

THE HILL CENTER, INC.

Financial Statements

June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
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, 2016 and 2015, 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, 2016 and 2015, 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.

A handwritten signature in black ink that reads "Thomas, Judy & Ducke, P.A." The signature is written in a cursive style with a large initial 'T' and 'J'.

August 22, 2016

THE HILL CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,017,736	\$ 633,638	\$ 775	\$ 1,652,149
Tuition Receivable - Net of Allowance for Doubtful Accounts of \$16,000 in 2016 and 2015	125,099			125,099
Other Accounts Receivable	32,248			32,248
Prepaid Expenses	87,392			87,392
Pledges Receivable - Current Investments	479,808	387,002		866,810
	<u>1,772,345</u>	<u>1,933,344</u>	<u>5,908,518</u>	<u>9,614,207</u>
Total Current Assets	<u>3,514,628</u>	<u>2,953,984</u>	<u>5,909,293</u>	<u>12,377,905</u>
Property and Equipment:				
Land	201,331			201,331
Land Improvements	50,000			50,000
Building and Improvements	9,207,579			9,207,579
Equipment	1,441,970			1,441,970
Furniture and Fixtures	276,741			276,741
Work in Progress	979,037			979,037
	<u>12,156,658</u>			<u>12,156,658</u>
Less Accumulated Depreciation	<u>3,727,002</u>			<u>3,727,002</u>
Net Property and Equipment	<u>8,429,656</u>			<u>8,429,656</u>
Other Assets:				
Pledges Receivable - Long Term Portion, Net of Allowance for Doubtful Accounts of \$4,284 in 2016 and \$4,762 in 2015		101,398		101,398
Bond Issuance Costs - Net of Accumulated Amortization of \$83,894 in 2016 and \$72,701 in 2015	131,526			131,526
	<u>131,526</u>	<u>101,398</u>		<u>232,924</u>
Total Other Assets	<u>131,526</u>	<u>101,398</u>		<u>232,924</u>
Total Assets	<u>\$ 12,075,810</u>	<u>\$ 3,055,382</u>	<u>\$ 5,909,293</u>	<u>\$ 21,040,485</u>

2015

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 1,403,555	\$ 460,107	\$ 375	\$ 1,864,037
90,086			90,086
42,171			42,171
65,837			65,837
136,725	324,860		461,585
<u>1,803,947</u>	<u>2,342,867</u>	<u>5,908,518</u>	<u>10,055,332</u>
<u>3,542,321</u>	<u>3,127,834</u>	<u>5,908,893</u>	<u>12,579,048</u>
201,331			201,331
50,000			50,000
9,185,217			9,185,217
1,419,058			1,419,058
276,741			276,741
413,763			413,763
<u>11,546,110</u>			<u>11,546,110</u>
<u>3,306,099</u>			<u>3,306,099</u>
<u>8,240,011</u>			<u>8,240,011</u>
	90,476		90,476
<u>142,719</u>			<u>142,719</u>
<u>142,719</u>	<u>90,476</u>		<u>233,195</u>
<u>\$ 11,925,051</u>	<u>\$ 3,218,310</u>	<u>\$ 5,908,893</u>	<u>\$ 21,052,254</u>

See Accompanying Notes

THE HILL CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015
(Continued)

	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities:				
Accounts Payable	\$ 162,654	\$	\$	\$ 162,654
Accrued Salaries and Other Expenses	295,205			295,205
Accrued Interest Payable	1,649			1,649
Revenue Bonds Payable, Current Portion	200,000			200,000
Deferred Revenue - Tuition and Fees	630,143			630,143
Deferred Revenue - Grants	350,000			350,000
Total Current Liabilities	1,639,651			1,639,651
Revenue Bonds Payable	3,830,000			3,830,000
Total Liabilities	5,469,651			5,469,651
Net Assets:				
Unrestricted				
Undesignated	434,159			434,159
Designated	1,772,345			1,772,345
Investment in Plant, Net of Debt	4,399,655			4,399,655
Temporarily Restricted		3,055,382		3,055,382
Permanently Restricted			5,909,293	5,909,293
Total Net Assets	6,606,159	3,055,382	5,909,293	15,570,834
Total Liabilities and Net Assets	<u>\$ 12,075,810</u>	<u>\$ 3,055,382</u>	<u>\$ 5,909,293</u>	<u>\$ 21,040,485</u>

2015

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 80,995	\$	\$	\$ 80,995
301,689			301,689
864,600			864,600
<u>1,247,284</u>			<u>1,247,284</u>
<u>4,030,000</u>			<u>4,030,000</u>
<u>5,277,284</u>			<u>5,277,284</u>
633,810			633,810
1,803,946			1,803,946
4,210,011			4,210,011
	3,218,310		3,218,310
		5,908,893	5,908,893
<u>6,647,767</u>	<u>3,218,310</u>	<u>5,908,893</u>	<u>15,774,970</u>
<u>\$ 11,925,051</u>	<u>\$ 3,218,310</u>	<u>\$ 5,908,893</u>	<u>\$ 21,052,254</u>

See Accompanying Notes

THE HILL CENTER, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2016 and 2015

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:				
Tuition and Fees	\$ 3,455,938	\$	\$	\$ 3,455,938
Less: Financial Aid	260,472			260,472
	<u>3,195,466</u>			<u>3,195,466</u>
Contributions	224,501	1,554,813	400	1,779,714
Outreach Grant Revenue				
Outreach Student Enrichment Revenue	896,082			896,082
Outreach Professional Development Revenue	274,348			274,348
Investment Returns	(7,763)	(48,046)		(55,809)
Other Income	38,550			38,550
	<u>4,621,184</u>	<u>1,506,767</u>	<u>400</u>	<u>6,128,351</u>
Total Revenue				
Net Assets Released from Restrictions	<u>1,669,695</u>	<u>(1,669,695)</u>		
Total Revenue and Net Assets Released from Restrictions	<u>6,290,879</u>	<u>(162,928)</u>	<u>400</u>	<u>6,128,351</u>
Expenses:				
Program Services:				
Instruction	4,990,709			4,990,709
Supporting Services:				
Administration	1,057,985			1,057,985
Fundraising	283,793			283,793
	<u>6,332,487</u>			<u>6,332,487</u>
Total Expenses				
Change in Net Assets	(41,608)	(162,928)	400	(204,136)
Net Assets, Beginning of Year	<u>6,647,767</u>	<u>3,218,310</u>	<u>5,908,893</u>	<u>15,774,970</u>
Net Assets, End of Year	<u>\$ 6,606,159</u>	<u>\$ 3,055,382</u>	<u>\$ 5,909,293</u>	<u>\$ 15,570,834</u>

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 3,265,565	\$	\$	\$ 3,265,565
271,868			271,868
<u>2,993,697</u>			<u>2,993,697</u>
1,076,497	581,406	190	1,658,093
12,500			12,500
916,297			916,297
223,474			223,474
36,323	114,187		150,510
<u>38,598</u>			<u>38,598</u>
5,297,386	695,593	190	5,993,169
<u>1,244,016</u>	<u>(1,244,016)</u>		
<u>6,541,402</u>	<u>(548,423)</u>	<u>190</u>	<u>5,993,169</u>
4,790,910			4,790,910
1,022,993			1,022,993
<u>146,621</u>			<u>146,621</u>
5,960,524			5,960,524
580,878	(548,423)	190	32,645
<u>6,066,889</u>	<u>3,766,733</u>	<u>5,908,703</u>	<u>15,742,325</u>
<u>\$ 6,647,767</u>	<u>\$ 3,218,310</u>	<u>\$ 5,908,893</u>	<u>\$ 15,774,970</u>

See Accompanying Notes

THE HILL CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016

	Program Services	Supporting Services		Total
	Instruction	Administration	Fundraising	
Salaries	\$ 3,028,396	\$ 569,968	\$ 182,076	\$ 3,780,440
Pension Plan Contributions	142,192	23,798	7,374	173,364
Other Employee Benefits	347,933	47,827	12,992	408,752
Payroll Taxes	237,829	41,706	13,534	293,069
Accounting Fees		25,226		25,226
Legal Fees	11,040	1,125		12,165
Advertising	27,015	916	455	28,386
Consulting and Professional Fees	53,461	18,951		72,412
Supplies and Instructional Materials	110,883	6,888	314	118,085
Contracted Services	79,989		21,068	101,057
Telephone	43,189	4,647	476	48,312
Postage and Shipping	612	9,373	777	10,762
Rental Fees	36,409			36,409
Repairs and Maintenance	39,340	41,952	9,061	90,353
Printing and Publications	38,266		3,784	42,050
Travel	38,071	12,672	1,383	52,126
Conferences, Conventions and Meetings	49,008			49,008
Facilities Expense	54,415	48,033	340	102,788
Utilities	251,569	27,166	2,800	281,535
Depreciation	366,146	48,184	6,576	420,906
Amortization		11,193		11,193
Interest Expense		5,520		5,520
Miscellaneous	34,946	112,840	20,783	168,569
Total Expenses	<u>\$ 4,990,709</u>	<u>\$ 1,057,985</u>	<u>\$ 283,793</u>	<u>\$ 6,332,487</u>

See Accompanying Notes

THE HILL CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2015

	Program Services	Supporting Services		Total
	Instruction	Administration	Fundraising	
Salaries	\$ 2,947,769	\$ 471,600	\$ 89,992	\$ 3,509,361
Pension Plan Contributions	133,738	25,984	4,292	164,014
Other Employee Benefits	320,294	38,586	13,592	372,472
Payroll Taxes	230,685	35,610	6,904	273,199
Accounting Fees		21,708		21,708
Legal Fees	6,207	544		6,751
Advertising	44,795			44,795
Consulting and Professional Fees	107,973	126,366		234,339
Supplies and Instructional Materials	137,971	5,726	60	143,757
Contracted Services	27,917			27,917
Telephone	34,860	7,808	192	42,860
Postage and Shipping	1,044	9,095	98	10,237
Rental Fees	34,672			34,672
Repairs and Maintenance	99,569	43,420	5,505	148,494
Printing and Publications	7,989		85	8,074
Travel	53,024	2,449	81	55,554
Conferences, Conventions and Meetings	43,153	130	60	43,343
Facilities Expense	65,083	27,638	11,276	103,997
Utilities	116,991	34,840	1,885	153,716
Depreciation	344,809	56,398	3,653	404,860
Amortization		11,193		11,193
Interest Expense		1,979		1,979
Miscellaneous	32,367	101,919	8,946	143,232
Total Expenses	<u>\$ 4,790,910</u>	<u>\$ 1,022,993</u>	<u>\$ 146,621</u>	<u>\$ 5,960,524</u>

See Accompanying Notes

THE HILL CENTER, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (204,136)	\$ 32,645
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	420,906	404,860
Amortization	11,193	11,193
Net Realized and Unrealized (Gains) Losses on Investments	185,338	(31,771)
Contributions Restricted for Long-Term Purposes	(1,482,149)	(994,497)
Changes in Assets and Liabilities that Provided (Used) Cash:		
Tuition Receivable	(35,013)	(17,747)
Other Accounts Receivable	9,923	(11,795)
Prepaid Expenses	(21,555)	(42,106)
Pledges Receivable	(416,147)	482,729
Accounts Payable	81,659	(13,419)
Accrued Salaries and Other Expenses	(6,484)	26,268
Accrued Interest Payable	1,649	
Deferred Revenue - Tuition and Fees	(234,457)	(23,138)
Deferred Revenue - Grants	350,000	(250)
	<u>(1,339,273)</u>	<u>(177,028)</u>
Net Cash Used in Operating Activities		
Cash Flows from Investing Activities:		
Purchases of Property and Equipment	(610,551)	(375,841)
Net Investment Activity, Purchases of Investments and Proceeds from Sales of Investments	255,787	(333,215)
	<u>(354,764)</u>	<u>(709,056)</u>
Net Cash Used by Investing Activities		
Cash Flows Provided from Financing Activities:		
Contributions Restricted for Long-Term Purposes	1,482,149	994,497
Payments on Bonds Payable		(200,000)
	<u>1,482,149</u>	<u>794,497</u>
Net Cash Provided by Financing Activities		
Net Change in Cash and Cash Equivalents	(211,888)	(91,587)
Cash and Cash Equivalents, Beginning of Year	1,864,037	1,955,624
Cash and Cash Equivalents, End of Year	<u>\$ 1,652,149</u>	<u>\$ 1,864,037</u>
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for Interest	<u>\$ 3,871</u>	<u>\$ 1,979</u>

See Accompanying Notes

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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 diagnosed 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 statement 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.

Tuition Receivable

Accounts receivable are 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. Accounts receivable are written off when deemed uncollectible.

Recognition of Grant Support

The Hill Center recognizes grants to the extent that eligible grant costs are incurred. Receivables are recognized to the extent costs have been incurred, but not reimbursed. Deferred revenue represents grant advances which exceed eligible costs incurred.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

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.

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 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

Depreciation expense for the years ended June 30, 2016 and 2015 was \$420,906 and \$404,860, respectively.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

Impairment of Assets

Accounting principles generally accepted in the United States of America 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 were no impairment losses recognized in 2016 or 2015.

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 \$28,386 and \$44,795 for the years ended June 30, 2016 and 2015, respectively.

Bond Issuance Costs

Costs incurred in connection with obtaining financing through revenue bonds have been capitalized and are being amortized using the straight-line method over the life of the revenue bonds, which is twenty years.

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, 2016 and 2015, 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, 2016, the Hill Center has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

The preparation of the Hill Center's financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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 balance at June 30, 2016 was fully ensured. The cash balances are maintained at financial institutions with high credit-quality ratings and the Hill Center believes no significant risk of loss exists with respect to those balances.

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, 2016 and 2015.

Pledges receivable at June 30 are as follows:

	<u>2016</u>	<u>2015</u>
Receivable in Less Than One Year	\$ 866,810	\$ 461,585
Receivable in More Than One year	<u>120,000</u>	<u>100,000</u>
	986,810	561,585
Less Discounts to Present Value	(14,318)	(4,762)
Less Allowance for Doubtful Pledges	<u>(4,284)</u>	<u>(4,762)</u>
	<u>\$ 968,208</u>	<u>\$ 552,061</u>

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

4. Endowment Fund

The Hill Center's endowment consists of 19 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 accounting principles generally accepted in the United States of America, 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:

	2016		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated	\$ 1,933,344	\$	\$ 1,933,344
Donor designated		5,908,518	5,908,518
Total	<u>\$ 1,933,344</u>	<u>\$ 5,908,518</u>	<u>\$ 7,841,862</u>
	2015		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated	\$ 2,342,867	\$	\$ 2,342,867
Donor designated		5,908,518	5,908,518
Total	<u>\$ 2,342,867</u>	<u>\$ 5,908,518</u>	<u>\$ 8,251,385</u>

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

4. Endowment Fund (Continued)

Changes in the endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Fund net assets, June 30, 2014	\$ 2,640,705	\$ 5,908,518	\$ 8,549,223
Investment Return	114,187		114,187
Appropriation of endowment assets for expenditure	<u>(412,025)</u>	<u> </u>	<u>(412,025)</u>
Endowment Fund net assets, June 30, 2015	2,342,867	5,908,518	8,251,385
Investment Return	(48,046)		(48,046)
Appropriation of endowment assets for expenditure	<u>(361,477)</u>	<u> </u>	<u>(361,477)</u>
Endowment Fund net assets, June 30, 2016	<u>\$ 1,933,344</u>	<u>\$ 5,908,518</u>	<u>\$ 7,841,862</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 net assets. As of June 30, 2016 and 2015, 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
June 30, 2016 and 2015

5. Investments

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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment Income, Net of Fees of \$44,586	\$ 29,789	\$ 100,848	\$	\$ 130,637
Realized and Unrealized Losses	(37,552)	(148,894)		(186,446)
	\$ (7,763)	\$ (48,046)	\$	\$ (55,809)
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment Income, Net of Fees of \$43,852	\$ 22,655	\$ 96,084	\$	\$ 118,739
Realized and Unrealized Gains	13,668	18,103		31,771
	\$ 36,323	\$ 114,187	\$	\$ 150,510

The composition of investments at June 30 is as follows:

	Fair Value	
	2016	2015
Equity Funds	\$ 3,718,323	\$ 3,948,439
Bond Funds	1,820,881	1,807,677
Investments in Trusts Held by Outside Agencies	4,075,003	4,299,216
	\$ 9,614,207	\$ 10,055,332

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015:

	Fair Value as of June 30, 2016			Total
	Level 1	Level 2	Level 3	
<i>Financial Assets:</i>				
Equity Funds	\$	\$ 3,718,323	\$	\$ 3,718,323
Bond Funds		1,820,881		1,820,881
<i>Investments in Trusts:</i>				
STIF and Money Market	93,402			93,402
<i>Equity Securities:</i>				
Equities	1,477,092			1,477,092
Fixed Income	229,146			229,146
Government	718,239			718,239
<i>Mutual Funds:</i>				
Fixed Income	308,336			308,336
Emerging Markets	160,633			160,633
Mid Cap Growth	117,201			117,201
Small Cap Growth	160,441			160,441
Small Cap Blend	37,126			37,126
Small Cap Value	75,018			75,018
International	392,109			392,109
Long / Short	113,792			113,792
Multialternative	192,468			192,468
	<u>\$ 4,075,003</u>	<u>\$ 5,539,204</u>	<u>\$</u>	<u>\$ 9,614,207</u>

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

6. Fair Value Measurements (Continued)

	Fair Value as of June 30, 2015			Total
	Level 1	Level 2	Level 3	
<i>Financial Assets:</i>				
Equity Funds	\$	\$ 3,948,439	\$	\$ 3,948,439
Bond Funds		1,807,677		1,807,677
Investments in Trusts:				
STIF and Money Market	107,892			107,892
Equity Securities:				
Equities	1,485,599			1,485,599
Fixed Income	361,625			361,625
Government	491,703			491,703
Mutual Funds:				
Fixed Income	441,323			441,323
Emerging Markets	192,941			192,941
Mid Cap Growth	116,232			116,232
Small Cap Growth	122,502			122,502
Small Cap Blend	37,888			37,888
Small Cap Value	74,837			74,837
International	454,228			454,228
Long / Short	234,071			234,071
Multialternative	178,375			178,375
	<u>\$ 4,299,216</u>	<u>\$ 5,756,116</u>	<u>\$</u>	<u>\$10,055,332</u>

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

7. Intangible Assets

The Hill Center incurred costs of \$215,420 in connection with obtaining financing through the revenue bonds. These costs are being amortized over the life of the bonds (twenty years). Amortization expense related to these bond issuance costs was \$11,193 for the years ended June 30, 2016 and 2015.

The gross carrying amounts and accumulated amortization of the Hill Center's intangible assets as of June 30 are as follows:

	<u>Gross Useful Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Life Years</u>
<i>2016</i>				
Bond Issuance Costs	\$ <u>215,420</u>	\$ <u>83,894</u>	\$ <u>131,526</u>	20
<i>2015</i>				
Bond Issuance Costs	\$ <u>215,420</u>	\$ <u>72,701</u>	\$ <u>142,719</u>	20

The scheduled future amortization of intangible assets is as follows for the years ending June 30:

2017	\$ 11,193
2018	11,193
2019	11,193
2020	11,193
2021	11,193
Thereafter	<u>75,561</u>
	<u>\$ 131,526</u>

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

8. 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 are payable interest only monthly at an adjustable rate (0.04% at June 30, 2016) not to exceed 12%; principal payments due as indicated on the schedule below; supported by a standby letter of credit from the Hill Center's bank; final maturity date July 1, 2028. The balance of revenue bonds payable at June 30, 2016 and 2015 was \$4,030,000. A portion of the bonds mature each July, in annual amounts as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2017	\$ 200,000
2018	200,000
2019	300,000
2020	300,000
2021	300,000
Thereafter	<u>2,730,000</u>
	<u>\$ 4,030,000</u>

The revenue bonds agreement provides for certain restrictive covenants. At June 30, 2016, these covenants have been met.

9. 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 Trustees has set aside for specific purposes in the amount of \$1,772,345 and \$1,803,946 as of June 30, 2016 and 2015, respectively.

Investment in Plant are those resources that have been invested in land, buildings and equipment (net of related debt) in the amount of \$4,399,655 and \$4,210,011 as of June 30, 2016 and 2015, respectively.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

9. 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>2016</u>	<u>2015</u>
George Watts Hill Foundation, Held in Trust	\$ 448,373	\$ 535,687
Hill Center Endowment, Held in Trust	467,090	603,988
Glaxo Student Scholarship Fund	315,145	338,120
Buck Family Fund	36,277	43,177
Timothy Whiting Memorial Scholarship Fund	28,825	32,958
Lucy Davis Memorial Scholarship Fund	6,995	8,295
Anonymous Financial Aid Fund	32,473	38,363
Margaret Holt Brown Fund	3,976	4,753
Kirby Faculty Development Fund	185,750	222,848
Kirby Financial Aid Fund	27,142	32,240
Byron and Sissy Thomas Family Fund	4,778	5,665
Bruce Heim Foundation Endowment	8,057	9,666
Brumley Family Memorial Endowment	5,302	6,563
Financial Aid Endowment	130,163	158,710
Master Mentor Program Endowment	93,239	122,797
Fields Family NC Teacher	9,355	20,596
Fields Family Financial Aid	4,278	6,580
Glaxo Fund Endowment	62,110	76,702
Peyton Strickland Memorial Scholarship Fund	<u>64,016</u>	<u>75,159</u>
Total Appreciation of Temporarily Restricted Net Assets	<u>1,933,344</u>	<u>2,342,867</u>
Programs:		
Grants and Gifts	<u>1,122,038</u>	<u>875,443</u>
TOTAL	<u>\$ 3,055,382</u>	<u>\$ 3,218,310</u>

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

9. 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>2016</u>	<u>2015</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	50,315	50,015
Lucy Davis Memorial Scholarship Fund	17,015	16,915
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	75,000	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	202,821	202,821
Master Mentor / Training Endowment	500,000	500,000
Fields Family NC Teacher	200,000	200,000
Fields Family Financial Aid	45,000	45,000
Glaxo Fund Endowment	<u>250,000</u>	<u>250,000</u>
 TOTAL	 <u>\$ 5,909,293</u>	 <u>\$ 5,908,893</u>

10. Grant Awards

During the last several years, the Hill Center has received commitments for grants. The grants are not recorded as revenue in the statements of activities until costs are incurred because the grants are contingent upon approval of the progress of the programs. \$1,603,387 and \$500,667 were received from the grants during the years ended June 30, 2016 and 2015, respectively. \$350,000 and \$0 of these amounts are included in deferred revenue-grants in the statements of financial position at June 30, 2016 and 2015, respectively. The Hill Center received grant commitments of \$883,200 and \$324,860 during the years ended June 30, 2016 and 2015, respectively.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
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11. 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, 2016 and 2015 was \$173,364 and \$164,014, respectively.

12. Lease Commitments

The Hill Center has entered into several non-cancelable operating leases for various pieces of equipment. Rent expense totaled \$62,729 and \$60,097 for the years ended June 30, 2016 and 2015, respectively.

Future minimum payment requirements on operating leases are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2017	\$ 40,891
2018	13,533
2019	<u>2,921</u>
	<u>\$ 57,345</u>

13. 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.

Standby Letter of Credit

As discussed in Note 8, the Hill Center has secured the revenue bonds payable with a standby letter of credit issued by a bank totaling \$4,030,000 as of June 30, 2016. There were no outstanding amounts on the letter of credit as of June 30, 2016 and 2015. The letter of credit is secured by the assets of the Hill Center.

THE HILL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
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14. Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications had no impact on change in net assets or net assets.

15. 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 22, 2016, which is the date the financial statements were available to be issued.