and 10 - 40% in fixed income exposure.

It is the long-term policy of Hill to annually withdraw and transfer to the operating budget 4.5% of a trailing three-year average of the endowment's market value. At the Board's discretion, for certain periods the spending rate may be set higher or lower than 4.5%, however, under no circumstances will the spending rate be higher than 6.5%, while the minimum spending rate is 0%.

8. Revenue Bonds Payable

In March 2008, Hill issued revenue bonds in the amount of \$5,000,000 to finance the construction of a new building, improvements to the existing building, and purchase of equipment. In August 2017, Hill refinanced its revenue bonds payable with a new lender. The revenue bonds were refinanced for \$3,700,000, with monthly payments of \$25,003, at a fixed interest rate of 2.69%, secured by a deed of trust on the land and building; and maturing in August 2032. The balance of revenue bonds payable, net of bond issuance costs, at June 30, 2021 was \$2,820,801

Future maturities of the revenue bonds payable are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2022	\$ 225,540
2023	231,682
2024	237,992
2025	244,473
2026	251,131
Thereafter	1,700,174
Less: Unamortized Bond Issuance Costs	<u>(70,191)</u>
	<u>\$ 2,820,801</u>

The revenue bonds agreement provides for certain restrictive covenants. At June 30, 2021, these covenants have been met. The revenue bond is secured by assets with a carrying value of \$6,452,027 at June 30, 2021.

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9. Note Payable

In April 2020, Hill entered into a note payable agreement of \$824,765 with a financial institution through the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act. In May 2020, Hill paid \$100,000 on the note payable to the financial institution. The entire outstanding balance of the note payable, \$724,765, has been classified as current within the Statement of Financial Position and accrues interest at a fixed rate of 1.00% through maturity in April 2022. Subsequent to June 30, 2021, Hill received full forgiveness of the outstanding balance from the Small Business Administration (see Note 16).

10. Designated Net Assets

Designated net assets are those funds that the Board of Directors has set aside for the following purposes as of June 30, 2021:

Operating Reserves	\$ 1,290,166
Capital Reserves	180,308
Outreach	649,059
Financial Aid	108,460
Other	<u>58,494</u>
	<u>\$ 2,286,487</u>

11. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as follows:

Subject to Expenditure for Specified Purpose:

Professional Development	\$ 603,938
Student Financial Aid	913,794
Student Enrichment	88,450
Research, Development and Technology	397,810
Master Mentor	27,775
Student Programs	13,483
General Operating	54,358
Other	<u>10,000</u>
	<u>2,109,608</u>

Subject to the Passage of Time:

Promises to Give that May be Restricted by Donors, Which are Unavailable for Expenditure Until Due	<u>333,773</u>
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11. Net Assets with Donor Restrictions (Continued)

Endowments:

Subject to Appropriation and Expenditure when a Specified
Event Occurs:

Restricted by Donors for:

Available for General Use	1,947,756
Student Financial Aid and Scholarships	1,626,630
Master Mentor Programs	429,238
Faculty Development	566,803
Other	<u>15,871</u>
	<u>4,586,298</u>

Endowments:

Subject to Endowment Spending Policy and Appropriation:

Available for General Use	3,433,469
Student Financial Aid and Scholarships	1,507,230
Master Mentor Programs	500,000
Faculty Development	507,657
Other	<u>48,350</u>
	<u>5,996,706</u>

Total Endowments	<u>10,583,004</u>
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\$ 13,026,385

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30, 2021:

Satisfaction of Purpose Restrictions:

Professional Development	\$ 241,776
Work in Progress – Software	166,640
General Operating	605,183
Student Enrichment	4,556
Student Financial Aid	157,558
Research, Development and Technology	147,440
Other	<u>9,209</u>

Total	<u><u>\$ 1,332,362</u></u>
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12. Employee Retirement Plan

Hill participates in a multi-employer defined contribution retirement plan for all of its employees. Employees are eligible to defer and contribute a portion of their compensation to the plan. Hill matches the employees' contributions from 5% to 7.5% of gross salary, based on years of service. Total employer matching contributions expense for the year ended June 30, 2021 was \$216,909.

13. Lease Commitments

Hill has entered into three non-cancelable operating leases for copiers. Rent expense totaled \$19,768 for the year ended June 30, 2021.

Future minimum payment requirements on operating leases are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2022	\$ 19,231
2023	12,538
2024	<u>7,659</u>
	<u>\$ 39,428</u>

14. Commitments, Contingencies and Uncertainties

Uncertainties

As a result of the COVID-19 pandemic in the United States, economic uncertainties have arisen which may have a negative impact on Hill's financial results in the future. The extent of the impact of COVID-19 on the operational and financial performance will depend on certain developments, including duration of the pandemic, impact on students, employees and vendors, all of which are uncertain at this time. The extent to which COVID-19 may impact the Hill's financial condition or results in the future is uncertain.

15. Gift-In-Kind

Hill reports gifts of furniture, equipment and other nonmonetary contributions as support without donor restriction unless explicit donor stipulations specify how the donated assets must be used. Hill recognizes contributions of services received if such services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not contributed. During the year ended June 30, 2021, Hill recognized gift-in-kind revenue – property and equipment of \$54,422 related to goods and services.

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16. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through September 22, 2021, which is the date the financial statements were available to be issued.

On August 10, 2021, Hill received full forgiveness from the Small Business Administration on the Organization's note payable through the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act.