HILLCREST EDUCATIONAL CENTERS, INC.

Financial Statements

June 30, 2017

Table of Contents

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CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
HILLCREST EDUCATIONAL CENTERS, INC.
788 South Street
Pittsfield, MA 01201

Report on the Financial Statements

We have audited the accompanying financial statements of Hillcrest Educational Centers, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Hillcrest Educational Centers, Inc. as of June 30, 2017, 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.

Adoption of New Accounting Standard

As discussed in Note 17 to the financial statements, Hillcrest Educational Centers, Inc. changed its method for presenting debt issuance costs in the statement of financial position. This change is in accordance with Accounting Standards Update No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Hillcrest Educational Centers, Inc.'s 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017, on our consideration of Hillcrest Educational Centers, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hillcrest Educational Centers, Inc.'s internal control over financial reporting and compliance.

Adelson + Company PC

ADELSON & COMPANY PC
Pittsfield, MA

October 30, 2017

HILLCREST EDUCATIONAL CENTERS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30,

		2017		Comparative 2016
ASSETS				
Current assets				
Cash and equivalents	$	85,688	$	316,216
Accounts receivable, net		4,103,701		2,987,977
Grants receivable		24,601		46,642
Pledge receivable		50,000		---
Inventory		20,894		20,264
Prepaid expenses		766,141		757,876
Cash restricted for capital project		---		981,366
Total current assets		5,051,025		5,110,341
Long-term investments		6,919,116		5,885,933
Property and equipment, net		12,831,080		10,987,923
Investments held for deferred compensation plan		162,883		129,961
Due from Hillcrest Dental Care, Inc.		109,723		125,398
TOTAL ASSETS	$	25,073,827	$	22,239,556
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	$	764,411	$	317,360
Accrued expenses		2,526,240		2,188,018
Deposits held in custody for others		10,935		9,385
Deferred income		234,202		236,698
Notes payable due within one year		661,302		1,382,730
Total current liabilities		4,197,090		4,134,191
Other liabilities		162,883		129,961
Notes payable, less current portion		10,558,959		9,141,364
TOTAL LIABILITIES		14,918,932		13,405,516
Net assets				
Unrestricted		3,160,779		2,923,107
Unrestricted - board designated		6,919,116		5,885,933
Temporarily restricted		75,000		25,000
Total net assets		10,154,895		8,834,040
TOTAL LIABILITIES AND NET ASSETS	$	25,073,827	$	22,239,556

HILLCREST EDUCATIONAL CENTERS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30,

	Unrestricted	Temporarily Restricted	Total 2017	Comparative 2016
REVENUE AND SUPPORT				
Tuition and fees	$ 29,047,071		$ 29,047,071	$ 28,384,607
Psychological services	149,403		149,403	116,785
Food care program credits	196,986		196,986	195,425
Grants	133,504		133,504	119,408
Contributions	120,778	$ 75,000	195,778	174,531
Special events, net	114,096		114,096	95,551
Interest income	223		223	214
Rental income	118,736		118,736	111,213
Management fee income	184,819		184,819	193,960
Other income	49,249		49,249	37,729
Releases from restrictions	25,000	(25,000)	---	---
TOTAL REVENUE AND SUPPORT	30,139,865	50,000	30,189,865	29,429,423
EXPENSES				
Program services:				
Hillcrest and Highpoint Centers	8,564,990		8,564,990	11,084,078
Intensive Treatment Unit	6,809,485		6,809,485	6,334,375
Housatonic Day Academy	2,185,942		2,185,942	1,819,084
ASD Unit Program	7,929,038		7,929,038	5,834,832
Psychological Services	145,792		145,792	123,376
Total program services:	25,635,247	---	25,635,247	25,195,745
Support services:				
Management and general	3,970,788		3,970,788	3,854,925
Fund-raising	119,415		119,415	96,868
TOTAL EXPENSES	29,725,450	---	29,725,450	29,147,538
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	414,415	50,000	464,415	281,885
NON-OPERATING ACTIVITIES				
Investment income (loss), net	856,440		856,440	(139,370)
TOTAL NON-OPERATING ACTIVITIES	856,440	---	856,440	(139,370)
CHANGE IN NET ASSETS	1,270,855	50,000	1,320,855	142,515
Net assets, beginning	8,809,040	25,000	8,834,040	8,691,525
NET ASSETS, ENDING	$ 10,079,895	$ 75,000	$ 10,154,895	$ 8,834,040

See notes to financial statements.

HILLCREST EDUCATIONAL CENTERS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30,

	2017	Comparative 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	$ 1,320,855	$ 142,515
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	943,286	921,855
Amortization of bond issue costs	14,600	14,600
Realized and unrealized (gain) loss on investments	(778,590)	202,674
(Increase) decrease in operating assets:		
Accounts receivable	(1,115,724)	313,768
Grants receivable	(27,959)	5,875
Pledge receivable	(50,000)	---
Inventory	(630)	(700)
Prepaid expenses	(8,265)	(542,763)
Investments held for deferred compensation plan	(32,922)	(18,168)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	785,273	(586,664)
Deposits held in custody for others	1,550	(2,450)
Deferred income	(2,496)	4,517
Other liabilities	32,922	18,168
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,081,900	473,227
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of long-term investments	692,157	739,641
Purchase of long-term investments	(895,752)	(983,605)
Proceeds from note receivable	15,675	15,675
Additions of property and equipment	(2,787,443)	(1,414,043)
Cash restricted for capital project	981,366	(981,366)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,993,997)	(2,623,698)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in line of credit	(730,156)	599,382
Proceeds from issuance of long-term debt	1,852,027	1,907,761
Principal payments on long-term debt	(440,302)	(125,224)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	681,569	2,381,919
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(230,528)	231,448
Cash and equivalents, beginning	316,216	84,768
CASH AND EQUIVALENTS, ENDING	$ 85,688	$ 316,216
SUPPLEMENTAL DATA		
Interest paid	$ 438,538	$ 335,842

See notes to financial statements.

HILLCREST EDUCATIONAL CENTERS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30,

	Program Services						Support Services		
2017	Highpoint Center	Intensive Treatment Unit	Housatonic Day Academy	ASD Unit Program	Psychological Services	Total Program Services	Management and General	Fund-raising	Total 2017
Employee compensation and related expenses	$ 7,127,144	$ 5,875,733	$ 1,713,696	$ 6,556,709	$ 112,715	$ 21,385,997	$ 2,527,655	$ 102,607	$ 24,016,259
Occupancy	433,918	306,003	71,255	432,263		1,243,439	199,523		1,442,962
Program operating expenses	590,900	343,654	308,669	564,117	33,077	1,840,417	157,754	899	1,999,070
Administrative expenses	112,895	90,350	40,779	120,486		364,510	924,532	15,909	1,304,951
Other expenses						---	18,922		18,922
Depreciation	300,133	193,745	51,543	255,463		800,884	142,402		943,286
Total	$ 8,564,990	$ 6,809,485	$ 2,185,942	$ 7,929,038	$ 145,792	$ 25,635,247	$ 3,970,788	$ 119,415	$ 29,725,450

	Program Services						Support Services		
Comparative 2016	Hillcrest and Highpoint Centers	Intensive Treatment Unit	Housatonic Day Academy	ASD Unit Program	Psychological Services	Total Program Services	Management and General	Fund-raising	Total Comparative 2016
Employee compensation and related expenses	$ 9,279,871	$ 5,395,963	$ 1,493,272	$ 5,136,525	$ 92,681	$ 21,398,312	$ 2,466,590	$ 81,439	$ 23,946,341
Occupancy	521,220	289,398	45,755	193,069		1,049,442	155,886		1,205,328
Program operating expenses	692,594	365,386	202,013	319,806	30,695	1,610,494	177,129	668	1,788,291
Administrative expenses	183,851	91,003	26,086	55,488		356,428	899,634	14,761	1,270,823
Other expenses						---	14,900		14,900
Depreciation	406,542	192,625	51,958	129,944		781,069	140,786		921,855
Total	$ 11,084,078	$ 6,334,375	$ 1,819,084	$ 5,834,832	$ 123,376	$ 25,195,745	$ 3,854,925	$ 96,868	$ 29,147,538

See notes to financial statements.

HILLCREST EDUCATIONAL CENTERS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities
Hillcrest Educational Centers, Inc. is a not-for-profit corporation organized under Chapter 180 of the laws of the Commonwealth of Massachusetts. The Organization primarily offers educational and residential services to special needs children ranging from six through twenty-two years of age. The Organization also operates a day program for school age children with special needs. The Organization operates their programs from multiple campuses which offer specialized services for specific groups of special needs children.

Income Taxes
The Organization is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code and state taxes under applicable state law. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(I)(A)(vi) and has been classified as an organization that is not a private foundation.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition. The Organization's tax returns are subject to examination by taxing authorities for all years ending on or after June 30, 2014.

Basis of Accounting and Financial Statement Presentation
The financial statements of the Organization have been prepared on the accrual basis of accounting. The Organization 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.

Revenue Recognition
Contract and grant revenues are recognized when expenses, eligible for reimbursement under the terms of the award, are incurred. The Organizations' students are supported by the Commonwealth of Massachusetts Departments of Child, Youth and Family Services, Department of Education, and various Massachusetts cities and towns. Additional support is also provided by out-of-state agencies, cities and towns for students that reside outside of Massachusetts. The majority of the Organization's revenue is from the Commonwealth of Massachusetts and the states of Connecticut and New York. The Organization is subject to the regulations and rate formulas of the Massachusetts Operational Services Division. Revenue is recorded at the Organization's rate of reimbursement as certified by the Commonwealth of Massachusetts.

Contributions
The Organization accounts for contributions received as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Promises to Give
Unconditional promises to give are recognized as contribution revenue 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.

NOTE 1 - (Continued)

Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organization uses an allowance method for promises to give based upon management's analysis of the accounts and prior collection experience.

Cash and Equivalents
For the purpose of the statement of cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable
Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Inventory
Inventory is stated at the lower of cost or net realizable value and consists of food at the residential sites and supplies.

Investments
Investments are presented in the financial statements at fair value, Level 1 input, as described below. Unrealized gains and losses are included in the change in net assets. Restricted gains and investment income whose restrictions are met in the same period are recognized and reported as unrestricted revenue and gains.

Level 1 Fair Value Measurement
Fair values for long-term investments are measured on a recurring basis and are determined by quoted market prices and other relevant information generated by market transactions.

Property and Equipment
The Organization capitalizes all expenditures for property and equipment with a useful life greater than one year and in excess of $2,500. Depreciation of buildings and equipment is provided over the estimated useful lives of the assets using the straight-line method. Donated equipment is recorded at fair market value at the date of the donation. Purchased equipment is recorded at cost.

Impairment of Long-Lived Assets
Long-lived assets held and used by the Organization are reviewed for impairment whenever events or changes in the circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed. No impairments were recorded during the year ended June 30, 2017.

Retirement Plan
The Organization is a member of Hillcrest Educational Foundation, Inc.'s 403(b) retirement plan, which covers all eligible employees. Participating employees are allowed to contribute to the plan. Contributions, which are made at the discretion of the Board of Directors of Hillcrest Educational Centers, Inc., were $606,363 and $253,515 for 2017 and 2016, respectively.

The Organization entered into a Supplemental Executive Retirement Plan (SERP) deferred compensation agreement on January 1, 2010 with its President and CEO. The SERP is a non-governmental 457(b) plan which is limited to groups of highly compensated executives. The 457(b) account remains the property of the Organization and is subject to the claims of creditors until benefits are paid. The 457(b) funds may be withdrawn as benefits at any time following the end of employment with the Organization. The benefits are taxable when paid. The expense of this plan is being recognized over the period of the President and CEO's employment, including $18,000 for the year ended June 30, 2017. The total liability as of June 30, 2017 was $162,883.

NOTE 1 - (Continued)

Cost Allocation
An indirect cost allocation plan established under the simplified allocation method is utilized in which all costs that are not chargeable directly to a program are allocated to each program based upon direct salaries and fringe benefits charged directly to each program.

Functional Allocation of Expenses
The costs of providing program and support activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated, using management's estimates, among the program and supporting activities benefited.

Advertising and Marketing
The Organization expenses advertising and marketing costs as incurred. Advertising and marketing expense was $66,010 and $61,774 for the years ended June 30, 2017 and 2016.

Use of Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events
Management has evaluated subsequent events through October 30, 2017 the date which the financial statements were available for issue, and has determined that there are no additional adjustments or disclosures required.

Summarized Comparative Financial Information
The financial information for the year ended June 30, 2016, presented for comparative purposes, is not intended to be a complete financial statement presentation. Certain items in the prior year totals may have been reclassified to conform to the current year presentation.

NOTE 2 - CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash. The Organization maintains its cash in various bank deposit accounts, which at times may exceed federally insured limits. Bank deposits at June 30, 2017 of $191,722 were fully insured. The Organization has not experienced any losses in such accounts. Also, the Organization has a material concentration of credit risk with respect to significant accounts receivables that are due from state and federal contracts through the Commonwealth of Massachusetts, Connecticut and New York.

NOTE 3 - ACCOUNTS RECEIVABLE CONSISTED OF THE FOLLOWING AT JUNE 30:

	2017	Comparative 2016
Student tuition and fees	$ 3,914,391	$ 2,880,045
Hillcrest Dental Care, Inc.	32,516	31,342
Other	260,546	168,342
Subtotal	4,207,453	3,079,729
Allowance for doubtful accounts	(103,752)	(91,752)
Accounts receivable, net	$ 4,103,701	$ 2,987,977

NOTE 4 - LONG-TERM INVESTMENTS CONSISTED OF THE FOLLOWING AT JUNE 30:

Investment fair values are measured on a recurring basis and determined by quoted market prices and other relevant information generated by market transactions (Level 1).

Investments are comprised of the following groups as reported at fair value.

	2017		Comparative 2016	
	Fair Value	Cost	Fair Value	Cost
Invested cash	$ 562,351	$ 562,351	$ 446,083	$ 446,083
Corporate stock	5,120,065	3,189,900	4,293,742	3,124,037
Municipal and corporate bonds	687,359	691,300	697,738	697,274
Mutual funds	549,341	426,061	448,370	417,935
Total	$ 6,919,116	$ 4,869,612	$ 5,885,933	$ 4,685,329

The following summarizes the relationship between fair values and cost of investment assets:

	Fair Value	Cost	Unrealized Appreciation (Loss)
Balance at end of year	$ 6,919,116	$ 4,869,612	$ 2,049,504
Balance at beginning of year	5,885,933	4,685,329	1,200,604
Increase in unrealized appreciation			$ 848,900

Investment income consisted of the following for the year ended June 30:

	2017	Comparative 2016
Interest and dividends	$ 120,567	$ 103,211
Realized gains (losses)	(70,310)	142,894
Investment fees	(42,717)	(39,907)
Subtotal	7,540	206,198
Unrealized gains (losses)	848,900	(345,568)
Investment income (loss), net	$ 856,440	$ (139,370)

NOTE 5 - PROPERTY AND EQUIPMENT CONSISTED OF THE FOLLOWING AT JUNE 30:

	2017	Comparative 2016
Land	$ 2,416,024	$ 1,620,840
Buildings	6,179,971	6,179,971
Building improvements	11,562,523	11,298,885
Life safety improvements	732,515	696,495
Office furniture and equipment	1,263,996	1,197,745
Residential furnishings	1,302,777	1,285,622
Equipment	2,158,015	1,935,473
Vehicles	45,500	45,500
Construction in progress	1,967,734	582,081
Total	27,629,055	24,842,612
Accumulated depreciation	(14,797,975)	(13,854,689)
Property and equipment, net	$ 12,831,080	$ 10,987,923

Depreciation expense was $943,286 and $921,855 for the years ended June 30, 2017 and 2016.

NOTE 6 - LEASE OBLIGATIONS

The Organization leases vehicles and equipment under various operating leases which expire through fiscal year 2023. Total lease expense for all operating leases was $187,928 and $132,487 for the years ended June 30, 2017 and 2016, respectively.

Approximate future lease commitments payable during the years ending June 30 are as follows:

2018	$ 158,156
2019	128,786
2020	120,902
2021	98,413
2022	33,913
Thereafter	304
	$ 540,474

NOTE 7 - NOTES PAYABLE CONSISTED OF THE FOLLOWING AT JUNE 30:

	2017	Comparative 2016
$5,000,000 Series A bond payable to bank, payable in six monthly installments of interest only, followed by 114 monthly installments of principal and interest, estimated at $22,882 monthly. Secured by a mortgage on land and buildings as well as an assignment of rents and leases on specified real properties. The interest rate is fixed at 3.47% through June 2024 at which time the bond is required to be purchased by the Borrower in accordance with the bond agreement (Bondowners' Option to Put Bonds). The bond matures in June 2044. The Organization also entered into an Interest Rate Swap agreement with the lender (see below).	$ 4,692,691	$ 4,793,758
$4,053,581 multiple advance Series B bond payable to bank, payable in 24 monthly installments of interest only and then 96 monthly installments of principal and interest, estimated at $19,569 monthly. Secured by a mortgage on land and buildings as well as an assignment of rents and leases on specified real properties. The interest rate is fixed 3.74% through June 2024 at which time the bond is required to be purchased by the Borrower in accordance with the bond agreement (Bondowners' Option to Put Bonds). The bond matures in June 2044. The Organization also entered into an Interest Rate Swap agreement with the lender (see below).	3,965,858	4,047,175
$3,500,000 multiple advance term note to bank, payable in 24 monthly installments of interest only, then 96 monthly payments of principal and interest, estimated at $17,218 based on a 30-year amortization period. Secured by the Organization's investment account. The Organization shall maintain in said investment account assets having a minimum fair market value of not less than the outstanding principal balance of associated Note, from time to time divided by 70%. The interest rate is fixed at 4.25% through maturity in June 2024.	2,460,701	837,352
$3,000,000 revolving line of credit, due on demand. Secured by all of the Organization's accounts, inventories, equipment, general intangibles, investment property, financial assets, documents, instruments, deposit accounts, letter of credit rights and chattel paper and products and proceeds of the foregoing. Interest is at the current One Month Libor rate plus 2.00%, adjusting monthly. The interest rate was 3.03% at June 30, 2017.	432,600	1,162,756

(Continued)

NOTE 7 - (Continued)

		2017		Comparative 2016
$120,000 multiple advance term note to bank, payable in 12 months of interest only, then 48 monthly payments of principal and interest in the amount of $2,672. Secured by certain cameras and recording systems and all personal properly of the Organization. The interest rate is fixed at 3.25% through maturity in February 2020.		69,440		98,681
Total notes payable		11,621,290		10,939,722
Amortizable costs of issuance		(401,029)		(415,628)
Total notes payable less amortizable costs of issuance		11,220,261		10,524,094
Amount due within one year		661,302		1,382,730
Amount due after one year	$	10,558,959	$	9,141,364

The above debt matures during the years ending June 30,

2018	$	675,902
2019		252,306
2020		237,557
2021		238,078
2022		247,032
Thereafter		9,970,415
Total	$	11,621,290

Debt issuance costs are amortized over the life of the related underlying debt and are reported as interest expense in the Statement of Activities included in administrative expenses.

Interest Rate Swap Agreement
The organization entered into an Interest Rate Swap Transaction (hedge) agreement with the Bank for its $5,000,000 Series A and $4,000,000 Series B tax-exempt bonds and is as follows:

The tax exempt bonds are variable rate obligations. The interest rate is calculated as (i) 0.68 times (ii) the sum of (a) the LIBOR Rate plus (b) two hundred twenty-five basis points (2.25%). The hedge is a variable-to-fixed rate swap and is primarily interest based and is swapped to be a 10 year fixed rate.

The Organization is the *fixed interest rate payer* and is paying a fixed interest rate per annum on each of the bonds for the next 10 years through June 2024. The Bank is the *floating interest rate payer*.

NOTE 8 - BOARD-DESIGNATED ENDOWMENT

The Board of Directors has designated certain funds to function as an endowment. They represent amounts that have been segregated by the Board of Directors for a period of time to provide income to support the Organization's mission. Since the designations are voluntary and may be reversed by the Board at any time, the board-designated endowment is not considered restricted. Accordingly, generally accepted accounting principles require them to be reported as part of the unrestricted class of net assets.

NOTE 8 - (Continued)

Return Objectives and Risk Parameters
The Organization has adopted investment and spending policies, approved by the Board of Directors, for its board-designated endowment assets that attempts to provide a predictable stream of funding to programs supported by its board-designated endowment funds while also maintaining the purchasing power of those assets over the long-term. Under this policy, the board-designated endowment assets are invested in a manner that is intended to produce results that exceed the price yield results of the S&P 500 index for its equity component and the Lehman Aggregate Bond Index for it fixed income component while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy
The Organization's policy is to reinvest all earnings of the board-designated endowment assets. Any expenditure from the endowment assets must be supported by the Investment Committee and approved by the full Board of Directors. The Organization's effort is to ensure that the future growth of the endowment assets is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the endowment assets held for future generations as well as to provide additional real growth through new gifts and investment return.

The unrestricted net assets designated by the board for investment are as follows on June 30:

	2017	Comparative 2016
Board-designated endowment funds	$ 6,919,116	$ 5,885,933

The composition of the board-designated endowment assets are disclosed in Note 4 on page 11.

Changes in the board-designated endowment consisted of the following for the year ended June 30:

	2017	Comparative 2016
Board-designated endowment net assets, beginning of year	$ 5,885,933	$ 5,844,643
Investment return:		
Investment income	120,567	103,211
Realized and unrealized gains (losses)	778,590	(202,674)
Investment fees	(42,717)	(39,907)
Total investment return, net	856,440	(139,370)
Contributions	176,743	180,660
Board-designated endowment net assets, end of year	$ 6,919,116	$ 5,885,933

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose or periods at June 30:

	2017	Comparative 2016
Girls Circle	$ ---	$ 25,000
St. Mark's School:		
Interactive Media Wall	25,000	---
Information Technology	50,000	---
Total	$ 75,000	$ 25,000

NOTE 10 - RELEASES OF RESTRICTED NET ASSETS

Net assets were released from restrictions during the year ended June 30 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

	2017	Comparative 2016
Culinary Pre-Vocational program	$ ---	$ 658
Girls Circle	25,000	20,000
Total	$ 25,000	$ 20,658

NOTE 11 - SURPLUS (DEFICIT) REVENUE RETENTION

The Commonwealth of Massachusetts' Not-For-Profit Contractor Surplus Revenue Retention Policy pursuant to 808 CMR 1.03(7) of the Compliance, Reporting and Auditing for Human and Social Services regulations, allows a non-profit contractor (the Organization) to retain, for future use, a portion of annual surplus in an unrestricted net asset account. This net surplus, from the revenues and expenses associated with services provided to purchasing agencies which are subject to 808 CMR 1.00 may not exceed 20% of said revenue annually. Surpluses may be used by the Organization for any of its established charitable purposes, provided that no portion of the surplus may be used for any non-reimbursable cost set forth in 808 CMR 1.05.

The amount of the Organization's annual surplus is within the 20% threshold, and therefore, no liability to the Commonwealth exists.

NOTE 12 - RENTAL INCOME

The Organization leases property it owns on an at-will basis to certain employees who work in the Organization's programs. Rental income was $42,736 and $35,213 during fiscal year 2017 and 2016, respectively.

NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES

The Organization receives support from state and federal contracts. The contracts require audits of both the financial operation of the programs and compliance with the terms of the agreements. Such audits could result in the disallowance of some costs charged to the contract and, therefore, create a liability to the funding source. Liabilities resulting from these audits, if any, will be recorded in the period in which the amount of the liability is ascertained. Management believes that any adjustment which might result from such an audit would be immaterial.

NOTE 14 - SPECIAL EVENTS ACTIVITIES FOR THE YEAR ENDED JUNE 30 WERE AS FOLLOWS:

	2017		
	Golf Tournament	St. Patrick's Day Event	Total
Special event revenues			
Ticket sales and fees	$ 26,682	$ 7,486	$ 34,168
Sponsorships	66,648	58,761	125,409
Total event revenues	93,330	66,247	159,577
Cost of direct benefits to donors			
Rent and facility costs	15,030	8,473	23,503
Other direct expenses	15,009	6,969	21,978
Total cost of direct benefits to donors	30,039	15,442	45,481
Special events, net	$ 63,291	$ 50,805	$ 114,096

	Comparative 2016		
	Golf Tournament	St. Patrick's Day Event	Total
Special event revenues			
Ticket sales and fees	$ 24,296	$ 6,145	$ 30,441
Sponsorships	48,893	64,566	113,459
Total event revenues	73,189	70,711	143,900
Cost of direct benefits to donors			
Rent and facility costs	10,790	8,022	18,812
Other direct expenses	22,907	6,630	29,537
Total cost of direct benefits to donors	33,697	14,652	48,349
Special events, net	$ 39,492	$ 56,059	$ 95,551

NOTE 15 - RELATED PARTY TRANSACTIONS

A member of the Board of Directors is the Vice President of an automobile association. During fiscal year 2017, the Organization incurred $1,394 ($1,476 in 2016) of membership fees to the Automobile Association.

The family of a member of the Board of Directors owns a local radio station with which the Organization places advertising. The advertising expense was $-0- in fiscal year 2017 ($974 in 2016).

(Continued)

NOTE 15 - (Continued)

A member of the Board of Directors is also a board member at three local medical centers with which the Organization does business. The Organization incurred $46,091 of expenses for services by the centers during fiscal year 2017 ($59,012 in 2016).

A member of the Board of Directors owns a local electrical contracting company with which the Organization does business. The Organization incurred $51,904 of expenses in fiscal year 2017 ($19,506 in 2016).

The President and Chief Executive Officer is a Corporator of a local health care organization in which the Organization engages in business activity and incurred $35,723 of expenses during fiscal year 2017 ($47,757 in 2016).

In 2017, the Executive Vice President and Chief Financial Officer were directors of the Berkshire County Kids Place with which the Organization provided business support and staff training. The Organization received $25,000 in fiscal year 2017 ($25,000 in 2016) for services provided.

NOTE 16 - COMMONLY CONTROLLED ENTITY

Hillcrest Educational Foundation, Inc.
Hillcrest Educational Foundation, Inc. has been created to become the sole member of Hillcrest Educational Centers, Inc., Hillcrest Dental Care, Inc. and Berkshire County Kids' Place and Violence Prevention Center, Inc. (Kids' Place). Its mission is to support the affiliated organizations. Each affiliated organization has its own non-profit tax exempt status and is governed by its own separate Board of Directors. This corporate structure allows each affiliate to benefit from the combined resources of the entire membership. These resources are typically in the form of Operational Management Agreements and, in some cases, Fund Management Agreements. The corporate structure allows, under certain circumstances, with board approval and in accordance with the agreements, transfers of funds between certain affiliates. In accordance with the provisions of the Fund Management Agreement, no contribution was accrued and payable from Hillcrest Educational Centers, Inc. to Hillcrest Educational Foundation, Inc. in fiscal years 2017 and 2016.

Transactions between Hillcrest Educational Center, Inc. and Hillcrest Dental Care, Inc.

Facilities Lease Agreement
A facilities lease agreement has been entered into between Hillcrest Educational Centers, Inc. (Landlord) and Hillcrest Dental Care, Inc. (Tenant), in which Hillcrest Dental Care, Inc. will pay Hillcrest Educational Centers, Inc. a base rent of $6,333 per month. The lease commenced on July 1, 2011 and expires on June 30, 2020. The lease agreement can be extended for an additional nine consecutive periods of five years each. Total lease income received from Hillcrest Dental Care, Inc. was $76,000 for each of the years ending June 30, 2017 and 2016.

Management Agreement
A management agreement exists between Hillcrest Educational Centers, Inc. (Manager) and Hillcrest Dental Care, Inc. (Licensee), in which Hillcrest Dental Care, Inc. will pay Hillcrest Educational Centers, Inc. an annual management fee to cover the cost of executive, financial and administrative and general support. The determination of the fee is based upon the Manager's projected costs and any other costs of providing the services, including reimbursement for the cost of all salaries, benefits and any other actual and direct costs of providing the services by the Manager. The agreement commenced on July 1, 2011 and expires on June 30, 2020. The agreement shall renew automatically for successive five year terms unless terminated pursuant to the terms of the agreement. Total management fee income received in fiscal year 2017 was $184,819 ($193,960 in 2016).

NOTE 16 - (Continued)

Minimum facilities lease and management fee income expected to be received for the years ended June 30 are as follows:

	Facilities Lease Agreement	Management Agreement	Total
2018	$ 76,000	$ 111,815	$ 187,815
2019	76,000	111,815	187,815
2020	76,000	111,815	187,815
Total	$ 228,000	$ 335,445	$ 563,445

Dental Equipment Agreement
On June 30, 2013, Hillcrest Educational Centers, Inc. sold dental equipment and office furniture to Hillcrest Dental Care, Inc. in exchange for a receivable of $156,747. As of June 30, 2017 the outstanding balance was $109,723 ($125,398 as of June 30, 2016).

Transactions between Hillcrest Educational Center, Inc. and Kids' Place
Hillcrest Educational Centers, Inc. (Hillcrest) and Kids' Place are two separate and distinct non-profit organizations. While the organizations are under common control, Hillcrest has no economic interest in Kids' Place. Inter-agency activity during the year ended June 30, 2017 consisted of Hillcrest providing administrative and accounting services for which a management fee was charged.

A member of the Berkshire County Kids Place Board of Directors owns a local computer store with which the Organization has done business. The Organization incurred $26,119 of expenses in fiscal year 2017, ($31,627 in 2016). This Director resigned from the Berkshire County Kids Place Board during fiscal year 2017.

A member of the Hillcrest Educational Centers Board of Directors owns a local electrical contracting company with which Berkshire County Kids Place has done business. The Organization incurred $-0- of expenses in fiscal year 2017, ($2,110 in 2016).

NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLE

In fiscal 2017, Hillcrest Educational Centers, Inc. retroactively adopted the requirements of ASU No. 2015-03 (Subtopic 835-30) to present debt issuance costs as a reduction of the carrying amount of the related debt (see Note 7). The balance of notes payable presented in the statement of financial position at June 30, 2016 after this restatement was $10,524,094 and was inclusive of unamortized debt issuance costs of $415,628. Previously, the debt issuance costs of $415,625 was reported on the statement of financial position as a long-term asset. The balance of notes payable presented in the statement of financial position at June 30, 2017 is $11,220,261 and is inclusive of unamortized debt issuance costs of $401,029. Amortization of debt issuance costs is reported as interest expense in the statement of activities.

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David M. Irwin, Jr., CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
HILLCREST EDUCATIONAL CENTERS, INC.
788 South Street
Pittsfield, MA 01201

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hillcrest Educational Centers, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Hillcrest Educational Centers, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hillcrest Educational Centers, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether Hillcrest Educational Centers, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Pittsfield, MA

October 30, 2017