HILLCREST EDUCATIONAL CENTERS, INC.

Financial Statements

June 30, 2020

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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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Organization implemented the provisions of the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606) and Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited Hillcrest Educational Centers, Inc.'s 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 22, 2020, 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.

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October 22, 2020

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

	2020	Comparative 2019
ASSETS		
Current assets		
Cash and equivalents	$ 196,656	$ 528,609
Accounts receivable, net	4,548,630	4,469,981
Grants receivable	318,553	9,702
Pledges receivable	---	12,000
Inventory	63,039	19,525
Prepaid expenses	184,356	903,360
Total current assets	5,311,234	5,943,177
Long-term investments	9,695,732	8,967,726
Property and equipment, net	14,950,199	14,980,575
Investments held for deferred compensation plan	275,833	254,189
Due from Hillcrest Dental Care, Inc.	62,699	78,374
TOTAL ASSETS	$ 30,295,697	$ 30,224,041
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 227,341	$ 423,655
Accrued expenses	2,937,448	3,743,285
Deposits held in custody for others	13,435	15,290
Deferred income	117,178	102,885
Donation payable to Hillcrest Educational Foundation	1,000,000	690,000
Notes payable due within one year	317,314	336,114
Total current liabilities	4,612,716	5,311,229
Other liabilities	275,833	254,189
Notes payable, less current portion	11,494,703	11,534,737
TOTAL LIABILITIES	16,383,252	17,100,155
Net assets		
Without donor restrictions	4,188,330	4,123,623
Without donor restrictions - board designated	9,695,732	8,967,726
With donor restrictions	28,383	32,537
Total net assets	13,912,445	13,123,886
TOTAL LIABILITIES AND NET ASSETS	$ 30,295,697	$ 30,224,041

See notes to financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Comparative Total 2019
REVENUE AND SUPPORT				
Tuition	$ 36,399,649		$ 36,399,649	$ 35,470,284
Psychological services	7,144		7,144	134,603
Food care program credits	218,009		218,009	203,245
Grants	573,877	$ 25,000	598,877	134,853
Contributions	217,947		217,947	267,650
Special events, net	44,554		44,554	97,650
Interest income	253		253	278
Rental income	223,557		223,557	227,086
Management fee income	170,630		170,630	176,309
Other income	37,051		37,051	67,200
Releases from restrictions	29,154	$ (29,154)	---	---
TOTAL REVENUE AND SUPPORT	37,921,825	(4,154)	37,917,671	36,779,158
EXPENSES				
Program services:				
Highpoint Center	10,123,736		10,123,736	9,727,180
Intensive Treatment Unit	8,120,933		8,120,933	7,582,842
Housatonic Day Academy	3,432,779		3,432,779	3,517,392
ASD Unit Program	10,056,313		10,056,313	9,504,481
Psychological Services	3,305		3,305	113,312
Total program services:	31,737,066	---	31,737,066	30,445,207
Support services:				
Management and general	4,698,203		4,698,203	4,983,266
Fund-raising	110,596		110,596	129,126
TOTAL EXPENSES	36,545,865	---	36,545,865	35,557,599
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	1,375,960	(4,154)	1,371,806	1,221,559
NON-OPERATING ACTIVITIES				
Investment income (loss), net	416,753		416,753	869,155
Foundation support revenue (expense)	(1,000,000)		(1,000,000)	(700,000)
TOTAL NON-OPERATING ACTIVITIES	(583,247)	---	(583,247)	169,155
CHANGE IN NET ASSETS	792,713	(4,154)	788,559	1,390,714
Net assets, beginning	13,091,349	32,537	13,123,886	11,733,172
NET ASSETS, ENDING	$ 13,884,062	$ 28,383	$ 13,912,445	$ 13,123,886

HILLCREST EDUCATIONAL CENTERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30,

2020	Program Services						Support Services		
	Highpoint Center	Intensive Treatment Unit	Housatonic Day Academy	ASD Unit Program	Psychological Services	Total Program Services	Management and General	Fund-raising	Total 2020
Employee compensation and related expenses	$ 8,733,301	$ 7,176,980	$ 2,827,048	$ 8,619,860	$ 2,560	$ 27,359,749	$ 2,994,615	$ 93,276	$ 30,447,640
Occupancy	438,248	295,675	194,746	543,826		1,472,495	165,434		1,637,929
Program operating expenses	554,948	327,693	183,043	565,121	745	1,631,550	167,362	143	1,799,055
Administrative expenses	120,257	102,050	59,762	128,484		410,553	1,140,586	17,177	1,568,316
Depreciation	276,982	218,535	168,180	199,022		862,719	230,206		1,092,925
Total	$ 10,123,736	$ 8,120,933	$ 3,432,779	$ 10,056,313	$ 3,305	$ 31,737,066	$ 4,698,203	$ 110,596	$ 36,545,865

Comparative 2019	Program Services						Support Services		
	Highpoint Center	Intensive Treatment Unit	Housatonic Day Academy	ASD Unit Program	Psychological Services	Total Program Services	Management and General	Fund-raising	Comparative Total 2019
Employee compensation and related expenses	$ 8,299,935	$ 6,628,717	$ 2,845,004	$ 7,922,694	$ 91,687	$ 25,788,037	$ 3,007,916	$ 110,542	$ 28,906,495
Occupancy	461,800	322,460	191,590	591,963		1,567,813	198,837		1,766,650
Program operating expenses	574,860	332,539	288,578	592,539	21,625	1,810,141	267,313	1,981	2,079,435
Administrative expenses	113,781	88,014	63,592	142,152		407,539	1,320,077	16,603	1,744,219
Depreciation	276,804	211,112	128,628	255,133		871,677	189,123		1,060,800
Total	$ 9,727,180	$ 7,582,842	$ 3,517,392	$ 9,504,481	$ 113,312	$ 30,445,207	$ 4,983,266	$ 129,126	$ 35,557,599

See notes to financial statements.

HILLCREST EDUCATIONAL CENTERS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30,

	2020	Comparative 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	$ 788,559	$ 1,390,714
Adjustments to reconcile change in net assets		
to net cash provided (used) by operating activities:		
Depreciation	1,092,925	1,060,800
Amortization of bond issue costs	14,610	14,600
(Gain) loss on sale of property	(1,800)	(21,158)
Realized and unrealized (gain) loss on investments	(333,484)	(787,326)
(Increase) decrease in operating assets:		
Accounts receivable	(78,649)	107,044
Grants receivable	(308,851)	9,243
Pledge receivable	12,000	64,489
Inventory	(43,514)	(2,030)
Prepaid expenses	719,004	(38,439)
Investments held for deferred compensation plan	(21,644)	(44,559)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(1,002,151)	167,677
Deposits held in custody for others	(1,855)	2,755
Deferred income	14,293	(20,562)
Donation payable to Hillcrest Educational Foundation	310,000	690,000
Other liabilities	21,644	44,559
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,181,087	2,637,807
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of long-term investments	3,825,460	1,507,208
Purchase of long-term investments	(4,219,982)	(1,918,900)
Proceeds from note receivable	15,675	15,674
Proceeds from sale of property and equipment	1,800	26,500
Additions of property and equipment	(1,062,549)	(1,083,142)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,439,596)	(1,452,660)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in line of credit	---	(381,942)
Proceeds from issuance of long-term debt	264,000	145,016
Principal payments on long-term debt	(337,444)	(449,234)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(73,444)	(686,160)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(331,953)	498,987
Cash and equivalents, beginning	528,609	29,622
CASH AND EQUIVALENTS, ENDING	$ 196,656	$ 528,609
SUPPLEMENTAL DATA		
Interest paid	$ 484,524	$ 501,788

HILLCREST EDUCATIONAL CENTERS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 its programs from multiple campuses which offer specialized services for specific groups of special needs children.

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Management's analysis of this standard resulted in no changes in the way the Organization recognizes revenue, and therefore no changes to previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization applied the new standard on a modified prospective basis. The adoption of the standard did not have an impact to the Organization's statement of activities for the year ended June 30, 2020.

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)(ii) 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, 2017.

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 two classes of net assets: net asset without donor restrictions and net assets with donor restrictions.

Revenue Recognition

Tuition

The Organization recognizes revenue from tuition during the year in which the related services are provided. Services include specialized care and individualized comprehensive treatment and special education for children and adolescents. Services also include a therapeutic day school that provides education and clinical behavior support services to emotionally/behaviorally distressed children and adolescents from local school districts. Some children and adolescents are provided room and board depending upon the type of treatment and education program they are in.

NOTE 1 - (Continued)

The performance obligation of delivering these educational and specialized services is simultaneously received and consumed by the children and adolescents; therefore, the revenue is recognized ratably over the course of the program year. Tuition is fully earned by June 30. Any amounts received prior to the commencement of the program year are deferred to the applicable period. Unearned tuition and fees were $-0- for each of the years ended June 30, 2020 and 2019.

The children and adolescents 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 children and adolescents that reside outside of Massachusetts. Tuition rates for Massachusetts residents are authorized and set annually by the Commonwealth of Massachusetts. Tuition rates for out-of-state residents, such as New York and Connecticut are authorized and set annually by those states. Tuition, as set by the contracting states, may include the cost of room and board, in addition to education and treatment services, depending upon the needs of the individual children and adolescents.

Food Care Program Credits
The Organization recognizes revenue from the Child and Adult Care Food Program, which is a federal program administered by the Massachusetts Department of Elementary and Secondary Education. The Organization is reimbursed according to rates set by the government when they provide healthy meals and snacks to the children and adolescents. Accordingly, the performance obligation is satisfied at a point in time.

Grants and Contributions
The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Grants, which are non-exchange transactions, are recorded once all conditions are met. Conditional promises to give, that is those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Contributions
The Organization accounts for contributions received as increases in net assets without donor restriction or net assets with donor restrictions, depending on the existence or nature of any donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 within net assets without donor restrictions.

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.

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.

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

NOTE 1 - (Continued)

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.

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 donor restrictions are met in the same period are recognized and reported as revenue and gains without donor restrictions.

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 a cost 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, 2020.

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 $937,256 and $903,444 for 2020 and 2019, respectively.

The Organization entered into Supplemental Executive Retirement Plan (SERP) deferred compensation agreements with its President and Executive Director. 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 employment of the President and Executive Director, including $19,500 and $-0- for the year ended June 30, 2020, respectively. The total liability as of June 30, 2020 and 2019 was $275,833 and $254,189, respectively.

Advertising and Marketing
The Organization expenses advertising and marketing costs as incurred. Advertising and marketing expense was $81,073 and $69,431 for the years ended June 30, 2020 and 2019, respectively.

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.

NOTE 1 - (Continued)

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.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis, as well as salaries, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other expenses, which are allocated based on estimates of time and effort.

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 22, 2020 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, 2019, 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, 2020 were $306,359, all of which was insured and collateralized at that time. 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:

	2020	Comparative 2019
Tuition	$ 4,296,835	$ 4,480,856
Hillcrest Dental Care, Inc.	270,181	27,568
Other	143,614	111,557
Subtotal	4,710,630	4,619,981
Allowance for doubtful accounts	(162,000)	(150,000)
Accounts receivable, net	$ 4,548,630	$ 4,469,981

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 exposed to various risks, such as interest rate, market and credit risks. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments and related activity reported in the financial statements.

Investments, which are board-designated endowment funds (see Note 8), are comprised of the following groups as reported at fair value.

	2020		Comparative 2019	
	Fair Value	Cost	Fair Value	Cost
Invested cash	$ 656,366	$ 656,366	$ 246,396	$ 246,396
Corporate stock	6,203,653	3,233,662	6,521,321	3,527,278
Municipal and corporate bonds	2,437,807	2,440,565	1,782,981	1,779,363
Mutual funds	397,906	295,046	417,028	266,525
Total	$ 9,695,732	$ 6,625,639	$ 8,967,726	$ 5,819,562

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

	Fair Value	Cost	Unrealized Appreciation (Loss)
Balance at end of year	$ 9,695,732	$ 6,625,639	$ 3,070,093
Balance at beginning of year	8,967,726	5,819,562	3,148,164
Increase (decrease) in unrealized appreciation			$ (78,071)

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

	2020	Comparative 2019
Interest and dividends	$ 136,338	$ 131,601
Realized gains (losses)	411,555	273,337
Investment fees	(53,069)	(49,772)
Subtotal	494,824	355,166
Unrealized gains (losses)	(78,071)	513,989
Investment income (loss), net	$ 416,753	$ 869,155

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

	2020	Comparative 2019
Land	$ 2,416,024	$ 2,416,024
Buildings	9,992,660	9,992,660
Building improvements	12,642,279	12,556,827
Life safety improvements	806,432	802,437
Office furniture and equipment	2,023,586	1,733,763
Residential furnishings	1,465,338	1,432,640
Equipment	2,441,639	2,384,984
Vehicles	45,500	45,500
Construction in progress	1,035,325	441,399
Total	32,868,783	31,806,234
Accumulated depreciation	(17,918,584)	(16,825,659)
Property and equipment, net	$ 14,950,199	$ 14,980,575

Depreciation expense was $1,092,925 and $1,060,800 for the years ended June 30, 2020 and 2019, respectively.

NOTE 6 - LEASE OBLIGATIONS

The Organization leases vehicles and equipment under various operating leases which expire through fiscal year 2025. Total lease expense for all operating leases was $243,830 and $230,755 for the years ended June 30, 2020 and 2019, respectively.

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

2021	$ 196,495
2022	131,565
2023	89,374
2024	60,706
2025	2,084
Total	$ 480,224

Recent Accounting Pronouncements
The Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02 (Topic 842), *Leases*, which is effective for the Organization's fiscal year 2021. The implementation of this standard will require the Organization to record nearly all leases on the balance sheet by recognizing a lease liability and an intangible right-to-use lease asset or capital asset, as well as disclose key information about leasing arrangements.

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

	2020	Comparative 2019
$5,000,000 Series A bond payable to bank dated June 2014, payable in monthly installments of principal and interest, estimated at $15,450 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).	$ 4,266,748	$ 4,379,324
$4,053,581 multiple advance Series B bond payable to bank dated June 2014, monthly installments of principal and interest, estimated at $12,883 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 3.74% 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).	3,702,021	3,793,413
$4,260,000 multiple advance term note to bank dated June 2014, payable in monthly payments of principal and interest based on a 30-year amortization period estimated at $20,012 monthly, with the remaining balance due in full on the maturity date June 2024. 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%.	3,900,581	3,970,539
$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 2.18% at June 30, 2020 (4.40% at June 30, 2019).	---	---
$264,000 mortgage note dated March 2020, payable in monthly payments of principal and interest in the amount of $1,536. The note matures in March 2030. Interest is at the FHLB 5/20 Rate plus 2.50%. Secured by a mortgage on property at 6 Ramsdell Road, Great Barrington, MA. The interest rate was 3.64% at June 30, 2020.	261,814	---

(Continued)

NOTE 7 - (Continued)

	2020	Comparative 2019
Multiple notes payable to Eversource Energy and National Grid for lighting upgrades to the Organization's facilities. The notes are non-interest bearing and are payable in monthly installments ranging from $449 to $1,567 per month, maturing in July 2020 through October 2020.	14,008	66,628
Multiple notes payable to Kubota Credit Corporation for equipment. The notes are non-interest bearing and are payable in monthly installments ranging from $335 to $391 per month, maturing in September 2022 through September 2023. The notes are collateralized by equipment.	23,626	32,338
Total notes payable	12,168,798	12,242,242
Amortizable costs of issuance	(356,781)	(371,391)
Total notes payable less amortizable costs of issuance	11,812,017	11,870,851
Amount due within one year	317,314	336,114
Amount due after one year	$ 11,494,703	$ 11,534,737

The above debt matures during the years ending June 30,

2021	$ 317,314
2022	310,424
2023	314,239
2024	317,601
2025	324,376
Thereafter	10,584,844
Total	$ 12,168,798

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*. During the loan period, the Bank calculates the difference between the floating interest rate (market rate) paid by the Bank and the fixed interest rate paid by the Organization. In times when the floating interest rate is less than the fixed interest rate, the Organization receives the difference.

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 donor restricted. Accordingly, generally accepted accounting principles require them to be reported as part of the class of net assets without donor restrictions.

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 its investment indexes 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 net assets without donor restrictions designated by the board for investment are $9,695,732 and $8,967,726 as June 30, 2020 and 2019, respectively. The composition of the board-designated endowment assets are disclosed in Note 4 on page 12.

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

	2020	2019
Board-designated endowment net assets, beginning of year	$ 8,967,726	$ 7,768,708
Investment return:		
Investment income	136,338	131,601
Realized and unrealized gains (losses)	333,484	787,326
Investment fees	(53,069)	(49,772)
Total investment return, net	416,753	869,155
Contributions	311,253	329,863
Withdrawals	---	---
Subtotal	311,253	329,863
Board-designated endowment net assets, end of year	$ 9,695,732	$ 8,967,726

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purpose or periods at June 30:

	2020	Comparative 2019
Youth-Guided and Family-Driven Treatment Program	$ ---	$ 25,000
ASD Vocational Room Improvements	3,383	7,537
Interactive Media Project	25,000	---
Total	$ 28,383	$ 32,537

NOTE 10 - NET ASSETS RELEASED FROM DONOR RESTRICTION

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

	2020	Comparative 2019
Youth-Guided and Family-Driven Treatment Program	$ 25,000	$ ---
ASD Vocational Room Improvements	4,154	---
Total	$ 29,154	$ ---

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 - COMMITMENTS AND CONTINGENT LIABILITIES

The Organization receives support from state and federal contracts. The contracts permit 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.

NOTE 13 - 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 $50,217 and $47,700 during fiscal year 2020 and 2019, respectively.

In 2018, the Organization entered into a 60-month lease agreement with Guidewire, Inc. (tenant) to rent the property located at 1450 West Housatonic Street in Pittsfield, Massachusetts. Monthly installments are due on the first day of each month in the amount of $7,655. The tenant shall have the right to extend the lease for two additional 5 year terms. Rental income for each of the years ended June 30, 2020 and 2019 was $91,856. Minimum lease income expected to be received from the tenant for the years ended June 30 are as follows:

2021	$	91,856
2022		91,856
2023		68,892
Total	$	252,604

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

		Comparative 2019		
	2020 Golf Tournament	Golf Tournament	St. Patrick's Day Event	Total
Special event revenues				
Ticket sales and fees	$ 21,841	$ 20,612	$ 7,470	$ 28,082
Sponsorships	58,003	54,376	64,236	118,612
Total event revenues	79,844	74,988	71,706	146,694
Cost of direct benefits to donors				
Rent and facility costs	7,688	7,112	9,490	16,602
Other direct expenses	27,602	26,485	5,957	32,442
Total cost of direct benefits to donors	35,290	33,597	15,447	49,044
Special events, net	$ 44,554	$ 41,391	$ 56,259	$ 97,650

NOTE 15 - RELATED PARTY TRANSACTIONS

A member of the Board of Directors is the Vice President of an automobile association. During fiscal year 2020, the Organization incurred $2,602 ($1,394 in 2019) of membership fees to the Automobile Association.

A member of the Board of Directors is a board member at three local medical centers with which the Organization does business. The Organization incurred $13,330 of expenses for services by the centers during fiscal year 2020 ($43,244 in 2019).

A member of the Board of Directors owns a local electrical contracting company with which the Organization does business. The Organization incurred $19,881 of expenses in fiscal year 2020 ($38,731 in 2019).

The President and Chief Executive Officer is a Corporator of a local health care entity with which the Organization does business. The Organization incurred $13,330 of expenses in fiscal year 2020 ($40,392 in 2019).

NOTE 15 - (Continued)

In 2020, the Executive Director, Chief Financial Officer and Director of Business Development 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 2020 ($25,000 in 2019) for services provided.

NOTE 16 - COMMONLY CONTROLLED ENTITY

Hillcrest Educational Foundation, Inc.
Hillcrest Educational Foundation, Inc. is the sole member of Hillcrest Educational Centers, Inc., Hillcrest Dental Care, Inc., and Berkshire County Kids' Place and Violence Prevention Center, Inc. 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, contributions of $1,000,000 and $700,000 were accrued and payable from Hillcrest Educational Centers, Inc. to Hillcrest Educational Foundation, Inc. in fiscal years 2020 and 2019, respectively.

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, 2025. The lease agreement can be extended for an additional eight 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, 2020 and 2019.

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, 2025. 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 2020 was $170,630 ($176,309 in 2019).

Approximate future 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
2021	$ 76,000	$ 187,023	$ 263,023
2022	76,000	187,023	263,023
2023	76,000	187,023	263,023
2024	76,000	187,023	263,023
2025	76,000	187,023	263,023
Total	$ 380,000	$ 935,115	$ 1,315,115

NOTE 16 - (Continued)

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, 2020 the outstanding balance was $62,699 ($78,374 as of June 30, 2019).

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, 2020 consisted of Hillcrest providing administrative and accounting services for which a management fee was charged.

NOTE 17 - LIQUIDITY

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts available include the Board-approved appropriation from the endowment fund for the following year as well as donor-restricted amounts that are available for general expenditure in the following year.

	2020	Comparative 2019
Financial assets at year end:		
Cash and equivalents	$ 196,656	528,609
Accounts receivable	4,548,630	4,469,981
Grants receivable	318,553	9,702
Pledges receivable	---	12,000
Long-term investments	9,695,732	8,967,726
Total financial assets	14,759,571	13,988,018
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(28,383)	(32,537)
Less net assets with purpose restrictions to be met in less than one year	28,383	32,537
Total amount not available to be used within one year:	---	---
Less board designated long-term investments that can be drawn upon if the Board of Directors approves that action	9,695,732	8,967,726
Financial assets available to meet general expenditures over the next twelve months	$ 5,063,839	$ 5,020,292

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments, such as money market accounts, savings accounts, certificates of deposit, equities, mutual funds, and other investment vehicles described in Note 4.

The Organization also has a committed line of credit in the amount of $3,000,000. The line of credit may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

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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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2020.

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) as a basis for designing 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 financial statements. 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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October 22, 2020