

**HILLSBOROUGH STREET
COMMUNITY SERVICE CORPORATION**

FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION

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June 30, 2016

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Neal, Bradsher & Taylor, P.A.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hillsborough Street Community Service Corporation
Raleigh, North Carolina

We have audited the accompanying financial statements of Hillsborough Street Community Service Corporation (a North Carolina non-profit 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.

OFFICE LOCATIONS

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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.

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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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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American Institute of Certified
Public Accountants
North Carolina Association of
Certified Public Accountants
Association of Certified
Fraud Examiners
National Association of Certified
Valuation Analysts

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 Hillsborough Street Community Service Corporation 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.

Neal, Bradsher & Taylor

CERTIFIED PUBLIC ACCOUNTANTS
Durham, North Carolina

December 15, 2016

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2016 and 2015

	ASSETS	
	2016	2015
CURRENT ASSETS:		
Cash and cash equivalents	\$ 466 883	\$ 448 446
Accounts receivable	2 346	1 835
Prepaid expenses	2 175	2 175
Total Current Assets	471 404	452 456
 PROPERTY AND EQUIPMENT: (At Cost)		
Office equipment	14 570	14 570
Less: Accumulated depreciation	(9 328)	(7 850)
Net Property and Equipment	5 242	6 720
Total Assets	\$ 476 646	\$ 459 176

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 8 174	\$ -
 NET ASSETS:		
Unrestricted	468 472	459 176
Total Liabilities and Net Assets	\$ 476 646	\$ 459 176

See Notes to Financial Statements.

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION
 STATEMENTS OF ACTIVITIES
 For the Years Ended June 30, 2016 and 2015

	2016	2015
	UNRESTRICTED	UNRESTRICTED
SUPPORT AND REVENUES:		
Government appropriations	\$ 125 513	\$ 131 000
Contributions	164 110	111 700
Program service revenue	351 173	377 737
Interest income	56	168
Total Support and Revenues	640 852	620 605
EXPENSES:		
Program services	497 045	465 697
Management and general	129 428	109 384
Fundraising	5 083	3 735
Total Expenses	631 556	578 816
CHANGE IN NET ASSETS	9 296	41 789
NET ASSETS AT BEGINNING OF YEAR	459 176	417 387
NET ASSETS AT END OF YEAR	\$ 468 472	\$ 459 176

See Notes to Financial Statements.

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION
 STATEMENTS OF CASH FLOWS
 For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from program services	\$ 350 662	\$ 387 504
Cash received from grants and contributions	289 623	242 700
Cash received from interest income	56	168
Cash paid to employees and suppliers	<u>(621 904)</u>	<u>(579 014)</u>
Net Cash Provided by Operating Activities	<u>18 437</u>	<u>51 358</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash used for purchase of property and equipment	<u>-</u>	<u>(1 280)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	18 437	50 078
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>448 446</u>	<u>398 368</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 466 883</u>	<u>\$ 448 446</u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 9 296	\$ 41 789
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1 478	1 912
(Increase) decrease in Operating Assets:		
Accounts receivable	(511)	9 767
Increase (decrease) in Operating Liabilities:		
Accounts payable	<u>8 174</u>	<u>(2 110)</u>
Net Cash Provided by Operating Activities	<u>\$ 18 437</u>	<u>\$ 51 358</u>

See Notes to Financial Statements.

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION
 STATEMENTS OF FUNCTIONAL EXPENSES
 For the Years Ended June 30, 2016 and 2015

	2016			TOTAL
	PROGRAM	MANAGEMENT AND GENERAL	FUND- RAISING	
Salaries	\$ 153 214	\$ 34 473	\$ 3 830	\$ 191 517
Payroll taxes	12 767	2 873	319	15 959
Employee benefits	16 503	3 713	413	20 629
Marketing	69 802	-	-	69 802
Office supplies	-	3 092	-	3 092
Legal and accounting	-	26 028	-	26 028
Rent	20 848	4 691	521	26 060
Insurance	-	10 399	-	10 399
Depreciation	-	1 478	-	1 478
Program expenses	223 911	-	-	223 911
General and administrative expenses	-	42 681	-	42 681
	<u>\$ 497 045</u>	<u>\$ 129 428</u>	<u>\$ 5 083</u>	<u>\$ 631 556</u>

See Notes to Financial Statements.

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION
 STATEMENTS OF FUNCTIONAL EXPENSES (Continued)
 For the Years Ended June 30, 2016 and 2015

	2015			
	PROGRAM	MANAGEMENT AND GENERAL	FUND- RAISING	TOTAL
Salaries	\$ 110 302	\$ 24 818	\$ 2 758	\$ 137 878
Payroll taxes	8 946	2 013	223	11 182
Employee benefits	9 882	2 223	247	12 352
Marketing	36 481	-	-	36 481
Office supplies	-	3 030	-	3 030
Legal and accounting	-	22 379	-	22 379
Rent	20 289	4 565	507	25 361
Insurance	-	1 883	-	1 883
Depreciation	-	1 912	-	1 912
Program expenses	279 797	-	-	279 797
General and administrative expenses	-	46 561	-	46 561
	<u>\$ 465 697</u>	<u>\$ 109 384</u>	<u>\$ 3 735</u>	<u>\$ 578 816</u>

See Notes to Financial Statements.

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

1. NATURE OF ACTIVITIES:

The Hillsborough Street Community Service Corporation (the Corporation) is an independent, not for profit, business improvement district created by a partnership between the City of Raleigh, N.C. State University and the property owners and businesses on Hillsborough Street in the fall of 2009.

The Corporation's mission is to make the Hillsborough Street community a district destination in Raleigh by providing services and programs that improve the economic sustainability of the businesses, and increases the market value of the properties, within the territory. In order to make the Hillsborough Street community a better place to live, work, play, shop, dine, learn and visit throughout the year, the Hillsborough Street Community Service Corporation provides:

- Cleaning
- Security
- Beautification
- Marketing
- Economic Development
- Tourism
- Advocacy
- Special Event Programs and Services.

2. SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF ACCOUNTING

The Corporation's policy is to prepare its financial statements on the accrual basis of accounting and, accordingly reflect all significant receivables, payables, and other liabilities.

FINANCIAL STATEMENT PRESENTATION

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. Accordingly, the Corporation 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.

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, the Corporation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES: (Continued)

CONTRIBUTED SERVICES

Contributed services requiring expertise are recorded as in-kind donations at their estimated fair values at the date of receipt.

Many other individuals volunteer their time and perform a variety of tasks that assist the Corporation. No amounts have been reflected on the financial statements for these services.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at unpaid balances. The management of the Corporation believes that all receivables will be collected. Therefore, no allowance for uncollectible accounts is considered necessary. It is the Corporation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

PROMISES TO GIVE

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

PROPERTY AND EQUIPMENT

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over estimated useful lives of 5-10 years.

EXPENSE ALLOCATION

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES: (Continued)

RESTRICTED AND UNRESTRICTED REVENUE AND SUPPORT

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other 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 and reported in the Statement of Activities as net assets released from restrictions.

ESTIMATES

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

INCOME TAX STATUS

The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Corporation's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Corporation qualifies for the charitable contributions deduction under Section 170(b)(1)(A) and has been classified as a corporation that is not a private foundation under Section 509(a)(2).

Management has considered the tax positions taken in its tax returns and believes that all of the positions taken by the Corporation in its federal exempt organization tax returns are more likely than not to be sustained upon examination.

Generally, the Corporation's tax returns remain open for three years for examination by taxing authorities. The Corporation does not believe there are any material uncertain tax positions and, accordingly, it did not recognize any liability for unrecognized tax benefits.

ADVERTISING

The Corporation expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place.

COMPENSATED ABSENCES

No amount of liability was provided for compensated absences since these amounts could not be reasonably estimated at the date of the statements of financial position.

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

3. CONCENTRATIONS:

The Corporation is largely dependent on three sources of support. Those three sources of support approximated \$546,000 and \$539,000 or 86% and 87% of the Corporation's support for the years ended June 30, 2016 and 2015, respectively. Loss of any one of these sources could have a detrimental impact on the finances of the Corporation.

4. CONCENTRATION OF CREDIT RISK:

The Corporation maintains several bank accounts at two high quality financial institutions which balances at times can exceed the aggregate insured amounts of \$250,000 provided by the Federal Deposit Insurance Corporation (FDIC). Amounts in excess of the insured limits approximated \$55,000 and \$-0- at June 30, 2016 and 2015, respectively.

5. SUBSEQUENT EVENT:

The Corporation evaluated the effect subsequent events would have on the financial statements through the date of the report, December 15, 2016, which is the date the financial statements were available to be issued.