

**HILLCREST EDUCATIONAL CENTERS, INC.**

**Financial Statements**

**June 30, 2019**

Table of Contents

	Page
Independent Auditors' Report	2 - 3
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Statement of Functional Expenses	7
Notes to Financial Statements	8 - 20
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	21 -22

## 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, 2019, 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.

**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 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)*. Our opinion is not modified with respect to this matter.

**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, 2019, 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.

**Report on Summarized Comparative Information**

We have previously audited Hillcrest Educational Centers, Inc.'s 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 1, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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 18, 2019, 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 18, 2019

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

	2019	Comparative 2018
<b>ASSETS</b>		
Current assets		
Cash and equivalents	\$ 528,609	\$ 29,622
Accounts receivable, net	4,469,981	4,577,025
Grants receivable	9,702	18,945
Pledges receivable	12,000	76,489
Inventory	19,525	17,495
Prepaid expenses	903,360	864,921
Total current assets	5,943,177	5,584,497
Long-term investments	8,967,726	7,768,708
Property and equipment, net	14,980,575	14,963,575
Investments held for deferred compensation plan	254,189	209,630
Due from Hillcrest Dental Care, Inc.	78,374	94,048
<b>TOTAL ASSETS</b>	<b>\$ 30,224,041</b>	<b>\$ 28,620,458</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 423,655	\$ 776,660
Accrued expenses	3,743,285	3,222,603
Deposits held in custody for others	15,290	12,535
Deferred income	102,885	123,447
Donation payable to Hillcrest Educational Foundation	690,000	---
Notes payable due within one year	336,114	686,832
Total current liabilities	5,311,229	4,822,077
Other liabilities	254,189	209,630
Notes payable, less current portion	11,534,737	11,855,579
<b>TOTAL LIABILITIES</b>	<b>17,100,155</b>	<b>16,887,286</b>
Net assets		
Without donor restrictions	4,123,623	3,964,464
Without donor restrictions - board designated	8,967,726	7,768,708
With donor restrictions	32,537	---
Total net assets	13,123,886	11,733,172
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 30,224,041</b>	<b>\$ 28,620,458</b>

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 2019	Comparative Total 2018
<b>REVENUE AND SUPPORT</b>				
Tuition and fees	\$ 35,470,284		\$ 35,470,284	\$ 32,345,624
Psychological services	134,603		134,603	136,525
Food care program credits	203,245		203,245	210,402
Grants	102,316	\$ 32,537	134,853	98,345
Contributions	267,650		267,650	93,932
Special events, net	97,650		97,650	105,159
Interest income	278		278	219
Rental income	227,086		227,086	152,399
Management fee income	176,309		176,309	211,170
Other income	67,200		67,200	42,589
<b>TOTAL REVENUE AND SUPPORT</b>	<u>36,746,621</u>	<u>32,537</u>	<u>36,779,158</u>	<u>33,396,364</u>
<b>EXPENSES</b>				
Program services:				
Highpoint Center	9,727,180		9,727,180	9,484,403
Intensive Treatment Unit	7,582,842		7,582,842	7,049,569
Housatonic Day Academy	3,517,392		3,517,392	2,869,682
ASD Unit Program	9,504,481		9,504,481	8,713,313
Psychological Services	113,312		113,312	186,201
Total program services:	30,445,207	---	30,445,207	28,303,168
Support services:				
Management and general	4,983,266		4,983,266	4,549,678
Fund-raising	129,126		129,126	172,169
<b>TOTAL EXPENSES</b>	<u>35,557,599</u>	<u>---</u>	<u>35,557,599</u>	<u>33,025,015</u>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<u>1,189,022</u>	<u>32,537</u>	<u>1,221,559</u>	<u>371,349</u>
<b>NON-OPERATING ACTIVITIES</b>				
Investment income (loss), net	869,155		869,155	863,605
Contributions for capital project			---	343,323
Foundation support revenue (expense)	(700,000)		(700,000)	---
<b>TOTAL NON-OPERATING ACTIVITIES</b>	<u>169,155</u>	<u>---</u>	<u>169,155</u>	<u>1,206,928</u>
<b>CHANGE IN NET ASSETS</b>	1,358,177	32,537	1,390,714	1,578,277
Net assets, beginning	11,733,172	---	11,733,172	10,154,895
<b>NET ASSETS, ENDING</b>	<u>\$ 13,091,349</u>	<u>\$ 32,537</u>	<u>\$ 13,123,886</u>	<u>\$ 11,733,172</u>

See notes to financial statements.

**HILLCREST EDUCATIONAL CENTERS, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30,**

	2019	Comparative 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>CHANGE IN NET ASSETS</b>	\$ 1,390,714	\$ 1,578,277
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,060,800	997,708
Amortization of bond issue costs	14,600	15,038
(Gain) loss on sale of property	(21,158)	(1,600)
Realized and unrealized (gain) loss on investments	(787,326)	(795,075)
(Increase) decrease in operating assets:		
Accounts receivable	107,044	(473,324)
Grants receivable	9,243	5,656
Pledge receivable	64,489	(26,489)
Inventory	(2,030)	3,399
Prepaid expenses	(38,439)	(98,780)
Investments held for deferred compensation plan	(44,559)	(46,747)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	167,677	708,612
Deposits held in custody for others	2,755	1,600
Deferred income	(20,562)	(110,755)
Donation payable to Hillcrest Educational Foundation	690,000	---
Other liabilities	44,559	46,747
Contributions restricted for capital project	---	(317,323)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	2,637,807	1,486,944
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of long-term investments	1,507,208	800,667
Purchase of long-term investments	(1,918,900)	(855,184)
Proceeds from note receivable	15,674	15,675
Proceeds from sale of property and equipment	26,500	1,600
Additions of property and equipment	(1,083,142)	(3,130,203)
Contributions restricted for capital project	---	317,323
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	(1,452,660)	(2,850,122)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in line of credit	(381,942)	(50,658)
Proceeds from issuance of long-term debt	145,016	1,577,299
Principal payments on long-term debt	(449,234)	(219,529)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	(686,160)	1,307,112
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	498,987	(56,066)
Cash and equivalents, beginning	29,622	85,688
<b>CASH AND EQUIVALENTS, ENDING</b>	\$ 528,609	\$ 29,622
<b>SUPPLEMENTAL DATA</b>		
Interest paid	\$ 501,788	\$ 497,694

See notes to financial statements.

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

	Program Services					Support Services			Total 2019
	Highpoint Center	Intensive Treatment Unit	Housatonic Day Academy	ASD Unit Program	Psychological Services	Total Program Services	Management and General	Fund-raising	
<b>2019</b>									
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
<b>Total</b>	<b>\$ 9,727,180</b>	<b>\$ 7,582,842</b>	<b>\$ 3,517,392</b>	<b>\$ 9,504,481</b>	<b>\$ 113,312</b>	<b>\$ 30,445,207</b>	<b>\$ 4,983,266</b>	<b>\$ 129,126</b>	<b>\$ 35,557,599</b>

	Program Services					Support Services			Comparative Total 2018
	Highpoint Center	Intensive Treatment Unit	Housatonic Day Academy	ASD Unit Program	Psychological Services	Total Program Services	Management and General	Fund-raising	
<b>Comparative 2018</b>									
Employee compensation and related expenses	\$ 8,006,371	\$ 6,032,320	\$ 2,300,906	\$ 7,297,373	\$ 142,453	\$ 23,779,423	\$ 2,801,154	\$ 108,783	\$ 26,689,360
Occupancy	435,101	311,935	205,105	527,918		1,480,059	195,592		1,675,651
Program operating expenses	629,095	394,839	231,825	532,730	43,748	1,832,237	225,131	1,652	2,059,020
Administrative expenses	121,901	107,537	73,831	135,913		439,182	1,102,360	61,734	1,603,276
Depreciation	291,935	202,938	58,015	219,379		772,267	225,441		997,708
<b>Total</b>	<b>\$ 9,484,403</b>	<b>\$ 7,049,569</b>	<b>\$ 2,869,682</b>	<b>\$ 8,713,313</b>	<b>\$ 186,201</b>	<b>\$ 28,303,168</b>	<b>\$ 4,549,678</b>	<b>\$ 172,169</b>	<b>\$ 33,025,015</b>

See notes to financial statements.

**HILLCREST EDUCATIONAL CENTERS, INC.****NOTES TO FINANCIAL STATEMENTS****June 30, 2019****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**

The Organization adopted the Financial Accounting Standards Board Accounting Standards Update (Update) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which updates and supersedes previous guidance for certain disclosures. Under the new guidance, the three-category classification of net assets is now reported in two categories: with donor restrictions and without donor restrictions. Additional requirements include disclosure of board-designated net assets (Note 8), expanded reporting to present expenses by function and natural classification (Statement of Functional Expenses), and additional disclosure on the Organization's liquidity management policy (Note 17). As required by the Update, the Organization has reclassified net assets retrospectively. Unrestricted net assets of \$11,733,172 at June 30, 2018 have been reclassified to *net assets without donor restrictions* on the Statement of Financial Position and the Statement of Activities. As permitted by the update, disclosure on liquidity management has been omitted for periods starting before July 1, 2018.

**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)(1)(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, 2016.

**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**

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



**NOTE 1 - (Continued)****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.

**Accounts Receivable**

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

**Inventory**

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

**Investments**

Investments are presented in the financial statements at fair value, Level 1 input, as described below. Unrealized gains and losses are included in the change in net assets. Restricted gains and investment income whose 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, 2019.

**NOTE 1 - (Continued)****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 \$903,444 and \$865,346 for 2019 and 2018, respectively.

The Organization entered into Supplemental Executive Retirement Plan (SERP) deferred compensation agreements with its President and CEO 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 CEO and Executive Director, including \$18,500 and \$15,000 for the year ended June 30, 2019, respectively. The total liability as of June 30, 2019 and 2018 was \$254,189 and \$209,630, 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.

**Advertising and Marketing**

The Organization expenses advertising and marketing costs as incurred. Advertising and marketing expense was \$69,431 and \$87,882 for the years ended June 30, 2019 and 2018, respectively.

**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 18, 2019 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, 2018, 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, 2019 were \$640,379 of which \$380,618 was insured and collateralized and \$259,761 was uninsured. 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:**

	2019	Comparative 2018
Student tuition and fees	\$ 4,480,856	\$ 4,467,159
Hillcrest Dental Care, Inc.	27,568	34,384
Other	111,557	163,080
Subtotal	4,619,981	4,664,623
Allowance for doubtful accounts	(150,000)	(87,598)
Accounts receivable, net	<u>\$ 4,469,981</u>	<u>\$ 4,577,025</u>

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

	2019		Comparative 2018	
	Fair Value	Cost	Fair Value	Cost
Invested cash	\$ 246,396	\$ 246,396	\$ 244,506	\$ 244,506
Corporate stock	6,521,321	3,527,278	6,012,314	3,515,212
Municipal and corporate bonds	1,782,981	1,779,363	1,021,544	1,035,596
Mutual funds	417,028	266,525	490,344	339,219
Total	<u>\$ 8,967,726</u>	<u>\$ 5,819,562</u>	<u>\$ 7,768,708</u>	<u>\$ 5,134,533</u>

**NOTE 4 - (Continued)**

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

	Fair Value	Cost	Unrealized Appreciation (Loss)
Balance at end of year	\$ 8,967,726	\$ 5,819,562	\$ 3,148,164
Balance at beginning of year	7,768,708	5,134,533	2,634,175
Increase in unrealized appreciation			<u>\$ 513,989</u>

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

	2019	Comparative 2018
Interest and dividends	\$ 131,601	\$ 117,541
Realized gains (losses)	273,337	208,786
Investment fees	(49,772)	(49,011)
Subtotal	355,166	277,316
Unrealized gains (losses)	513,989	586,289
Investment income (loss), net	<u>\$ 869,155</u>	<u>\$ 863,605</u>

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

	2019	Comparative 2018
Land	\$ 2,416,024	\$ 2,416,024
Buildings	9,992,660	9,992,660
Building improvements	12,556,827	11,829,874
Life safety improvements	802,437	738,820
Office furniture and equipment	1,733,763	1,658,663
Residential furnishings	1,432,640	1,372,550
Equipment	2,384,984	2,271,256
Vehicles	45,500	45,500
Construction in progress	441,399	428,182
Total	31,806,234	30,753,529
Accumulated depreciation	(16,825,659)	(15,789,954)
Property and equipment, net	<u>\$ 14,980,575</u>	<u>\$ 14,963,575</u>

Depreciation expense was \$1,060,800 and \$997,708 for the years ended June 30, 2019 and 2018, 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 \$230,755 and \$216,373 for the years ended June 30, 2019 and 2018, respectively.

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

2020	\$	233,753
2021		209,496
2022		99,299
2023		43,090
2024 - 2025		<u>16,712</u>
Total	\$	<u>602,350</u>

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

	<u>2019</u>	<u>Comparative 2018</u>
\$5,000,000 Series A bond payable to bank dated June 2014, payable in monthly installments of principal and interest, estimated at \$22,882 monthly. Secured by a mortgage on land and buildings as well as an assignment of rents and leases on specified real properties. The interest rate is fixed at 3.47% through June 2024 at which time the bond is required to be purchased by the Borrower in accordance with the bond agreement (Bondowners' Option to Put Bonds). The bond matures in June 2044. The Organization also entered into an Interest Rate Swap agreement with the lender (see below).	\$ 4,379,324	\$ 4,587,925
\$4,053,581 multiple advance Series B bond payable to bank dated June 2014, monthly installments of principal and interest, estimated at \$19,569 monthly. Secured by a mortgage on land and buildings as well as an assignment of rents and leases on specified real properties. The interest rate is fixed 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).	3,793,413	3,881,314
\$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%.	3,970,539	4,038,000

(Continued)

**NOTE 7 - (Continued)**

	<u>2019</u>	<u>Comparative 2018</u>
\$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 4.40% at June 30, 2019 (4.08% at June 30, 2018).	---	381,942
\$120,000 multiple advance term note to bank dated February 2015, payable in monthly payments of principal and interest in the amount of \$2,672. Secured by certain cameras and recording systems and all personal property of the Organization. The interest rate was fixed at 3.25% through maturity in February 2020. This note was paid in full during fiscal year 2019.	---	39,221
Multiple notes payable to Eversource Energy 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.	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.	<u>32,338</u>	---
Total notes payable	12,242,242	12,928,402
Amortizable costs of issuance	<u>(371,391)</u>	<u>(385,991)</u>
Total notes payable less amortizable costs of issuance	11,870,851	12,542,411
Amount due within one year	<u>336,114</u>	<u>686,832</u>
Amount due after one year	<u>\$ 11,534,737</u>	<u>\$ 11,855,579</u>
The above debt matures during the years ending June 30,		
2020	\$ 336,114	
2021	306,205	
2022	302,595	
2023	309,383	
2024	315,864	
Thereafter	<u>10,672,081</u>	
Total	<u>\$ 12,242,242</u>	

(Continued)

**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 \$5,000,000 Series A and \$4,000,000 Series B tax-exempt bonds and is as follows:

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

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

**NOTE 8 - BOARD-DESIGNATED ENDOWMENT**

The Board of Directors has designated certain funds to function as an endowment. They represent amounts that have been segregated by the Board of Directors for a period of time to provide income to support the Organization's mission. Since the designations are voluntary and may be reversed by the Board at any time, the board-designated endowment is not considered 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 \$8,967,726 and \$7,768,708 as June 30, 2019 and 2018, respectively. The composition of the board-designated endowment assets are disclosed in Note 4 on page 11.

**NOTE 8 - (Continued)**

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

	<u>2019</u>	<u>Comparative 2018</u>
Board-designated endowment net assets, beginning of year	\$ 7,768,708	\$ 6,919,116
Investment return:		
Investment income	131,601	117,541
Realized and unrealized gains (losses)	787,326	795,075
Investment fees	(49,772)	(49,011)
Total investment return, net	<u>869,155</u>	<u>863,605</u>
Contributions	329,863	52,361
Withdrawals	---	(66,374)
Subtotal	<u>329,863</u>	<u>(14,013)</u>
Board-designated endowment net assets, end of year	<u>\$ 8,967,726</u>	<u>\$ 7,768,708</u>

**NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2019</u>	<u>Comparative 2018</u>
Youth-Guided and Family-Driven Treatment Program	\$ 25,000	\$ ---
ASD Vocational Room Improvements	<u>7,537</u>	<u>---</u>
Total	<u>\$ 32,537</u>	<u>\$ ---</u>

**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.

	<u>2019</u>	<u>Comparative 2018</u>
St. Mark's School:		
Interactive Media Wall	\$ ---	\$ 25,000
Information Technology	<u>---</u>	<u>50,000</u>
Total	<u>\$ ---</u>	<u>\$ 75,000</u>



**NOTE 11 - SURPLUS (DEFICIT) REVENUE RETENTION**

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

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

**NOTE 12 - RENTAL INCOME**

The Organization leases property it owns on an at-will basis to certain employees who work in the Organization’s programs. Rental income was \$47,700 and \$47,039 during fiscal year 2019 and 2018, 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 the years ended June 30, 2019 and 2018 were \$91,856 and \$22,964, respectively. Minimum lease income expected to be received from the tenant for the years ended June 30 are as follows:

2020	\$	91,856
2021		91,856
2022		91,856
2023		<u>68,892</u>
Total	\$	<u>344,460</u>

**NOTE 13 - 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 14 - SPECIAL EVENTS ACTIVITIES FOR THE YEARS ENDED JUNE 30 WERE AS FOLLOWS:**

	2019		
	Golf Tournament	St. Patrick's Day Event	Total
Special event revenues			
Ticket sales and fees	\$ 20,612	\$ 7,470	\$ 28,082
Sponsorships	54,376	64,236	118,612
Total event revenues	<u>74,988</u>	<u>71,706</u>	<u>146,694</u>
Cost of direct benefits to donors			
Rent and facility costs	7,112	9,490	16,602
Other direct expenses	26,485	5,957	32,442
Total cost of direct benefits to donors	<u>33,597</u>	<u>15,447</u>	<u>49,044</u>
Special events, net	<u>\$ 41,391</u>	<u>\$ 56,259</u>	<u>\$ 97,650</u>
	Comparative 2018		
	Golf Tournament	St. Patrick's Day Event	Total
Special event revenues			
Ticket sales and fees	\$ 25,149	\$ 10,141	\$ 35,290
Sponsorships	68,791	52,562	121,353
Total event revenues	<u>93,940</u>	<u>62,703</u>	<u>156,643</u>
Cost of direct benefits to donors			
Rent and facility costs	15,316	8,157	23,473
Other direct expenses	20,231	7,780	28,011
Total cost of direct benefits to donors	<u>35,547</u>	<u>15,937</u>	<u>51,484</u>
Special events, net	<u>\$ 58,393</u>	<u>\$ 46,766</u>	<u>\$ 105,159</u>

**NOTE 15 - RELATED PARTY TRANSACTIONS**

A member of the Board of Directors is the Vice President of an automobile association. During fiscal year 2019, the Organization incurred \$1,394 (\$1,394 in 2018) of membership fees to the automobile association.

A member of the Board of Directors is also a board member at three local medical centers with which the Organization does business. The Organization incurred \$43,244 of expenses for services by the centers during fiscal year 2019 (\$38,816 in 2018).

A member of the Board of Directors owns a local electrical contracting company with which the Organization does business. The Organization incurred \$38,731 of expenses in fiscal year 2019 (\$80,754 in 2018).

The President and Chief Executive Officer is a Corporator of a local health care organization in which the Organization engages in business activity and incurred \$40,392 of expenses during fiscal year 2019 (\$29,678 in 2018).

In 2019, the Executive Vice President and Chief Financial Officer were directors of the Berkshire County Kids Place with which the Organization provided business support and staff training. The Organization received \$25,000 in fiscal year 2019 (\$25,000 in 2018) 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, a contribution of \$700,000 was accrued and payable from Hillcrest Educational Centers, Inc. to Hillcrest Educational Foundation, Inc. in fiscal year 2019. No contribution was accrued in fiscal year 2018.

**Transactions between Hillcrest Educational Center, Inc. and Hillcrest Dental Care, Inc.***Facilities Lease Agreement*

A facilities lease agreement has been entered into between Hillcrest Educational Centers, Inc. (Landlord) and Hillcrest Dental Care, Inc. (Tenant), in which Hillcrest Dental Care, Inc. will pay Hillcrest Educational Centers, Inc. a base rent of \$6,333 per month. The lease commenced on July 1, 2011 and expires on June 30, 2020. The lease agreement can be extended for an additional nine consecutive periods of five years each. Total lease income received from Hillcrest Dental Care, Inc. was \$76,000 for each of the years ending June 30, 2019 and 2018.

*Management Agreement*

A management agreement exists between Hillcrest Educational Centers, Inc. (Manager) and Hillcrest Dental Care, Inc. (Licensee), in which Hillcrest Dental Care, Inc. will pay Hillcrest Educational Centers, Inc. an annual management fee to cover the cost of executive, financial and administrative and general support. The determination of the fee is based upon the Manager's projected costs and any other costs of providing the services, including reimbursement for the cost of all salaries, benefits and any other actual and direct costs of providing the services by the Manager. The agreement commenced on July 1, 2011 and expires on June 30, 2020. The agreement shall renew automatically for successive five year terms unless terminated pursuant to the terms of the agreement. Total management fee income received in fiscal year 2019 was \$176,309 (\$211,170 in 2018).

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
2020	\$ 76,000	\$ 111,815	\$ 187,815

*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, 2019 the outstanding balance was \$78,374 (\$94,048 as of June 30, 2018).

**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, 2019 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.

	<u>2019</u>
Financial assets at year end:	
Cash and equivalents	\$ 528,609
Accounts receivable	4,469,981
Grants receivable	9,702
Pledges receivable	12,000
Long-term investments	<u>8,967,726</u>
Total financial assets	<u>13,988,018</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(32,537)
Less net assets with purpose restrictions to be met in less than one year	<u>32,537</u>
Total amount not available to be used within one year:	<u>---</u>
Less board designated long-term investments that can be drawn upon if the Board of Directors approves that action	<u>8,967,726</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 5,020,292</u>

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, 2019, 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 18, 2019.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



ADELSON &amp; COMPANY PC

October 18, 2019