

THE HILL CENTER, INC.

Financial Statements

June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Hill Center, Inc.
Durham, North Carolina

We have audited the accompanying financial statements of The Hill Center, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Thomas, Judy & Packer, P.A.

August 27, 2018

THE HILL CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>ASSETS</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 1,553,078	\$ 1,244,990	\$ 9,245	\$ 2,807,313
Tuition Receivable - Net of Allowance for Doubtful Accounts of \$16,000 in 2018 and 2017	74,220			74,220
Other Accounts Receivable	28,249			28,249
Prepaid Expenses	80,642			80,642
Pledges Receivable - Current	58,787	132,488		191,275
Investments	2,178,503	2,574,863	5,943,523	10,696,889
Total Current Assets	3,973,479	3,952,341	5,952,768	13,878,588
Property and Equipment:				
Land	201,331			201,331
Land Improvements	50,000			50,000
Building and Improvements	9,207,579			9,207,579
Equipment	1,518,420			1,518,420
Furniture and Fixtures	276,741			276,741
Software	116,689			116,689
	11,370,760			11,370,760
Less Accumulated Depreciation	4,532,853			4,532,853
Net Property and Equipment	6,837,907			6,837,907
Other Assets:				
Pledges Receivable - Long Term Portion, Net of Allowance for Doubtful Accounts of \$6,699 in 2018 and \$2,594 in 2017		122,274		122,274
Total Other Assets		122,274		122,274
Total Assets	\$ 10,811,386	\$ 4,074,615	\$ 5,952,768	\$ 20,838,769

2017

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 1,022,883	\$ 1,321,579	\$ 920	\$ 2,345,382
150,197			150,197
30,344			30,344
80,781			80,781
107,100	198,530		305,630
<u>2,005,805</u>	<u>2,403,279</u>	<u>5,943,523</u>	<u>10,352,607</u>
<u>3,397,110</u>	<u>3,923,388</u>	<u>5,944,443</u>	<u>13,264,941</u>
201,331			201,331
50,000			50,000
9,207,579			9,207,579
1,441,970			1,441,970
276,741			276,741
116,689			116,689
<u>11,294,310</u>			<u>11,294,310</u>
<u>4,135,017</u>			<u>4,135,017</u>
<u>7,159,293</u>			<u>7,159,293</u>
	<u>49,277</u>		<u>49,277</u>
	<u>49,277</u>		<u>49,277</u>
<u>\$ 10,556,403</u>	<u>\$ 3,972,665</u>	<u>\$ 5,944,443</u>	<u>\$ 20,473,511</u>

See Accompanying Notes

THE HILL CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017
(Continued)

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts Payable	\$ 164,312	\$	\$	\$ 164,312
Accrued Salaries and Other Expenses	64,132			64,132
Revenue Bonds Payable, Current Portion	207,607			207,607
Deferred Revenue - Tuition and Fees	1,035,673			1,035,673
Deferred Revenue - Workshops	174,500			174,500
Total Current Liabilities	1,646,224			1,646,224
Revenue Bonds Payable	3,234,275			3,234,275
Total Liabilities	4,880,499			4,880,499
Net Assets:				
Unrestricted				
Undesignated	375,407			375,407
Designated	2,178,502			2,178,502
Investment in Plant, Net of Debt	3,376,978			3,376,978
Temporarily Restricted		4,074,615		4,074,615
Permanently Restricted			5,952,768	5,952,768
Total Net Assets	5,930,887	4,074,615	5,952,768	15,958,270
 Total Liabilities and Net Assets	 <u>\$ 10,811,386</u>	 <u>\$ 4,074,615</u>	 <u>\$ 5,952,768</u>	 <u>\$ 20,838,769</u>

2017

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 96,093	\$	\$	\$ 96,093
93,602			93,602
168,789			168,789
968,780			968,780
<u>1,327,264</u>			<u>1,327,264</u>
<u>3,340,880</u>			<u>3,340,880</u>
<u>4,668,144</u>			<u>4,668,144</u>
353,160			353,160
2,005,805			2,005,805
3,529,294			3,529,294
	3,972,665		3,972,665
		5,944,443	5,944,443
<u>5,888,259</u>	<u>3,972,665</u>	<u>5,944,443</u>	<u>15,805,367</u>
<u>\$ 10,556,403</u>	<u>\$ 3,972,665</u>	<u>\$ 5,944,443</u>	<u>\$ 20,473,511</u>

See Accompanying Notes

THE HILL CENTER, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2018 and 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:				
Tuition and Fees	\$ 3,867,997	\$	\$	\$ 3,867,997
Less: Financial Aid	284,990			284,990
	3,583,007			3,583,007
Contributions	349,182	876,732	8,325	1,234,239
Student Enrichment Revenue	739,038			739,038
Educator Professional Development Revenue	247,859			247,859
Investment Returns	174,525	602,504		777,029
Other Income	57,536			57,536
Total Revenue	5,151,147	1,479,236	8,325	6,638,708
Net Assets Released from Restrictions	1,377,286	#####		
Total Revenue and Net Assets Released from Restrictions	6,528,433	101,950	8,325	6,638,708
Expenses and Losses:				
Program Services:				
Instruction	5,149,934			5,149,934
Supporting Services:				
Administration	1,054,732			1,054,732
Fundraising	281,139			281,139
Impairment Loss on Property and Equipment				
Total Expenses and Losses	6,485,805			6,485,805
Change in Net Assets	42,628	101,950	8,325	152,903
Net Assets, Beginning of Year	5,888,259	3,972,665	5,944,443	15,805,367
Net Assets, End of Year	<u>\$ 5,930,887</u>	<u>\$ 4,074,615</u>	<u>\$ 5,952,768</u>	<u>\$ 15,958,270</u>

2017

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 3,565,036	\$	\$	\$ 3,565,036
274,104			274,104
3,290,932			3,290,932
317,536	1,971,039	35,150	2,323,725
773,566			773,566
292,641			292,641
234,804	887,857		1,122,661
34,568			34,568
4,944,047	2,858,896	35,150	7,838,093
1,941,613	(1,941,613)		
6,885,660	917,283	35,150	7,838,093
5,042,929			5,042,929
1,103,847			1,103,847
333,721			333,721
1,123,063			1,123,063
7,603,560			7,603,560
(717,900)	917,283	35,150	234,533
6,606,159	3,055,382	5,909,293	15,570,834
<u>\$ 5,888,259</u>	<u>\$ 3,972,665</u>	<u>\$ 5,944,443</u>	<u>\$ 15,805,367</u>

See Accompanying Notes

THE HILL CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Program Services	Supporting Services		Total
	Instruction	Administration	Fundraising	
Salaries	\$ 3,036,240	\$ 526,831	\$ 158,630	\$ 3,721,701
Pension Plan Contributions	133,532	28,109	7,430	169,071
Other Employee Benefits	315,329	66,003	21,464	402,796
Payroll Taxes	222,936	35,318	11,353	269,607
Accounting Fees		38,148		38,148
Legal Fees	859	1,767		2,626
Advertising	85,181	15	2,248	87,444
Consulting and Professional Fees	89,557	13,488		103,045
Supplies and Instructional Materials	91,256	5,840	303	97,399
Contracted Services	41,997		12,200	54,197
Telephone	32,129	6,402	278	38,809
Postage and Shipping	1,463	5,158	1,458	8,079
Rental Fees	21,627			21,627
Repairs and Maintenance	51,344	29,793	7,086	88,223
Printing and Publications	34,391	5,000	7,031	46,422
Travel	32,779	1,154	513	34,446
Conferences, Conventions and Meetings	47,888			47,888
Facilities Expense	145,243	19,716	672	165,631
Utilities	256,472	61,922	3,975	322,369
Depreciation	306,638	85,435	5,763	397,836
Interest Expense	160,981	44,852	3,025	208,858
Bad Debts Expense		38,766		38,766
Miscellaneous	42,092	41,015	37,710	120,817
Total Expenses	<u>\$ 5,149,934</u>	<u>\$ 1,054,732</u>	<u>\$ 281,139</u>	<u>\$ 6,485,805</u>

See Accompanying Notes

THE HILL CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2017

	Program Services	Supporting Services		Total
	Instruction	Administration	Fundraising	
Salaries	\$ 3,146,071	\$ 532,973	\$ 216,513	\$ 3,895,557
Pension Plan Contributions	140,904	23,982	5,842	170,728
Other Employee Benefits	349,230	102,109	21,121	472,460
Payroll Taxes	238,193	36,011	15,611	289,815
Accounting Fees		26,023		26,023
Legal Fees	1,310			1,310
Advertising	42,500	3,755		46,255
Consulting and Professional Fees	67,542	1,459		69,001
Supplies and Instructional Materials	78,728	6,164	369	85,261
Contracted Services	70,323		4,334	74,657
Telephone	34,312	8,679	291	43,282
Postage and Shipping	2,423	5,615	3,567	11,605
Rental Fees	36,241			36,241
Repairs and Maintenance	40,330	47,604	13,189	101,123
Printing and Publications	31,347		6,150	37,497
Travel	26,769	2,401	1,805	30,975
Conferences, Conventions and Meetings	38,646			38,646
Facilities Expense	114,837	19,034	392	134,263
Utilities	240,734	53,394	3,364	297,492
Depreciation	306,712	94,928	6,374	408,014
Interest Expense		38,227		38,227
Miscellaneous	35,777	101,489	34,799	172,065
Total Expenses	\$ 5,042,929	\$ 1,103,847	\$ 333,721	\$ 6,480,497

See Accompanying Notes

THE HILL CENTER, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 152,903	\$ 234,533
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	397,836	408,014
Impairment Loss on Property and Equipment		1,123,063
Amortization of Bond Issuance Costs	125,569	11,193
Net Realized and Unrealized Gains on Investments	(679,742)	(1,019,413)
Contributions Restricted for Long-Term Purposes	(878,102)	(2,246,782)
Changes in Assets and Liabilities that Provided (Used) Cash:		
Tuition Receivable	75,977	(25,098)
Other Accounts Receivable	2,095	1,904
Prepaid Expenses	139	6,611
Pledges Receivable	41,358	613,301
Accounts Payable	68,219	(66,561)
Accrued Salaries and Other Expenses	(29,470)	(201,603)
Accrued Interest Payable		(1,649)
Deferred Revenue - Tuition and Fees	66,893	338,639
Deferred Revenue - Grants		(350,000)
Deferred Revenue - Workshops	174,500	
Net Cash Used in Operating Activities	<u>(481,825)</u>	<u>(1,173,848)</u>
Cash Flows from Investing Activities:		
Purchases of Property and Equipment	(76,450)	(260,714)
Net Investment Activity, Purchases of Investments and Proceeds from Sales of Investments	<u>335,460</u>	<u>281,013</u>
Net Cash Provided by Investing Activities	<u>259,010</u>	<u>20,299</u>
Cash Flows from Financing Activities:		
Contributions Restricted for Long-Term Purposes	878,102	2,246,782
Borrowings on Bonds Payable	70,000	
Payments on Bonds Payable	(169,071)	(400,000)
Payment of Bond Issuance Costs	<u>(94,285)</u>	
Net Cash Provided by Financing Activities	<u>684,746</u>	<u>1,846,782</u>
Net Change in Cash and Cash Equivalents	461,931	693,233
Cash and Cash Equivalents, Beginning of Year	<u>2,345,382</u>	<u>1,652,149</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,807,313</u>	<u>\$ 2,345,382</u>
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for Interest	<u>\$ 83,289</u>	<u>\$ 28,683</u>

See Accompanying Notes

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies

Operations

The Hill Center, Inc. ("Hill Center") is an independent day school that offers half-day programs to students in pre-kindergarten through grade twelve with learning disabilities or attention deficit disorders. The Hill Center also offers student enrichment and professional development programs. The financial statements of the Hill Center have been prepared on the accrual basis of accounting.

Financial Statement Presentation

The Hill Center has adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Financial Statements of Not-for-Profit Organizations*. The Hill Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Hill Center is required to present a statement of cash flows.

The Hill Center has adopted FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Cash Equivalents

For purposes of the statements of cash flows, the Hill Center 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. The Hill Center had cash equivalents of \$1,077,583 and \$1,271,598 at June 30, 2018 and 2017, respectively.

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.

Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Hill Center that is, in substance, unconditional. An allowance for uncollectible promises to give is recorded based on an analysis of collection histories and on reviews of the credit worthiness of major donors. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

Investments

Investments consist primarily of assets invested in marketable equity funds and bond funds. The Hill Center 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 bond funds be measured at fair value in the statements 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 in the statements of changes in net assets.

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 statements of financial position.

Investments held in trust by others consist of the Hill Center's share of certain trusts for which the Hill Center 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 the Hill Center to capitalize all capital 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 years ended June 30, 2018 and 2017 was \$397,836 and \$408,014, respectively.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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. During 2017, the Hill Center recognized an impairment loss of \$1,123,063 on work in progress of software costs. During 2017, the Hill Center determined that the commercial viability of the software was limited and calculated the estimated realizable value. There was no impairment loss recognized in 2018.

Unearned Tuition and Fees

Tuition and registration fees collected in advance are recognized over the related school term.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$87,444 and \$46,255 for the years ended June 30, 2018 and 2017, respectively.

Income Taxes

The Hill Center is exempt from income taxes as a not-for-profit organization under Internal Revenue Service (“IRS”) code section 501(c)(3). During the years ended June 30, 2018 and 2017, the Hill Center 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.

The Hill Center 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 taken for tax return purposes when it is more likely than not the position will be sustained. The implementation had no impact on the Hill Center’s financial statements. The Hill Center does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. The Hill Center is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax years in progress. At June 30, 2018, the Hill Center has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Use of Estimates and Assumptions

The preparation of the Hill Center’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 statements of financial position and the reported amounts of revenues and expenses included in the statements of activities. Actual results could differ from those estimates.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications have been made to prior year presentation to conform to the current year presentation with no effect on previously reported change in net assets or total net assets.

2. Concentration of Credit Risk

The Hill Center 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, 2018 was \$600,883. The risk is managed by maintaining all deposits in high quality financial institutions.

3. Pledges Receivable

Pledges receivable represent unconditional promises to give 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 years ended June 30, 2018 and 2017.

Pledges receivable at June 30 are as follows:

	2018	2017
Receivable in Less Than One Year	\$ 191,275	\$ 305,630
Receivable in More Than One year	149,000	60,000
	340,275	365,630
Less Discounts to Present Value	(20,027)	(8,129)
Less Allowance for Doubtful Pledges	(6,699)	(2,594)
	\$ 313,549	\$ 354,907

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

4. Endowment Fund

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

The Hill Center has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hill Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hill Center in a manner consistent with the standards of prudence prescribed by UPMIFA.

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

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Donor designated	\$ 2,574,863	\$ 5,943,523	\$ 8,518,386
Total	\$ 2,574,863	\$ 5,943,523	\$ 8,518,386
	2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor designated	\$ 2,403,279	\$ 5,943,523	\$ 8,346,802
Total	\$ 2,403,279	\$ 5,943,523	\$ 8,346,802

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

4. Endowment Fund (Continued)

Changes in the endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Fund Net Assets, June 30, 2016	\$ 1,933,344	\$ 5,908,518	\$ 7,841,862
Investment Return	887,857		887,857
Contributions		35,005	35,005
Appropriation of Endowment Assets for Expenditure	<u>(417,922)</u>	<u> </u>	<u>(417,922)</u>
Endowment Fund Net Assets, June 30, 2017	2,403,279	5,943,523	8,346,802
Investment Return	602,504		602,504
Appropriation of Endowment Assets for Expenditure	<u>(430,920)</u>	<u> </u>	<u>(430,920)</u>
Endowment Fund Net Assets, June 30, 2018	<u>\$ 2,574,863</u>	<u>\$ 5,943,523</u>	<u>\$ 8,518,386</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below what the donor requires the Hill Center to retain as permanently restricted. Deficiencies of this nature result from unfavorable market fluctuations and would be included in temporarily restricted net assets. As of June 30, 2018 and 2017, there were no deficiencies.

The Hill Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in an allocation of approximately 60 - 80% equity exposure and 20 - 40% in fixed income exposure.

It is the long-term policy of the Hill Center 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%. It is the policy of the Hill Center to protect the endowment so that the corpus shall remain perpetually intact.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
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5. Investments

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment Income, Net of Fees of \$50,021	\$ 29,284	\$ 68,003	\$	\$ 97,287
Realized and Unrealized Gains	145,241	534,501	_____	679,742
	\$ 174,525	\$ 602,504	\$ _____	\$ 777,029
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment Income, Net of Fees of \$45,929	\$ 25,445	\$ 77,802	\$	\$ 103,247
Realized and Unrealized Losses	209,359	810,055	_____	1,019,414
	\$ 234,804	\$ 887,857	\$ _____	\$ 1,122,661

The composition of investments at June 30 is as follows:

	Fair Value	
	2018	2017
Equity Funds	\$ 4,725,090	\$ 4,322,783
Bond Funds	1,749,649	1,801,527
Investments in Trusts Held by Outside Agencies	4,222,150	4,228,297
	\$10,696,889	\$10,352,607

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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 the Hill Center 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 HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

6. Fair Value Measurements (Continued)

The following tables set forth the level within the fair value hierarchy, the Hill Center's investments at fair value as of June 30, 2018 and 2017:

	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Total
<u>June 30, 2018</u>		
Investments in Trusts:		
<i>STIF and Money Market</i>	\$ 56,803	\$ 56,803
<i>Equity Securities</i>	1,474,061	1,474,061
<i>Mutual Funds</i>	2,691,286	2,691,286
Total Assets in Fair Value Hierarchy	4,222,150	4,222,150
Investments Measured at Net Asset Value		6,474,739
Investments at Fair Value	\$ 4,222,150	\$ 10,696,889
	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Total
<u>June 30, 2017</u>		
Investments in Trusts:		
<i>STIF and Money Market</i>	\$ 74,182	\$ 74,182
<i>Equity Securities</i>	2,056,305	2,056,305
<i>Mutual Funds</i>	2,097,810	2,097,810
Total Assets in Fair Value Hierarchy	4,228,297	4,228,297
Investments Measured at Net Asset Value		6,124,310
Investments at Fair Value	\$ 4,228,297	\$ 10,352,607

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
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7. Revenue Bonds Payable

In March 2008, the Hill Center 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. These revenue bonds were payable interest only monthly at an adjusted rate not to exceed 12% with principal payments annually. In August 2017, the Hill Center 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 land and building improvements; and maturing in August 2032. The balance of revenue bonds payable, net of bond issuance costs, at June 30, 2018 and 2017 was \$3,441,882 and \$3,509,669, respectively.

Future maturities of the revenue bonds payable are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2019	\$ 207,607
2020	213,243
2021	219,071
2022	225,027
2023	231,155
Thereafter	2,434,826
Less: Unamortized Bond Issuance Costs	<u>(89,047)</u>
	<u><u>\$ 3,441,882</u></u>

The revenue bonds agreement provides for certain restrictive covenants. At June 30, 2018, these covenants have been met. The revenue bond was secured by a deed of trust on the land and building with a carrying value of \$6,566,059 at June 30, 2018.

8. Restrictions on Assets

The financial statements report amounts separately by class of net assets:

- a. Unrestricted net assets are not subject to donor-imposed stipulations and are currently available for use in the operations of the Hill Center under the direction of the board.

Designated net assets are those funds that the Board of Directors has set aside for specific purposes in the amount of \$2,178,502 and \$2,005,805 as of June 30, 2018 and 2017, respectively.

Investment in Plant are those resources that have been invested in land, buildings and equipment (net of related debt) in the amount of \$3,376,978 and \$3,529,294 as of June 30, 2018 and 2017, respectively.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

8. Restrictions on Assets (Continued)

- b. Temporarily restricted net assets are those stipulated by donors for specific operating purposes or those not currently available for use until commitments regarding their use have been fulfilled.

Temporarily restricted net assets are composed of the following as of June 30:

	<u>2018</u>	<u>2017</u>
George Watts Hill Foundation, Held in Trust	\$ 537,829	\$ 526,913
Hill Center Endowment, Held in Trust	524,781	541,846
Glaxo Student Scholarship Fund	377,828	354,955
Buck Family Fund	55,120	48,254
Timothy Whiting Memorial Scholarship Fund	40,393	36,127
Lucy Davis Memorial Scholarship Fund	10,330	9,120
Anonymous Financial Aid Fund	48,477	42,652
Margaret Holt Brown Fund	5,968	5,244
Kirby Faculty Development Fund	279,853	245,808
Kirby Financial Aid Fund	41,041	35,993
Byron and Sissy Thomas Family Fund	7,206	6,322
Bruce Heim Foundation Endowment	12,330	10,792
Brumley Family Memorial Endowment	8,467	7,332
Financial Aid Endowment	209,430	181,418
Master Mentor Program Endowment	163,537	138,945
Fields Family NC Teacher		27,065
Fields Family Financial Aid		8,571
Fields Family Endowment	47,544	
Glaxo Fund Endowment	100,270	86,759
Peyton Strickland Memorial Scholarship Fund	101,340	87,795
Waynell Morris Endowment Fund	1,279	431
Heard Financial Aid Endowment	<u>1,840</u>	<u>937</u>
Total Appreciation of Temporarily Restricted Net Assets	2,574,863	2,403,279
Programs:		
Grants and Gifts	<u>1,499,752</u>	<u>1,569,386</u>
TOTAL	<u>\$ 4,074,615</u>	<u>\$ 3,972,665</u>

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

8. Restrictions on Assets (Continued)

- c. Permanently restricted net assets are those stipulated by donors that they be maintained permanently by the Hill Center. Generally, the donors of these assets permit the Hill Center to use all or part of the income earned on related investments for general or specific purposes.

Permanently restricted net assets are composed of the following as of June 30:

	<u>2018</u>	<u>2017</u>
George Watts Hill Foundation, Held in Trust	\$ 1,110,371	\$ 1,110,371
Hill Center Endowment, Held in Trust	2,049,168	2,049,168
Glaxo Student Scholarship Fund	135,514	135,514
Buck Family Fund	100,000	100,000
Timothy Whiting Memorial Scholarship Fund	51,515	50,415
Lucy Davis Memorial Scholarship Fund	17,195	17,015
Anonymous Financial Aid Fund	83,972	83,972
Margaret Holt Brown Fund	10,288	10,288
Kirby Faculty Development Fund	500,156	500,156
Kirby Financial Aid Fund	77,500	75,000
Byron and Sissy Thomas Family Fund	12,700	12,700
Bruce Heim Foundation Endowment	25,000	25,000
Brumley Family Memorial Endowment	18,643	18,643
Financial Aid Endowment	523,330	523,330
Peyton Strickland Memorial Scholarship Fund	202,761	202,866
Master Mentor Program Endowment	500,000	500,000
Fields Family NC Teacher		200,000
Fields Family Financial Aid		45,000
Fields Family Endowment	245,000	
Glaxo Fund Endowment	250,000	250,000
Waynell Morris Fund Endowment	28,050	25,000
Heard Financial Aid Endowment	<u>11,605</u>	<u>10,005</u>
 TOTAL	 <u>\$ 5,952,768</u>	 <u>\$ 5,944,443</u>

9. Pension Plan

The Hill Center participates in a multi-employer defined contribution pension plan for all academic and non-academic personnel. The Hill Center matches employees' contributions from 5% to 7.5% of gross salary, based on years of service. Total pension expense for the years ended June 30, 2018 and 2017 was \$169,071 and \$170,728, respectively.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
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10. Lease Commitments

The Hill Center has entered into several non-cancelable operating leases for various pieces of equipment. Rent expense totaled \$48,695 and \$64,630 for the years ended June 30, 2018 and 2017, respectively.

Future minimum payment requirements on operating leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2019	\$ 27,420
2020	16,938
2021	<u>10,964</u>
	<u>\$ 55,322</u>

11. Commitments and Contingencies

Grant Awards

The Hill Center has grants for specific purposes that are subject to periodic reviews by grantor agencies. Such reviews could result in requests for reimbursement by grantor agencies for costs which may be disallowed as appropriate expenditures under grant terms. The Hill Center's management believes disallowances, if any, will be insignificant.

12. 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 August 27, 2018, which is the date the financial statements were available to be issued.