HILLCREST EDUCATIONAL CENTERS, INC.

Financial Statements

June 30, 2022

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Adelson & Company PC
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Audit | Tax | Advisory

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Hillcrest Educational Centers, Inc. as of June 30, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hillcrest Educational Centers, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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MEMBERS: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, MASSACHUSETTS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hillcrest Educational Centers, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Hillcrest Educational Centers, Inc.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hillcrest Educational Centers, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Hillcrest Educational Centers, Inc.'s 2021 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 28, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, 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 28, 2022, 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

October 28, 2022

HILLCREST EDUCATIONAL CENTERS, INC.

STATEMENT OF FINANCIAL POSITION

June 30,

	2022	Comparative 2021
Assets		
Current assets		
Cash and equivalents	$ 99,944	$ 613,750
Accounts receivable, net	4,111,292	4,994,039
Grants receivable	445,826	1,189,140
Inventory	287,783	226,993
Prepaid expenses	552,923	209,773
Contribution receivable from Hillcrest Educational Foundation	764,670	-
Total current assets	6,262,438	7,233,695
Long-term investments	11,165,539	12,414,160
Property and equipment, net	14,160,375	14,458,183
Investments held for deferred compensation plan	80,448	74,288
Due from Hillcrest Dental Care, Inc.	31,349	47,024
Total assets	$ 31,700,149	$ 34,227,350
Liabilities and net assets		
Current liabilities		
Accounts payable	$ 454,907	$ 341,356
Accrued expenses	2,531,747	3,521,926
Deposits held in custody for others	12,835	11,935
Unearned revenue	152,454	636,991
Donation payable to Hillcrest Educational Foundation	874,670	1,529,340
Notes payable due within one year	1,020,980	310,424
Total current liabilities	5,047,593	6,351,972
Other liabilities	80,448	74,288
Notes payable, less current portion	11,313,171	11,199,343
Total liabilities	16,441,212	17,625,603
Net assets		
Without donor restrictions	4,093,398	4,181,855
Without donor restrictions - board designated	11,165,539	12,414,160
With donor restrictions	-	5,732
Total net assets	15,258,937	16,601,747
Total liabilities and net assets	$ 31,700,149	$ 34,227,350

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 2022	Comparative Total 2021
Revenue and support				
Tuition	$ 33,761,540	$ -	$ 33,761,540	$ 35,836,037
Psychological services	16,438	-	16,438	9,563
Food care program credits	263,205	-	263,205	236,579
Grants	5,108,648	-	5,108,648	2,734,199
Contributions	175,608	-	175,608	159,555
In kind contributions	-	-	-	222,910
Foundation support for operating activities	1,529,340	-	1,529,340	900,000
Special events, net	35,616	-	35,616	-
Interest income	215	-	215	217
Rental income	225,856	-	225,856	209,656
Management fee income	117,727	-	117,727	187,023
Other income	25,339	-	25,339	49,560
Releases from restrictions	5,732	(5,732)	-	-
Total revenue and support	41,265,264	(5,732)	41,259,532	40,545,299
Expenses				
Program services:				
Highpoint Center	10,998,542	-	10,998,542	10,709,639
Intensive Treatment Unit	9,059,376	-	9,059,376	8,651,827
Housatonic Day Academy	2,429,891	-	2,429,891	2,674,533
ASD Unit Program	8,064,222	-	8,064,222	8,778,083
ASD Day Program	4,921,708	-	4,921,708	3,034,162
Psychological Services	584	-	584	-
Total program services:	35,474,323	-	35,474,323	33,848,244
Support services:				
Management and general	5,563,139	-	5,563,139	5,149,062
Fund-raising	101,145	-	101,145	16,644
Total expenses	41,138,607	-	41,138,607	39,013,950
Change in net assets from operating activities	126,657	(5,732)	120,925	1,531,349
Non-operating activities				
Investment income (loss), net	(1,353,735)	-	(1,353,735)	2,687,293
Foundation contributions	(110,000)	-	(110,000)	(1,529,340)
Total non-operating activities	(1,463,735)	-	(1,463,735)	1,157,953
Change in net assets	(1,337,078)	(5,732)	(1,342,810)	2,689,302
Net assets, beginning	16,596,015	5,732	16,601,747	13,912,445
Net assets, ending	$ 15,258,937	$ -	$ 15,258,937	$ 16,601,747

See notes to financial statements.

HILLCREST EDUCATIONAL CENTERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30,

	Program Services							Support Services		
2022	Highpoint Center	Intensive Treatment Unit	Housatonic Day Academy	ASD Unit Program	ASD Day Program	Psychological Services	Total Program Services	Management and General	Fund-raising	Total 2022
Employee compensation and related expenses	$ 9,579,828	$ 8,022,654	$ 1,958,914	$ 7,417,103	$ 4,030,507	$ -	$ 31,009,006	$ 3,088,371	$ 81,736	$ 34,179,113
Occupancy	524,839	398,329	238,992	262,208	386,062	-	1,810,430	479,505	-	2,289,935
Program operating expenses	494,286	341,773	141,918	229,009	302,558	584	1,510,128	200,899	949	1,711,976
Administrative expenses	129,259	96,290	58,112	54,932	85,050	-	423,643	1,513,792	18,460	1,955,895
Depreciation	270,330	200,330	31,955	100,970	117,531	-	721,116	280,572	-	1,001,688
Total	$ 10,998,542	$ 9,059,376	$ 2,429,891	$ 8,064,222	$ 4,921,708	$ 584	$ 35,474,323	$ 5,563,139	$ 101,145	$ 41,138,607

	Program Services							Support Services		
2021	Highpoint Center	Intensive Treatment Unit	Housatonic Day Academy	ASD Unit Program	ASD Day Program	Psychological Services	Total Program Services	Management and General	Fund-raising	Total 2021
Employee compensation and related expenses	$ 9,152,424	$ 7,607,101	$ 2,110,781	$ 7,781,026	$ 2,439,177	$ -	$ 29,090,509	$ 3,032,044	$ 9,121	$ 32,131,674
Occupancy	482,500	349,826	230,975	351,897	215,821	-	1,631,019	190,215	-	1,821,234
Program operating expenses	663,017	403,650	169,371	429,554	242,945	-	1,908,537	349,418	-	2,257,955
Administrative expenses	133,252	78,849	88,851	78,514	54,948	-	434,414	1,296,626	7,523	1,738,563
Depreciation	278,446	212,401	74,555	137,092	81,271	-	783,765	280,759	-	1,064,524
Total	$ 10,709,639	$ 8,651,827	$ 2,674,533	$ 8,778,083	$ 3,034,162	$ -	$ 33,848,244	$ 5,149,062	$ 16,644	$ 39,013,950

See notes to financial statements.

HILLCREST EDUCATIONAL CENTERS, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30,

	2022	Comparative 2021
Cash flows from operating activities		
Change in net assets	$ (1,342,810)	$ 2,689,302
Adjustments to reconcile change in net assets		
to net cash provided (used) by operating activities:		
Depreciation	1,001,688	1,064,524
Amortization of bond issue costs	17,976	14,610
(Gain) loss on sale of property	-	7,224
Realized and unrealized (gain) loss on investments	1,403,124	(2,619,878)
(Increase) decrease in operating assets:		
Accounts receivable	882,747	(445,409)
Grants and contributions receivable	(21,356)	(870,587)
Inventory	(60,790)	(163,954)
Prepaid expenses	(343,150)	(25,417)
Investments held for deferred compensation plan	(6,160)	201,545
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(876,628)	698,493
Deposits held in custody for others	900	(1,500)
Unearned revenue	(484,537)	519,813
Donation payable to Hillcrest Educational Foundation	(654,670)	529,340
Other liabilities	6,160	(201,545)
Net cash provided (used) by operating activities	(477,506)	1,396,561
Cash flows from investing activities		
Proceeds from sale of long-term investments	3,380,255	3,197,207
Purchase of long-term investments	(3,534,758)	(3,295,757)
Proceeds from note receivable	15,675	15,675
Proceeds from sale of property and equipment	-	1,500
Additions of property and equipment	(703,880)	(581,232)
Net cash provided (used) by investing activities	(842,708)	(662,607)
Cash flows from financing activities		
Increase (decrease) in line of credit	761,353	-
Proceeds from issuance of long-term debt	12,159,446	-
Refinancing of notes payable	(11,900,869)	-
Principal payments on long-term debt	(213,522)	(316,860)
Net cash provided (used) by financing activities	806,408	(316,860)
Increase (decrease) in cash and equivalents	(513,806)	417,094
Cash and equivalents, beginning	613,750	196,656
Cash and equivalents, ending	$ 99,944	$ 613,750
Supplemental data		
Interest paid	$ 388,315	$ 466,674

See notes to financial statements.

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.

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, 2019.

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.

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, 2022 and 2021.

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.

NOTE 1 - (Continued)

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.

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. 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.

Grants and Contracts
The Organization's revenue is also derived from various federal, state and local grants and contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. While some grants and contracts are executed with the funding agency for more than one year, the performance period under these contracts is typically one year or less. Amounts received prior to providing service and/or incurring qualifying expenditures are reported as unearned revenue in the statement of financial position. Unearned revenue was $152,454 and $636,991 for the years ended June 30, 2022 and 2021, respectively.

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.

In Kind Support
The Organization records various types of in kind support including professional services, advertising and materials. Contributed professional services are recognized at fair market value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in kind support are offset by like amounts included in expenses or property and equipment. During fiscal year 2021, the Organization received in-kind donations of personal protective equipment with an estimated fair value of $222,910. No in-kind donations were received during fiscal year 2022. The in-kind donations received were considered without donor restrictions and able to be used by the Organization.

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.

NOTE 1 - (Continued)

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

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, 2022.

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 $928,803 and $1,052,941 for 2022 and 2021, respectively.

The Organization entered into Supplemental Executive Retirement Plan (SERP) deferred compensation agreement with its 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 in accordance with the terms of the agreements. The benefits are taxable when paid. The expense of this plan is being recognized over the period of employment of the Executive Director. The total liability as of June 30, 2022 was $80,448.

NOTE 1 - (Continued)

Advertising and Marketing

The Organization expenses advertising and marketing costs as incurred. Advertising and marketing expense was $86,092 and $82,699 for the years ended June 30, 2022 and 2021, 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.

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 28, 2022 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, 2021, 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, 2022 were $245,917, which was fully insured and collateralized. The Organization has not experienced any losses in such accounts. 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:

	2022	Comparative 2021
Tuition	$ 3,823,689	$ 4,752,079
Hillcrest Dental Care, Inc.	190,369	189,733
Other	259,631	202,624
Subtotal	4,273,689	5,144,436
Allowance for doubtful accounts	(162,397)	(150,397)
Accounts receivable, net	$ 4,111,292	$ 4,994,039

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.

	2022		Comparative 2021	
	Fair Value	Cost	Fair Value	Cost
Invested cash	$ 401,764	$ 401,764	$ 404,421	$ 404,421
Common stock	8,061,970	5,164,451	9,545,507	4,762,308
Municipal and corporate bonds	2,619,107	2,674,112	2,366,030	2,367,079
Equity exchange traded products	82,698	43,446	98,202	43,446
Total	$ 11,165,539	$ 8,283,773	$ 12,414,160	$ 7,577,254

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

	Fair Value	Cost	Unrealized Appreciation (Loss)
Balance at end of year	$ 11,165,539	$ 8,283,773	$ 2,881,766
Balance at beginning of year	12,414,160	7,577,254	4,836,906
Increase (decrease) in unrealized appreciation			$ (1,955,140)

NOTE 4 - (Continued)

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

	2022	Comparative 2021
Interest and dividends	$ 128,520	$ 129,110
Realized gains (losses)	552,016	853,065
Investment fees	(79,131)	(61,695)
Subtotal	601,405	920,480
Unrealized gains (losses)	(1,955,140)	1,766,813
Investment income (loss), net	$ (1,353,735)	$ 2,687,293

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

	2022	Comparative 2021
Land	$ 2,503,924	$ 2,503,924
Buildings	10,339,277	10,339,277
Building improvements	13,227,979	13,154,507
Life safety improvements	869,667	841,153
Office furniture and equipment	2,114,433	2,060,329
Residential furnishings	1,520,151	1,500,684
Equipment	2,499,327	2,476,712
Vehicles	45,500	45,500
Construction in progress	1,024,513	518,805
Total	34,144,771	33,440,891
Accumulated depreciation	(19,984,396)	(18,982,708)
Property and equipment, net	$ 14,160,375	$ 14,458,183

Depreciation expense was $1,001,688 and $1,064,524 for the years ended June 30, 2022 and 2021, respectively.

NOTE 6 - LEASE OBLIGATIONS

The Organization leases vehicles and equipment under various operating leases which expire through fiscal year 2027. Total lease expense for all operating leases was $267,923 and $262,871 for the years ended June 30, 2022 and 2021, respectively. Approximate future lease commitments payable during the years ending June 30 are as follows:

2023	$ 235,130
2024	97,180
2025	43,370
2026	20,173
2027	13,449
Total	$ 409,302

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

	2022	Comparative 2021
$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 was 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). On October 15, 2021, the bond payable was refinanced.	$ -	$ 4,150,052
$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 was 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). On October 15, 2021, the bond payable was refinanced.	-	3,606,999
$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 interest rate was fixed at 4.25%. On October 15, 2021, the multiple advance term note was refinanced.	-	3,827,080
$11,525,229 Series A bond payable to bank dated October 15, 2021, payable in monthly installments of principal and interest based on a 30-year amortization period estimated at $44,800 monthly, with the remaining balance due in full on the maturity date October 15, 2041. Secured by all business assets and pledge of gross revenues. The interest rate is fixed at 2.42%. The Organization also entered into an Interest Rate Swap agreement with the lender (see below).	11,329,676	-

NOTE 7 - (Continued)

	2022	Comparative 2021
$4,474,771 multiple advance Series B bond payable to bank dated October 15, 2021. Monthly payments of interest only are due through October 2024. Commencing in November 2024, monthly installments of principal and interest are due based on a 30-year amortization period and upon the amount outstanding at that time. Secured by all business assets and pledge of gross revenues. The interest rate is fixed at 2.42%. The bond matures on October 15, 2041. The Organization also entered into an Interest Rate Swap agreement with the lender (see below).	634,217	-
$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 is 3.64%.	243,636	252,893
$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 Wall Street Journal Prime Rate. The interest rate was 4.75% at June 30, 2022.	761,353	-
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.	6,201	14,914
Total notes payable	12,975,083	11,851,938
Amortizable costs of issuance	(640,932)	(342,171)
Total notes payable less amortizable costs of issuance	12,334,151	11,509,767
Amount due within one year	1,020,980	310,424
Amount due after one year	$ 11,313,171	$ 11,199,343

The above debt matures during the years ending June 30,

2023	$ 1,020,980
2024	284,303
2025	368,594
2026	417,340
2027	427,688
Thereafter	10,456,178
Total	$ 12,975,083

NOTE 7 - (Continued)

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 $11,525,229 Series A and $4,474,771 Series B tax-exempt bonds and is as follows:

The tax exempt bonds are variable rate obligations. The interest rate is calculated as (i) 0.79 times (ii) the sum of (a) the SOFR Rate plus (b) one hundred four basis points (1.04%). The hedge is a variable-to-fixed rate swap and is primarily interest based and is swapped to be a 20 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 20 years through October 2041. 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.

NOTE 8 - (Continued)

The net assets without donor restrictions designated by the board for investment are $11,165,539 and $12,414,160 as June 30, 2022 and 2021, respectively. The composition of the board-designated endowment assets are disclosed in Note 4 on page 13.

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

	2022	Comparative 2021
Board-designated endowment net assets, beginning of year	$ 12,414,160	$ 9,695,732
Investment return:		
Investment income	128,520	129,110
Realized and unrealized gains (losses)	(1,403,124)	2,619,878
Investment fees	(79,131)	(61,695)
Total investment return, net	(1,353,735)	2,687,293
Contributions	105,114	31,135
Withdrawals	-	-
Subtotal	105,114	31,135
Board-designated endowment net assets, end of year	$ 11,165,539	$ 12,414,160

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets of $0 and $5,732 with donor restrictions were available for various program and operational needs. Net assets of $5,732 were released from donor restrictions during the year ended June 30, 2022 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

NOTE 10 - 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 11 - 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 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 $58,000 and $41,800 during fiscal year 2022 and 2021, 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, 2022 and 2021 was $91,856. Minimum lease income expected to be received from the tenant for the years ended June 30 are as follows:

2023	$ 68,892

NOTE 13 - SPECIAL EVENTS ACTIVITIES FOR THE YEARS ENDED JUNE 30 WERE AS FOLLOWS:

	Golf Tournament
Special event revenues	
Ticket sales and fees	$ 20,751
Sponsorships	49,826
Total event revenues	70,577
Cost of direct benefits to donors	
Rent and facility costs	16,062
Other direct expenses	18,899
Total cost of direct benefits	34,961
Special events, net	$ 35,616

NOTE 14 - RELATED PARTY TRANSACTIONS

A member of the Board of Directors is the Vice President of an automobile association. During fiscal year 2022, the Organization incurred $1,656 ($1,513 in 2021) 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 $42,098 of expenses for services by the centers during fiscal year 2022 ($24,514 in 2021).

A member of the Board of Directors owns a local electrical contracting company with which the Organization does business. The Organization incurred $15,262 of expenses in fiscal year 2022 ($20,049 in 2021).

The President and Chief Executive Officer is a Corporator of a local health care entity with which the Organization does business. The Organization incurred $42,098 of expenses in fiscal year 2022 ($24,514 in 2021).

The Chief Operating Officer and Chief Financial Officer are members of the board of directors of Berkshire County Kids Place and Violence Prevention Center, Inc. with which the Organization provided business support and staff training. The Organization received $26,340 in fiscal year 2022 ($25,000 in 2021) for services provided.

NOTE 15 - 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 $110,000 and $1,529,340 were accrued and payable from Hillcrest Educational Centers, Inc. to Hillcrest Educational Foundation, Inc. in fiscal years 2022 and 2021, respectively. During the years ended June 30, 2022 and 2021, Hillcrest Educational Foundation, Inc. made contributions of $1,529,340 and $900,000 to Hillcrest Educational Centers, Inc., 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, 2022 and 2021.

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 2022 was $117,727 ($187,023 in 2021).

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
2023	$ 76,000	$ 117,727	$ 193,727
2024	76,000	117,727	193,727
2025	76,000	117,727	193,727
Total	$ 228,000	$ 353,181	$ 581,181

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, 2022 the outstanding balance was $31,349 ($47,024 as of June 30, 2021).

NOTE 15 - (Continued)

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, 2022 consisted of Hillcrest providing administrative and accounting services for which a management fee was charged.

NOTE 16 - 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.

	2022	Comparative 2021
Financial assets at year end:		
Cash and equivalents	$ 99,944	$ 613,750
Accounts receivable	4,111,292	4,994,039
Grants and contributions receivable	1,210,496	1,189,140
Long-term investments	11,165,539	12,414,160
Total financial assets	16,587,271	19,211,089
Less amounts not available to be used within one year:		
Net assets with donor restrictions	-	(5,732)
Less net assets with purpose restrictions to be met in less than one year	-	5,732
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	11,165,539	12,414,160
Financial assets available to meet general expenditures over the next twelve months	$ 5,421,732	$ 6,796,929

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, 2022, 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 28, 2022.

Report on 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 or significant deficiencies may exist that have not been identified.

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.

Adelson + Company PC

ADELSON & COMPANY PC

October 28, 2022