

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
Financial Statements
June 30, 2020

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Thomas, Judy & Tucker, P.A.
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, 2020, 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/BA Hill Learning Center as of June 30, 2020, 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
October 14, 2020

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF FINANCIAL POSITION
June 30, 2020

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 2,565,527	\$ 2,021,150	\$ 4,586,677
Tuition Receivable - Net of Allowance for Doubtful Accounts of \$16,000	95,589		95,589
Other Accounts Receivable	106,533		106,533
Prepaid Expenses	49,740		49,740
Pledges Receivable - Current	1,775	525,846	527,621
Investments	2,401,502	8,641,114	11,042,616
	<u>5,220,666</u>	<u>11,188,110</u>	<u>16,408,776</u>
Total Current Assets			
Property and Equipment:			
Land	201,331		201,331
Land Improvements	50,000		50,000
Building and Improvements	9,292,617		9,292,617
Equipment	944,683		944,683
Furniture and Fixtures	334,627		334,627
Software	465,674		465,674
Work in Progress - Software		166,640	166,640
	<u>11,288,932</u>	<u>166,640</u>	<u>11,455,572</u>
Less Accumulated Depreciation			
	<u>4,714,543</u>		<u>4,714,543</u>
Net Property and Equipment			
	<u>6,574,389</u>	<u>166,640</u>	<u>6,741,029</u>
Other Assets:			
Pledges Receivable - Long Term Portion, Net of Allowance for Doubtful Accounts of \$12,798		243,159	243,159
Total Other Assets			
		<u>243,159</u>	<u>243,159</u>
Total Assets			
	<u>\$ 11,795,055</u>	<u>\$ 11,597,909</u>	<u>\$ 23,392,964</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Accounts Payable	\$ 96,435	\$	\$ 96,435
Accrued Salaries and Other Expenses	78,206		78,206
Revenue Bonds Payable, Current Portion	237,592		237,592
Note Payable	724,765		724,765
Deferred Revenue - Tuition and Fees	1,167,805		1,167,805
Deferred Revenue - Workshops	66,730		66,730
	<hr/>		<hr/>
Total Current Liabilities	2,371,533		2,371,533
Revenue Bonds Payable	2,795,993		2,795,993
	<hr/>		<hr/>
Total Liabilities	5,167,526		5,167,526
Net Assets:			
Without Donor Restrictions:			
Undesignated	685,226		685,226
Designated by the Board	2,401,502		2,401,502
Investment in Plant, Net of Debt	3,540,801		3,540,801
With Donor Restrictions:			
Perpetual in Nature		5,979,518	5,979,518
Purpose Restrictions		5,618,391	5,618,391
	<hr/>	<hr/>	<hr/>
Total Net Assets	6,627,529	11,597,909	18,225,438
	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 11,795,055</u>	<u>\$ 11,597,909</u>	<u>\$ 23,392,964</u>

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Student Programs:			
Tuition and Fees	\$ 4,042,132	\$	\$ 4,042,132
Less: Financial Aid	348,090		348,090
Tuition and Fees, Net	3,694,042		3,694,042
Student Enrichment Revenue	801,323		801,323
Total Student Programs Revenue	4,495,365		4,495,365
Professional Development Revenues	747,023		747,023
Contributions	476,420	1,024,715	1,501,135
Gift-in-Kind Revenue - Property and Equipment	24,600	75,000	99,600
Investment Returns	56,210	116,832	173,042
Other Income	58,027		58,027
Total Revenue and Support	5,857,645	1,216,547	7,074,192
Net Assets Released from Restrictions	968,320	(968,320)	
Total Revenue and Net Assets Released from Restrictions	6,825,965	248,227	7,074,192
Program Expenses:			
Student Programs	3,939,537		3,939,537
Professional Development	1,385,637		1,385,637
Supporting Services:			
Administration	1,065,268		1,065,268
Fundraising	300,003		300,003
Total Expenses and Loss	6,690,445		6,690,445
Change in Net Assets	135,520	248,227	383,747
Net Assets, Beginning of Year	6,492,009	11,349,682	17,841,691
Net Assets, End of Year	\$ 6,627,529	\$ 11,597,909	\$ 18,225,438

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	Program			Administration	Fundraising	Total
	Student Programs	Professional Development	Total Program Support			
Salaries	\$ 2,782,507	\$ 623,763	\$ 3,406,270	\$ 519,426	\$ 203,645	\$ 4,129,341
Retirement Plan Contributions	129,982	34,041	164,023	29,432	8,704	202,159
Other Employee Benefits	264,206	48,692	312,898	86,641	25,975	425,514
Payroll Taxes	205,325	42,733	248,058	34,220	13,530	295,808
Accounting and Legal Fees	5,163		5,163	32,500		37,663
Advertising	11,469	1,130	12,599	43,570		56,169
Consulting and Contracted Services	195	159,245	159,440	11,480	3,271	174,191
Instructional and Office Supplies	27,298	7,074	34,372	9,474	199	44,045
Technology and Equipment	38,744	78,556	117,300	80,771	7,439	205,510
Printing and Publications		21,302	21,302		3,936	25,238
Travel	12,234	27,686	39,920	10,394	1,330	51,644
Employee Professional Development	43,917	5,274	49,191	16,938	343	66,472
Events and Meals	9,091	19,066	28,157	7,960	16,132	52,249
Dues and Subscriptions	36,223	4,628	40,851	4,057	3,709	48,617
Facilities Expense	8,724	3,065	11,789	8,679	719	21,187
Utilities and Maintenance	161,310	56,737	218,047	57,736	3,582	279,365
Depreciation	137,774	231,756	369,530	72,724	4,682	446,936
Interest Expense	56,649	19,904	76,553	15,066	970	92,589
Bad Debts Expense				2,635		2,635
Miscellaneous	8,726	985	9,711	21,565	1,837	33,113
Total Expenses	<u>\$ 3,939,537</u>	<u>\$ 1,385,637</u>	<u>\$ 5,325,174</u>	<u>\$ 1,065,268</u>	<u>\$ 300,003</u>	<u>\$ 6,690,445</u>

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
STATEMENT OF CASH FLOWS
Year Ended June 30, 2020

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 383,747
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:	
Depreciation	446,936
Amortization of Bond Issuance Costs	6,286
Net Realized and Unrealized Gains on Investments	(157,327)
Gift-in-Kind Revenue - Property and Equipment	(75,000)
Contributions Restricted for Long-Term Purposes	(822,437)
Changes in Assets and Liabilities that Provided (Used) Cash:	
Tuition Receivable	(27,128)
Other Accounts Receivable	(46,882)
Prepaid Expenses	1,228
Pledges Receivable	(161,100)
Accounts Payable	(41,484)
Accrued Salaries and Other Expenses	4,243
Deferred Revenue - Tuition and Fees	137,716
Deferred Revenue - Workshops	(4,016)
Net Cash Used in Operating Activities	<u>(355,218)</u>
Cash Flows from Investing Activities:	
Purchases of Property and Equipment	(87,574)
Net Investment Activity, Purchases of Investments and Proceeds from Sales of Investments	<u>343,137</u>
Net Cash Provided by Investing Activities	<u>255,563</u>
Cash Flows from Financing Activities:	
Contributions Restricted for Long-Term Purposes	822,437
Borrowings on Note Payable	824,765
Payments on Bonds Payable	(195,708)
Payments on Note Payable	<u>(100,000)</u>
Net Cash Provided by Financing Activities	<u>1,351,494</u>
Increase in Cash and Cash Equivalents	1,251,839
Cash and Cash Equivalents, Beginning of Year	<u>3,334,839</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 4,586,678</u></u>
Supplemental Disclosure of Cash Flow Information	
Cash Paid During the Year for Interest	<u><u>\$ 79,331</u></u>

See Accompanying Notes

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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, 2020

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 \$1,432,245 at June 30, 2020.

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.

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.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

1. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

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, 2020 was \$446,936.

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, 2020.

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.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

1. Summary of Significant Accounting Policies (Continued)

Functional Allocations of Expenses (Continued)

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 \$56,169 for the year ended June 30, 2020.

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, 2020, 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, 2020, Hill had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

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

Revenue from tuition and fees, student enrichment programs and other income is recognized over the period in which it is earned.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

1. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information and also impacts the recognition, measurement, presentation and disclosure of financial instruments. The Organization adopted the new standard effective July 1, 2019, the first day of the Organization's fiscal year, using the prospective adoption cumulative-effect approach. The adoption of the ASU has no impact on net assets as of July 1, 2019 as the guidance under the ASU did not impact the measurement of the Organization's financial instruments.

In June 2018, the FASB issued Accounting Standards Update ("ASU") 2018-08, *Accounting Guidance for Contributions Received and Made*. The ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) transactions within the scope of Topic 958, Not-For-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The implementation of this standard has no impact on the Organization's financial statements.

2. Availability and Liquidity

The following represents Hill's financial assets as of June 30, 2020:

Financial Assets at Year-End:	
Cash and Cash Equivalents	\$ 4,586,677
Tuition Receivable – Net	95,589
Other Accounts Receivable	106,533
Pledges Receivable – Current	527,621
Investments	<u>11,042,616</u>
Total Financial Assets	16,359,036
Less Amounts not Available to Meet General Expenditures over the Next Twelve Months:	
Net Assets with Donor Restrictions	(5,618,391)
Board-Designated Funds	(2,401,502)
Perpetual Endowments	<u>(5,979,518)</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 2,359,625</u>

Hill's board-designated funds of \$2,401,502 as of June 30, 2020 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.

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

2. Availability and Liquidity (Continued)

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.

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, 2020 was \$3,506,121. 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, 2020.

Pledges receivable at June 30, 2020 are as follows:

Receivable in Less Than One Year	\$	527,621
Receivable in More Than One year		<u>282,333</u>
		809,954
Less Discounts to Present Value		(26,376)
Less Allowance for Doubtful Pledges		<u>(12,798)</u>
	\$	<u>770,780</u>

5. Investments

The following schedule summarizes the investment return and its classification in the statements of activities for the year ended June 30, 2020:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Investment Income, Net of Fees of \$51,121	\$ 19,326	\$ (3,611)	\$ 15,715
Realized and Unrealized Gains	<u>36,884</u>	<u>120,443</u>	<u>157,327</u>
	<u>\$ 56,210</u>	<u>\$ 116,832</u>	<u>\$ 173,042</u>

THE HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

5. Investments (Continued)

The composition of investments at June 30, 2020 is as follows:

Equity Funds	\$ 4,991,929
Bond Funds	1,908,783
Investments in Trusts Held by Outside Agencies	<u>4,141,904</u>
	<u>\$ 11,042,616</u>

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 HILL CENTER, INC.
D/B/A HILL LEARNING CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

6. Fair Value Measurements (Continued)

The following tables set forth the level within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2020:

	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Total
Investments in Trusts:		
<i>STIF and Money Market</i>	\$ 260,599	\$ 260,599
<i>Equity Securities</i>	1,050,363	1,050,363
<i>Mutual Funds</i>	2,830,942	2,830,942
Total Assets in Fair Value Hierarchy	4,141,904	4,141,904
Investments Measured at Net Asset Value		6,900,712
Investments at Fair Value	\$ 4,141,904	\$ 11,042,616

7. Endowment Fund

Hill'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 Organization to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by Hill to function as endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization 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, Hill retained in perpetuity (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 retained in perpetuity is subject to appropriation until those amounts are appropriated for expenditure by Hill in a manner consistent with the standards of prudence prescribed by UPMIFA.

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7. Endowment Fund (Continued)

Endowment net assets as of June 30, 2020 consist of the following:

	<u>With Donor Restriction</u>
Donor Restricted Endowment Funds	
Accumulated Investment Gains	\$ 2,665,196
Funds to be Kept in Perpetuity	5,979,518
Total	\$ 8,644,714

Changes in the endowment net assets for the year ended June 30, 2020 are as follows:

	<u>With Donor Restriction</u>
Endowment Fund Net Assets, June 30, 2019	\$ 8,883,876
Contributions	18,600
Investment Return	116,832
Appropriation of Endowment Assets for Expenditure	(374,594)
Endowment Fund Net Assets, June 30, 2020	\$ 8,644,714

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, 2020, there were no deficiencies.

Hill 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 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%.

It is the policy of the Organization to protect the endowment so that the corpus shall remain perpetually intact.

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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 land and building improvements; and maturing in August 2032. The balance of revenue bonds payable, net of bond issuance costs, at June 30, 2020 was \$3,033,585.

Future maturities of the revenue bonds payable are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2021	\$ 237,592
2022	225,540
2023	231,682
2024	237,992
2025	244,473
Thereafter	1,932,781
Less: Unamortized Bond Issuance Costs	<u>(76,475)</u>
	<u>\$ 3,033,585</u>

The revenue bonds agreement provides for certain restrictive covenants. At June 30, 2020, 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 \$6,234,569 at June 30, 2020.

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 prior to year-end. Hill anticipates the entire outstanding balance of the note payable, \$724,765, will be forgiven in accordance with the regulations of the Paycheck Protection Program during the year ended June 30, 2021, and has been classified as current within the Statement of Financial Position. The note payable accrues interest at a fixed rate of 1.00% through maturity in April 2022.

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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, 2020:

Operating Reserves	\$ 1,060,417
Capital Reserves	704,169
Outreach	502,588
Financial Aid	85,240
Other	<u>49,088</u>
	<u>\$ 2,401,502</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	\$ 899,214
Student Financial Aid	737,302
Student Enrichment	101,716
Research, Development and Technology	111,311
Master Mentor	27,775
Software Development	166,640
General Operating	103,980
Other	<u>36,252</u>
	<u>2,184,190</u>

Subject to the Passage of Time:

Promises to Give that May be Restricted by Donors, Which are Unavailable for Expenditure Until Due	<u>769,005</u>
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Endowments:

Subject to Appropriation and Expenditure when a Specified
Event Occurs:

Restricted by Donors for:	
Available for General Use	1,054,224
Student Financial Aid and Scholarships	1,029,042
Master Mentor Programs	232,258
Faculty Development	324,965
Other	<u>24,707</u>

2,665,196

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11. Net Assets with Donor Restrictions (Continued)

Endowments:

Subject to Endowment Spending Policy and Appropriation:

Available for General Use	3,414,827
Student Financial Aid and Scholarships	1,478,027
Master Mentor Programs	500,000
Faculty Development	502,656
Other	<u>84,008</u>

5,979,518

Total Endowments	<u>8,644,714</u>
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\$ 11,597,909

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, 2020:

Satisfaction of Purpose Restrictions:

Professional Development	\$ 296,450
Software Development	18,516
General Operating	285,646
Student Enrichment	97,285
Student Financial Aid	208,823
Research, Development and Technology	58,600
Other	<u>3,000</u>

Total	<u>\$ 968,320</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, 2020 was \$202,159.

13. Lease Commitments

Hill has entered into two non-cancelable operating leases for copiers. Rent expense totaled \$23,584 for the year ended June 30, 2020.

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13. Lease Commitments (Continued)

Future minimum payment requirements on operating leases are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2021	\$ 21,005
2022	10,040
2023	<u>3,347</u>
	<u>\$ 34,392</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, 2020, Hill recognized gift-in-kind revenue – property and equipment of \$99,600 related to software development services and other goods and services.

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 October 14, 2020, which is the date the financial statements were available to be issued.