

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

Financial Statements

June 30, 2022

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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

Opinion

We have audited the accompanying financial statements of The Hill Center, Inc. D/B/A Hill Learning Center (a non-profit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Hill Center, Inc. D/B/A Hill Learning Center 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 audit opinion.

Responsibilities of Management 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, 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 Center, Inc. D/B/A Hill Learning Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' report that includes our opinion. 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 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, 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 Center, Inc. D/B/A Hill Learning Center'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 Center, Inc. D/B/A Hill Learning Center'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.

Thomas, Judy & Dick, P.A.

Durham, North Carolina
September 20, 2022

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF FINANCIAL POSITION
June 30, 2022

	Without Donor Restriction	With Donor Restriction	Total
<u>ASSETS</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 3,111,058	\$ 2,171,596	\$ 5,282,654
Tuition Receivable, Net	67,976		67,976
Other Accounts Receivable	96,219		96,219
Prepaid Expenses	89,213		89,213
Pledges Receivable - Current	18,800	151,888	170,688
Investments	1,974,032	9,067,329	11,041,361
	<u>5,357,298</u>	<u>11,390,813</u>	<u>16,748,111</u>
Total Current Assets			
	<u>5,357,298</u>	<u>11,390,813</u>	<u>16,748,111</u>
Property and Equipment:			
Land	201,331		201,331
Land Improvements	50,000		50,000
Building and Improvements	9,414,468		9,414,468
Equipment	1,065,455		1,065,455
Furniture and Fixtures	370,203		370,203
Software	632,314		632,314
Work in Progress - Equipment	42,699		42,699
	<u>11,776,470</u>	<u></u>	<u>11,776,470</u>
Less Accumulated Depreciation	<u>5,147,565</u>	<u></u>	<u>5,147,565</u>
Net Property and Equipment	<u>6,628,905</u>	<u></u>	<u>6,628,905</u>
Other Assets:			
Pledges Receivable - Long Term Portion, Net	<u></u>	<u>24,495</u>	<u>24,495</u>
Total Other Assets	<u></u>	<u>24,495</u>	<u>24,495</u>
Total Assets	<u><u>\$ 11,986,203</u></u>	<u><u>\$ 11,415,308</u></u>	<u><u>\$ 23,401,511</u></u>

	Without Donor Restrictions	With Donor Restrictions	Total
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Accounts Payable	\$ 188,985	\$	\$ 188,985
Accrued Salaries and Other Expenses	78,655		78,655
Revenue Bonds Payable, Current Portion	231,682		231,682
Deferred Revenue - Tuition and Fees, Current Portion	1,770,826		1,770,826
Deferred Revenue - Workshops	165,221		165,221
Total Current Liabilities	2,435,369		2,435,369
Noncurrent Liabilities:			
Deferred Revenue - Tuition and Fees, Net	131,798		131,798
Revenue Bonds Payable, Net	2,370,369		2,370,369
Total Noncurrent Liabilities	2,502,167		2,502,167
Total Liabilities	4,937,536		4,937,536
Net Assets:			
Without Donor Restrictions:			
Undesignated	1,047,781		1,047,781
Designated by the Board	1,974,032		1,974,032
Investment in Plant, Net of Debt	4,026,854		4,026,854
With Donor Restrictions:			
Perpetual in Nature		6,177,493	6,177,493
Purpose Restrictions		5,237,815	5,237,815
Total Net Assets	7,048,667	11,415,308	18,463,975
Total Liabilities and Net Assets	\$ 11,986,203	\$ 11,415,308	\$ 23,401,511

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF ACTIVITIES
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Student Programs:			
Tuition and Fees	\$ 4,043,586	\$	\$ 4,043,586
Less: Financial Aid	362,601		362,601
Tuition and Fees, Net	3,680,985		3,680,985
Student Enrichment Revenue	843,663		843,663
Total Student Programs Revenue	4,524,648		4,524,648
Professional Development Revenues	1,277,877		1,277,877
Contributions	223,057	897,570	1,120,627
Investment Losses	(263,286)	(1,371,129)	(1,634,415)
Forgiveness of Note Payable	724,765		724,765
Other Income	2,481		2,481
Total Revenue and Support (Losses)	6,489,542	(473,559)	6,015,983
Net Assets Released from Restrictions	1,137,518	(1,137,518)	
Total Revenue and Net Assets Released from Restrictions	7,627,060	(1,611,077)	6,015,983
Program Expenses:			
Student Programs	4,443,706		4,443,706
Professional Development	2,050,818		2,050,818
Supporting Services:			
Administration	965,015		965,015
Fundraising	339,547		339,547
Total Expenses	7,799,086		7,799,086
Change in Net Assets	(172,026)	(1,611,077)	(1,783,103)
Net Assets, Beginning of Year	7,220,693	13,026,385	20,247,078
Net Assets, End of Year	\$ 7,048,667	\$ 11,415,308	\$ 18,463,975

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	Program					
	Student Programs	Professional Development	Total Program Support	Administration	Fundraising	Total
Salaries	\$ 3,039,701	\$ 994,092	\$ 4,033,793	\$ 460,058	\$ 219,844	\$ 4,713,695
Retirement Plan Contributions	141,289	50,265	191,554	24,109	10,155	225,818
Other Employee Benefits	278,908	77,482	356,390	93,112	20,842	470,344
Payroll Taxes	219,181	69,795	288,976	30,944	14,929	334,849
Accounting and Legal Fees	470	4,872	5,342	24,740		30,082
Advertising	10,315		10,315	64,593		74,908
Consulting and Contracted Services	27,625	475,569	503,194	52,550	4,500	560,244
Instructional and Office Supplies	43,388	3,882	47,270	6,396	187	53,853
Technology and Equipment	43,112	45,496	88,608	51,292	658	140,558
Business Systems and Tools	44,559	3,462	48,021	34,999	16,967	99,987
Travel	2,073	1,674	3,747	212	183	4,142
Employee Professional Development	39,905	2,032	41,937	1,469	25	43,431
Events and Meals	13,296		13,296	5,379	5,431	24,106
Dues and Subscriptions	10,303	3,436	13,739	1,603	440	15,782
Facilities Expense	93,228	25,551	118,779	18,749	6,605	144,133
Utilities and Maintenance	147,808	46,391	194,199	22,225	11,992	228,416
Telephone	30,876	12,261	43,137	3,195	2,777	49,109
Depreciation	200,251	207,188	407,439	30,110	16,247	453,796
Interest Expense	49,634	22,902	72,536	5,360	2,892	80,788
Bad Debts				2,457		2,457
Miscellaneous	7,784	4,468	12,252	31,463	4,873	48,588
Total Expenses	<u>\$ 4,443,706</u>	<u>\$ 2,050,818</u>	<u>\$ 6,494,524</u>	<u>\$ 965,015</u>	<u>\$ 339,547</u>	<u>\$ 7,799,086</u>

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF CASH FLOWS
Year Ended June 30, 2022

Cash Flows from Operating Activities:	
Change in Net Assets	\$ (1,783,103)
Adjustments to Reconcile Change in Net Assets to Net	
Cash Provided by Operating Activities:	
Depreciation	453,796
Amortization of Bond Issuance Costs	6,286
Net Realized and Unrealized Losses on Investments	1,604,136
Contributions Restricted for Long-Term Purposes	(164,120)
Forgiveness of Note Payable	(724,765)
Changes in Assets and Liabilities that Provided (Used) Cash:	
Tuition Receivable	22,739
Other Accounts Receivable	37,005
Prepaid Expenses	(25,538)
Pledges Receivable	138,830
Accounts Payable	71,652
Accrued Salaries and Other Expenses	4,294
Deferred Revenue - Tuition and Fees	416,445
Deferred Revenue - Workshops	25,451
Net Cash Provided by Operating Activities	<u>83,108</u>
Cash Flows from Investing Activities:	
Purchases of Property and Equipment	(153,219)
Net Investment Activity, Purchases of Investments	
and Proceeds from Sales of Investments	<u>212,406</u>
Net Cash Provided by Investing Activities	<u>59,187</u>
Cash Flows from Financing Activities:	
Contributions Restricted for Long-Term Purposes	164,120
Payments on Bonds Payable	<u>(225,036)</u>
Net Cash Used in Financing Activities	<u>(60,916)</u>
Increase in Cash and Cash Equivalents	81,379
Cash and Cash Equivalents, Beginning of Year	<u>5,201,275</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 5,282,654</u></u>
Supplemental Disclosure of Cash Flow Information:	
Cash Paid During the Year for Interest	<u><u>\$ 75,458</u></u>

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205 - *Not-for-Profit Entities*. ASC 958-205 requires that non-for-profit organizations provide a statement of financial position, a statement of activities, a statement of functional expenses, and a statement of cash flows. ASC 958-205 requires classification of an organization’s net assets, revenues and expenses according to the following net asset classifications:

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. Summary of Significant Accounting Policies (Continued)

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.

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 \$1,471,989 at June 30, 2022.

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. Hill uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on historical collection rates and management's analysis of specific promises made.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. Summary of Significant Accounting Policies (Continued)

Investments

Investments consist primarily of assets invested in marketable equity funds and fixed income funds. The Organization accounts for investments in accordance with FASB 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 fixed income funds be measured at fair value in the statement of financial position. Fair value of marketable equity funds and fixed income 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, 2022 was \$453,796.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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, 2022.

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
Telephone	Square Footage
Depreciation	Square Footage
Interest Expense	Square Footage

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$74,908 for the year ended June 30, 2022.

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, 2022, 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, 2022, 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, 2022

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.

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 and schools 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 and schools at the agreed upon tutoring rate and Hill satisfies the performance obligation.

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.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. Summary of Significant Accounting Policies (Continued)

Contract Balances

Billed receivables (accounts receivable) are the result of revenue recognition, billings, and timing of payment receipts. Billed receivables represent unconditional rights to consideration under the terms of the contract and include amounts billed and currently due to Hill. Contract liabilities (deferred revenue) are recorded when Hill receives cash payments in advance of Hill satisfying performance obligations under the contractual agreements.

2. Availability and Liquidity

The following represents Hill's financial assets as of June 30, 2022:

Financial Assets at Year-End:

Cash and Cash Equivalents	\$ 5,282,654
Tuition Receivable – Net	67,976
Other Accounts Receivable	96,219
Pledges Receivable – Current	170,688
Investments	<u>11,041,361</u>

Total Financial Assets	16,658,898
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Less Amounts not Available to Meet General Expenditures over the Next Twelve Months:

Net Assets with Donor Restrictions	(5,237,815)
Board-Designated Funds	(1,974,032)
Perpetual Endowments	<u>(6,177,493)</u>

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

\$ 3,269,558

Hill's board-designated funds of \$1,974,032 as of June 30, 2022 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, 2022

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, 2022 was \$4,483,093. 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, 2022.

Pledges receivable at June 30, 2022 are as follows:

Receivable in Less Than One Year	\$ 170,688
Receivable in More Than One year	<u>27,500</u>
	198,188
Less Discounts to Present Value	(1,716)
Less Allowance for Doubtful Pledges	<u>(1,289)</u>
	<u>\$ 195,183</u>

5. Investments

The following schedule summarizes the investment return and its classification in the statements of activities for the year ended June 30, 2022:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Investment Losses, Net of Fees of \$57,392	\$ (4,530)	\$ (25,749)	\$ (30,279)
Realized and Unrealized Losses	<u>(258,756)</u>	<u>(1,345,380)</u>	<u>(1,604,136)</u>
	<u>\$ (263,286)</u>	<u>\$ (1,371,129)</u>	<u>\$ (1,634,415)</u>

The composition of investments at June 30, 2022 is as follows:

Equity Funds	\$ 5,885,236
Fixed Income Funds	1,138,088
Investments in Trusts Held by Outside Agencies	<u>4,018,037</u>
	<u>\$ 11,041,361</u>

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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, Hill Learning Center's investments at fair value as of June 30, 2022:

	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Total
Investments in Trusts:		
<i>Equity Securities</i>	\$ 3,118,357	\$ 3,118,357
<i>Mutual Funds</i>	899,680	899,680
Total Assets in Fair Value Hierarchy	4,018,037	4,018,037
Investments Measured at Net Asset Value		7,023,324
Investments at Fair Value	\$ 4,018,037	\$ 11,041,361

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7. Endowment Fund

Hill's endowment consists of 22 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 Hill Learning Center. 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 Hill Learning Center's are better served without diversifying.

Endowment net assets as of June 30, 2022 consist of the following:

	<u>With Donor Restriction</u>
Donor Restricted Endowment Funds	
Accumulated Investment Gains	\$ 2,889,886
Funds to be Kept in Perpetuity	<u>6,177,493</u>
Total	<u>\$ 9,067,379</u>

Changes in the endowment net assets for the year ended June 30, 2022 are as follows:

	<u>With Donor Restriction</u>
Endowment Fund Net Assets, June 30, 2021	\$ 10,583,004
Transfers	16,667
Contributions	164,120
Investment Losses	(1,371,129)
Appropriation of Endowment Assets for Expenditure	<u>(325,283)</u>
Endowment Fund Net Assets, June 30, 2022	<u>\$ 9,067,379</u>

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7. Endowment Fund (Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below what the donor requires Hill Learning Center to retain as funds in perpetuity. Deficiencies of this nature result from unfavorable market fluctuations and would be included in purpose restricted net assets. As of June 30, 2022, there were no deficiencies.

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, 2022 was \$2,602,051.

Future maturities of the revenue bonds payable are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2023	\$ 231,682
2024	237,992
2025	244,473
2026	251,131
2027	257,971
Thereafter	1,442,706
Less: Unamortized Bond Issuance Costs	<u>(63,904)</u>
	<u>\$ 2,602,051</u>

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8. Revenue Bonds Payable (Continued)

The revenue bonds agreement provides for certain restrictive covenants. At June 30, 2022, these covenants have been met. The revenue bond is secured by assets with a carrying value of \$6,244,489 at June 30, 2022.

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. On August 10, 2021, Hill received full forgiveness of \$724,765 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. This was classified as forgiveness of note payable in the accompanying statement of activities.

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, 2022:

Operating Reserves	\$ 1,096,811
Capital Reserves	158,686
Outreach	571,053
Financial Aid	95,573
Other	<u>51,909</u>
	<u><u>\$ 1,974,032</u></u>

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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	\$ 611,129
Student Financial Aid	1,056,304
Student Enrichment	80,347
Research, Development and Technology	326,226
Furthering Access	50,000
Master Mentor	9,650
Student Programs	5,100
General Operating	13,825
Other	<u>18,965</u>
	<u>2,171,546</u>

Subject to the Passage of Time:

Promises to Give that May be Restricted by Donors, Which are Unavailable for Expenditure Until Due	<u>176,383</u>
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Endowments:

Subject to Appropriation and Expenditure when a Specified
Event Occurs:

Restricted by Donors for:	
Available for General Use	987,305
Student Financial Aid and Scholarships	1,137,993
Master Mentor Programs	319,053
Faculty Development	437,221
Other	<u>8,314</u>
	<u>2,889,886</u>

Endowments:

Subject to Endowment Spending Policy and Appropriation:

Available for General Use	3,433,469
Student Financial Aid and Scholarships	1,684,393
Master Mentor Programs	500,000
Faculty Development	511,231
Other	<u>48,400</u>
	<u>6,177,493</u>
Total Endowments	<u>9,067,379</u>

\$ 11,415,308

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11. Net Assets with Donor Restrictions (Continued)

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, 2022:

Satisfaction of Purpose Restrictions:	
Professional Development	\$ 229,145
General Operating	512,510
Student Enrichment	43,344
Student Financial Aid	117,048
Student Programs	8,081
Research, Development and Technology	184,265
Furthering Access	25,000
Master Mentor	<u>18,125</u>
Total	<u>\$ 1,137,518</u>

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, 2022 was \$225,818.

13. Lease Commitments

Hill has entered into two non-cancelable operating leases for copiers. Rent expense totaled \$19,724 for the year ended June 30, 2022.

Future minimum payment requirements on operating leases are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2023	\$ 12,538
2024	<u>7,659</u>
	<u>\$ 20,197</u>

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14. 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 20, 2022, which is the date the financial statements were available to be issued.