**HILLCREST EDUCATIONAL CENTERS, INC.**

**Financial Statements**

**June 30, 2024**

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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, 2024, 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, 2024, 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 (GAAS) 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.

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 auditor's 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 GAAS 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 GAAS 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 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, 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, 2024, 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 solely 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 the effectiveness of Hillcrest Educational Centers, Inc.'s 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, 2024

## HILLCREST EDUCATIONAL CENTERS, INC.

## STATEMENT OF FINANCIAL POSITION

**June 30,**

| | | 2024 | | Comparative 2023 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ | 61,441 | $ | 166,689 |
| Accounts receivable, net | | 6,287,089 | | 4,821,448 |
| Grants receivable | | 31,118 | | 27,049 |
| Inventory | | 284,195 | | 287,169 |
| Prepaid expenses | | 413,012 | | 347,285 |
| Total current assets | | 7,076,855 | | 5,649,640 |
| Long-term investments | | 15,329,792 | | 13,065,614 |
| Property and equipment, net | | 17,509,039 | | 16,651,674 |
| Right-of-use operating lease assets, net | | 355,197 | | 281,419 |
| Investments held for deferred compensation plan | | 194,745 | | 148,365 |
| Due from Hillcrest Dental Care, Inc. | | - | | 15,675 |
| Total assets | $ | 40,465,628 | $ | 35,812,387 |
| **Liabilities and net assets** | | | | |
| Current liabilities | | | | |
| Accounts payable | $ | 685,047 | $ | 554,257 |
| Accrued expenses | | 2,788,105 | | 2,512,563 |
| Deposits held in custody for others | | 11,460 | | 12,235 |
| Unearned revenue | | 153,813 | | 292,841 |
| Donation payable to Hillcrest Educational Foundation | | 843,000 | | 343,000 |
| Notes payable due within one year | | 2,550,054 | | 1,001,097 |
| Operating lease liabilities, due within one year | | 150,487 | | 117,623 |
| Total current liabilities | | 7,181,966 | | 4,833,616 |
| Other liabilities | | 194,745 | | 148,365 |
| Notes payable, less current portion | | 13,668,772 | | 13,604,811 |
| Operating lease liabilities, net of current portion | | 204,710 | | 163,796 |
| Total liabilities | | 21,250,193 | | 18,750,588 |
| Net assets | | | | |
| Without donor restrictions | | 3,885,643 | | 3,996,185 |
| Without donor restrictions - board designated | | 15,329,792 | | 13,065,614 |
| Total net assets | | 19,215,435 | | 17,061,799 |
| Total liabilities and net assets | $ | 40,465,628 | $ | 35,812,387 |

See notes to financial statements.

**HILLCREST EDUCATIONAL CENTERS, INC.**
**STATEMENT OF ACTIVITIES**
**For the Year Ended June 30,**

| | Without Donor Restrictions | |
|---|---|---|
| | 2024 | Comparative 2023 |
| **Revenue and support** | | |
| Tuition | $ 45,678,279 | $ 38,225,436 |
| Psychological services | 9,875 | 12,931 |
| Food care program credits | 309,895 | 268,083 |
| Grants | 268,679 | 6,190,943 |
| Donations | 132,884 | 129,140 |
| Foundation support for operating activities | 1,076,550 | - |
| Special events, net | 57,616 | 77,797 |
| Rental income | 256,426 | 212,413 |
| Management fee income | 155,945 | 152,364 |
| Other income | 16,284 | 10,643 |
| Total revenue and support | 47,962,433 | 45,279,750 |
| **Expenses** | | |
| Program services: | | |
| Highpoint Center | 12,829,682 | 12,424,223 |
| Intensive Treatment Unit | 10,132,762 | 9,839,954 |
| Housatonic Day Academy | 3,219,987 | 2,997,024 |
| ASD Unit Program | 9,336,376 | 8,433,005 |
| ASD Day Program | 5,995,278 | 5,656,875 |
| Psychological Services | - | 797 |
| Total program services: | 41,514,085 | 39,351,878 |
| Support services: | | |
| Management and general | 5,817,063 | 5,572,263 |
| Fund-raising | 122,300 | 117,444 |
| Total expenses | 47,453,448 | 45,041,585 |
| Change in net assets from operating activities | 508,985 | 238,165 |
| **Non-operating activities** | | |
| Investment income (loss), net | 2,144,651 | 1,797,697 |
| Foundation contributions | (500,000) | (233,000) |
| Total non-operating activities | 1,644,651 | 1,564,697 |
| Change in net assets | 2,153,636 | 1,802,862 |
| Net assets, beginning | 17,061,799 | 15,258,937 |
| Net assets, ending | $ 19,215,435 | $ 17,061,799 |

See notes to financial statements.

**HILLCREST EDUCATIONAL CENTERS, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30,**

| **2024** | Program Services | | | | | | | Support Services | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 2024 |
| Employee compensation and related expenses | $ 11,290,844 | $ 9,024,036 | $ 2,597,186 | $ 8,317,540 | $ 5,071,406 | $ - | $ 36,301,012 | $ 3,682,873 | $ 107,089 | $ 40,090,974 |
| Occupancy | 548,387 | 433,550 | 352,357 | 385,914 | 212,145 | - | 1,932,353 | 263,637 | - | 2,195,990 |
| Program operating expenses | 570,776 | 403,576 | 166,919 | 372,081 | 215,591 | - | 1,728,943 | 186,684 | - | 1,915,627 |
| Administrative expenses | 150,656 | 108,599 | 59,096 | 55,579 | 381,536 | - | 755,466 | 1,471,617 | 15,211 | 2,242,294 |
| Depreciation | 269,019 | 163,001 | 44,429 | 205,262 | 114,600 | - | 796,311 | 212,252 | - | 1,008,563 |
| Total | $ 12,829,682 | $ 10,132,762 | $ 3,219,987 | $ 9,336,376 | $ 5,995,278 | $ - | $ 41,514,085 | $ 5,817,063 | $ 122,300 | $ 47,453,448 |

| **2023** | Program Services | | | | | | | Support Services | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 2023 |
| Employee compensation and related expenses | $ 10,900,486 | $ 8,767,255 | $ 2,308,233 | $ 7,513,523 | $ 5,071,793 | $ 797 | $ 34,562,087 | $ 3,345,636 | $ 103,336 | $ 38,011,059 |
| Occupancy | 575,938 | 410,236 | 332,819 | 349,179 | 227,214 | - | 1,895,386 | 236,941 | - | 2,132,327 |
| Program operating expenses | 551,196 | 392,564 | 220,283 | 398,719 | 139,887 | - | 1,702,649 | 226,863 | 262 | 1,929,774 |
| Administrative expenses | 135,016 | 85,712 | 63,945 | 72,771 | 47,426 | - | 404,870 | 1,569,333 | 13,846 | 1,988,049 |
| Depreciation | 261,587 | 184,187 | 71,744 | 98,813 | 170,555 | - | 786,886 | 193,490 | - | 980,376 |
| Total | $ 12,424,223 | $ 9,839,954 | $ 2,997,024 | $ 8,433,005 | $ 5,656,875 | $ 797 | $ 39,351,878 | $ 5,572,263 | $ 117,444 | $ 45,041,585 |

See notes to financial statements.

**HILLCREST EDUCATIONAL CENTERS, INC.**

**STATEMENT OF CASH FLOWS**

**For the Year Ended June 30,**

| | | 2024 | | Comparative 2023 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| **Change in net assets** | $ | 2,153,636 | $ | 1,802,862 |
| Adjustments to reconcile change in net assets | | | | |
| to net cash provided (used) by operating activities: | | | | |
| Depreciation | | 1,008,563 | | 980,376 |
| Amortization of right-of-use lease assets | | 133,601 | | 80,710 |
| Amortization of bond issue costs | | 21,850 | | 21,850 |
| Realized and unrealized (gain) loss on investments | | (1,979,395) | | (1,681,737) |
| (Increase) decrease in operating assets: | | | | |
| Accounts receivable | | (1,465,641) | | (710,156) |
| Grants receivable | | (4,069) | | 1,183,447 |
| Inventory | | 2,974 | | 614 |
| Prepaid expenses | | (65,727) | | 205,638 |
| Investments held for deferred compensation plan | | (46,380) | | (67,917) |
| Increase (decrease) in operating liabilities: | | | | |
| Accounts payable and accrued expenses | | 406,332 | | 80,166 |
| Deposits held in custody for others | | (775) | | (600) |
| Unearned revenue | | (139,028) | | 140,387 |
| Donation payable to Hillcrest Educational Foundation | | 500,000 | | (531,670) |
| Other liabilities | | 46,380 | | 67,917 |
| Operating lease liabilities | | (133,601) | | (80,710) |
| Net cash provided (used) by operating activities | | 438,720 | | 1,491,177 |
| | | | | |
| **Cash flows from investing activities** | | | | |
| Proceeds from sale of long-term investments | | 3,376,156 | | 2,234,951 |
| Purchase of long-term investments | | (3,660,939) | | (2,453,289) |
| Proceeds from note receivable | | 15,675 | | 15,674 |
| Additions of property and equipment | | (1,865,928) | | (3,471,675) |
| Net cash provided (used) by investing activities | | (2,135,036) | | (3,674,339) |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Increase (decrease) in line of credit | | 1,060,436 | | (53,221) |
| Proceeds from issuance of long-term debt | | 830,579 | | 2,590,626 |
| Principal payments on long-term debt | | (299,947) | | (287,498) |
| Net cash provided (used) by financing activities | | 1,591,068 | | 2,249,907 |
| | | | | |
| Increase (decrease) in cash and cash equivalents | | (105,248) | | 66,745 |
| Cash and cash equivalents, beginning | | 166,689 | | 99,944 |
| Cash and cash equivalents, ending | $ | 61,441 | $ | 166,689 |
| | | | | |
| **Supplemental data** | | | | |
| Interest paid | $ | 508,373 | $ | 408,064 |
| Cash paid during the year for operating lease liabilities | $ | 165,295 | $ | 159,891 |
| | | | | |
| **Noncash financing and investing activities:** | | | | |
| Right-of-use assets obtained in exchange for lease obligations: | | | | |
| Operating leases | $ | 207,379 | $ | 148,519 |

See notes to financial statements.

HILLCREST EDUCATIONAL CENTERS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2024

## 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, 2021.

### 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.

### 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.

### Contributions of Nonfinancial Assets

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 contributions of nonfinancial assets are offset by like amounts included in expenses or property and equipment. There were no contributions of nonfinancial assets in fiscal year 2024 or 2023.

**NOTE 1 - (Continued)**

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

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

**Accounts Receivable**
Accounts receivable arise in the normal course of business and are stated at their net carrying value, the net amount expected to be collected, based on the original cost less the accumulated lifetime estimated net credit loss allowance. Management records an allowance at the inception of each financial asset of their estimate of amounts that they anticipate to be uncollectible, and they closely monitor outstanding balances throughout the life of the financial asset. Management also routinely assesses the financial strength of its creditors and, as a consequence, believes that its accounts receivable credit risk exposure is limited. The provision for credit losses at June 30, 2024 and 2023 was $113,777 and $174,397, respectively.

**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 $5,000. 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, 2024.

**Right-of-Use Lease Assets and Lease Liabilities**

The Organization determines if a contract/arrangement is or contains a lease at inception. All leases are included in right-of-use assets and lease liabilities in the statement of financial position, except for short-term leases (leases with a term of 12 months or less).

Operating lease right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. Right-of-use assets also include adjustments related to lease payments made and lease incentives received at or before the commencement date. The right-of-use assets and related liabilities are reported separately on the statement of financial position. Operating lease cost is recognized on a straight-line basis over the lease term as lease expense in the statement of functional expenses.

**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 $853,203 and $713,553 for 2024 and 2023, respectively.

The Organization entered into Supplemental Executive Retirement Plan (SERP) deferred compensation agreement with its Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer. 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 Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer. The total liability as of June 30, 2024 was $194,745.

**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, 2024 and 2023.

The children and adolescents are supported by the Commonwealth of Massachusetts Departments of Child, Youth and Family Services, Department of Education, and various Massachusetts cities and towns. Additional support is also provided by out-of-state agencies, cities and towns for children and adolescents that reside outside of Massachusetts. Tuition rates for Massachusetts residents are authorized and set annually by the Commonwealth of Massachusetts. Tuition rates for out-of-state residents, such as New York and Connecticut are authorized and set annually by those states. Tuition, as set by the contracting states, may include the cost of room and board, in addition to education and treatment services, depending upon the needs of the individual children and adolescents.

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

*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.

**NOTE 1 - (Continued)**

*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 $153,813 and $292,841 for the years ended June 30, 2024 and 2023, respectively.

**Advertising and Marketing**
The Organization expenses advertising and marketing costs as incurred. Advertising and marketing expense was $58,118 and $69,715 for the years ended June 30, 2024 and 2023, respectively.

**Indirect 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 either on direct salaries and fringe benefits charged directly to each program or estimated use.

**Functional Allocation of Expenses**
The costs of providing program and support activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated using management's estimates among the program and supporting activities benefited. 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 the indirect cost allocation plan described above.

**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, 2024 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, 2023, 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, 2024 were $228,039, 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**

Accounts receivable consisted of the following at June 30:

| | 2024 | Comparative 2023 |
|---|---|---|
| Tuition | $ 6,014,169 | $ 4,495,281 |
| Hillcrest Dental Care, Inc. | 130,718 | 118,224 |
| Other | 255,979 | 382,340 |
| Subtotal | 6,400,866 | 4,995,845 |
| Provision for credit losses | (113,777) | (174,397) |
| Accounts receivable, net | $ 6,287,089 | $ 4,821,448 |

**NOTE 4 - LONG-TERM INVESTMENTS**

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.

| | 2024 | | Comparative 2023 | |
|---|---|---|---|---|
| | Fair Value | Cost | Fair Value | Cost |
| Invested cash | $ 362,696 | $ 362,696 | $ 389,175 | $ 389,175 |
| Common stock | 11,969,937 | 5,899,865 | 9,842,336 | 5,609,690 |
| Municipal and corporate bonds | 2,890,143 | 2,906,824 | 2,738,321 | 2,788,987 |
| Equity exchange traded products | 107,016 | 43,446 | 95,782 | 43,446 |
| Total | $ 15,329,792 | $ 9,212,831 | $ 13,065,614 | $ 8,831,298 |

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

| | Fair Value | Cost | Unrealized Appreciation (Loss) |
|---|---|---|---|
| Balance at end of year | $ 15,329,792 | $ 9,212,831 | $ 6,116,961 |
| Balance at beginning of year | 13,065,614 | 8,831,298 | 4,234,316 |
| Increase (decrease) in unrealized appreciation | | | $ 1,882,645 |

**NOTE 4 - (Continued)**

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

| | 2024 | Comparative 2023 |
|---|---|---|
| Interest and dividends | $ 252,244 | $ 191,760 |
| Realized gains (losses) | 96,750 | 329,187 |
| Investment fees | (86,988) | (75,800) |
| Subtotal | 262,006 | 445,147 |
| Unrealized gains (losses) | 1,882,645 | 1,352,550 |
| Investment income (loss), net | $ 2,144,651 | $ 1,797,697 |

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30:

| | 2024 | Comparative 2023 |
|---|---|---|
| Land | $ 2,626,681 | $ 2,626,681 |
| Buildings | 10,713,533 | 10,713,533 |
| Building improvements | 14,027,602 | 13,718,185 |
| Life safety improvements | 1,072,962 | 963,843 |
| Office furniture and equipment | 2,459,890 | 2,142,810 |
| Residential furnishings | 1,630,324 | 1,573,954 |
| Equipment | 2,791,123 | 2,558,264 |
| Vehicles | 45,500 | 45,500 |
| Construction in progress | 4,114,759 | 3,273,676 |
| Total | 39,482,374 | 37,616,446 |
| Accumulated depreciation | (21,973,335) | (20,964,772) |
| Property and equipment, net | $ 17,509,039 | $ 16,651,674 |

Depreciation expense was $1,008,563 and $980,376 for the years ended June 30, 2024 and 2023, respectively.

*Construction in progress*
The Organization is in the process of expanding and renovating its program facilities (ASD Residential Unit, Brookside ITU, and Highpoint Campus). The renovations include new roofs, windows, siding, interior improvements, as well as expanding the existing Highpoint Campus facility. Total construction in progress as of June 30, 2024 was $4,114,759 ($3,273,676 at June 30, 2023).

**NOTE 6 - LEASES**

The Organization, as lessee, is required to recognize intangible right-of-use assets and corresponding lease liabilities, for contracts and agreements that meet the definition of a lease under FASB ASC Topic 842, *Leases*.

A lease is a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. The Organization determines whether a contract conveys control of the right to use the underlying asset by assessing both of the following:

1. The right to obtain the present service capacity from use of the underlying asset as specified in the contract, and

2. The right to determine the nature and manner of use of the underlying asset as specified in the contract.

The lease term is determined as follows:

- The period during which the lessee has a non-cancellable right to use an underlying asset, plus

- Periods covered by the Organization's option to extend and/or terminate the lease if it is reasonably certain that it will exercise those options, plus

- Periods covered by the lessee's option to extend and/or terminate the lease if it is reasonably certain that it will exercise those options.

*Lease recognition and measurement*

As a lessee, the Organization accounts for a lease by recognizing a lease liability and a right-of-use lease asset at the beginning of a lease unless it is a short-term lease (12 months or less) or transfers ownership of the underlying asset. The lease liability is measured at the present value of payments to be made over the lease term. The leased asset is measured at the amount of the initial measurement of the lease liability plus any payments made to the lessor at or before the beginning of the lease and certain indirect costs. Operating lease cost is recognized on a straight-line basis over the lease term as lease expense. The Organization uses its approximate borrowing rate to discount the future lease payments or the rate identified in the contracts.

**Right-of-use lease assets and liabilities**

The Organization leases multiple vehicles under operating lease agreements which expire through fiscal year 2029. The vehicles are used for staff and student transportation and facility property management. Monthly payments for the leases range from $350 to $990. The approximate interest rate under the lease agreements is 9%. Total lease cost was $165,295 for the year ended June 30, 2024 ($159,891 in 2023).

The right-of-use lease assets consists of the following at June 30:

| | Vehicles 2024 | Comparative Vehicles 2023 |
|---|---|---|
| Right-of-use operating lease assets | | |
| Leased vehicles | $ 569,508 | $ 362,129 |
| Accumulated amortization | (214,311) | (80,710) |
| Right-of-use lease assets, net | $ 355,197 | $ 281,419 |

**NOTE 6 - (Continued)**

The right-of-use lease related liabilities consists of the following at June 30:

| | | |
|---|---|---|
| Operating lease liabilities | | |
| Leased vehicles | $ 355,197 | $ 281,419 |
| | | |
| Weighted average discount rate | 9.0% | 9.0% |
| Average remaining lease term | 2.75 years | 3.5 years |

Future maturities of the operating lease liabilities is as follows, for the years ending June 30:

| | Vehicles |
|---|---|
| 2025 | $ 150,487 |
| 2026 | 129,983 |
| 2027 | 76,877 |
| 2028 | 42,176 |
| 2029 | 8,911 |
| Total lease payments | 408,434 |
| Less imputed discount | (53,237) |
| Present value of lease liabilities | $ 355,197 |

**NOTE 7 - NOTES PAYABLE**

Notes payable consisted of the following at June 30:

| | 2024 | Comparative 2023 |
|---|---|---|
| $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). | $ 10,790,459 | $ 11,063,054 |

**NOTE 7 - (Continued)**

| | 2024 | Comparative 2023 |
|---|---|---|
| $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). | 3,702,122 | 2,912,843 |
| $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%. | 224,087 | 234,030 |
| $312,000 note payable dated October 2022, payable in monthly payments of principal and interest in the amount of $2,295. The note matures in October 2032. Interest is at the FHLB 5/20 Rate plus 2.00%. Secured by property at 144 Williams Street, Pittsfield, MA. The interest rate is 6.24%. | 297,552 | 305,925 |
| $5,000,000 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 8.50% at June 30, 2024. | 1,768,568 | 708,132 |
| Note payable to Kubota Credit Corporation for equipment. The note is non-interest bearing and is payable in monthly installments of $1,147 per month, maturing in November 2026. The note is collateralized by equipment. | 33,270 | - |
| Multiple notes payable to Kubota Credit Corporation for equipment. The notes were non-interest bearing and are payable in monthly installments ranging from $335 to $391 per month, maturing in September 2023. The notes were collateralized by equipment. | - | 1,006 |
| Total notes payable | 16,816,058 | 15,224,990 |
| Amortizable costs of issuance | (597,232) | (619,082) |
| Total notes payable less amortizable costs of issuance | 16,218,826 | 14,605,908 |
| Amount due within one year | 2,550,054 | 1,001,097 |
| Amount due after one year | $ 13,668,772 | $ 13,604,811 |

**NOTE 7 - (Continued)**

The above debt matures during the years ending June 30,

| | | |
|---|---|---|
| 2025 | $ | 2,550,054 |
| 2026 | | 1,037,688 |
| 2027 | | 1,055,239 |
| 2028 | | 1,075,740 |
| 2029 | | 1,102,652 |
| Thereafter | | 9,994,685 |
| Total | $ | 16,816,058 |

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.

**NOTE 8 - (Continued)**

**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 $15,329,792 and $13,065,614 at June 30, 2024 and 2023, 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:

| | 2024 | Comparative 2023 |
|---|---|---|
| Board-designated endowment net assets, beginning of year | $ 13,065,614 | $ 11,165,539 |
| Investment return: | | |
| Investment income | 252,244 | 191,760 |
| Realized and unrealized gains (losses) | 1,979,395 | 1,681,737 |
| Investment fees | (86,988) | (75,800) |
| Total investment return, net | 2,144,651 | 1,797,697 |
| Contributions | 119,527 | 102,378 |
| Withdrawals | - | - |
| Subtotal | 119,527 | 102,378 |
| Board-designated endowment net assets, end of year | $ 15,329,792 | $ 13,065,614 |

**NOTE 9 - 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 10 - 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 11 - RENTAL INCOME**

The Organization leases property it owns on an at-will basis to certain employees who work in the Organization's programs under short-term agreements. Rental income was $77,280 and $44,557 during fiscal year 2024 and 2023, 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. The tenant shall have the right to extend the lease for two additional 5 year terms. During fiscal year 2023, Guidewire, Inc. exercised the option for the first 5 year renewal term. Under the first renewal term, monthly installments are due on the first day of each month in the amount of $8,407. Rental income for the years ended June 30, 2024 and 2023 was $103,146 and $91,856, respectively. Minimum lease income expected to be received from the tenant for the years ended June 30 are as follows:

| | |
|---|---|
| 2025 | $ 100,888 |
| 2026 | 100,888 |
| 2027 | 100,888 |
| 2028 | 75,666 |
| Total | $ 378,330 |

**NOTE 12 - SPECIAL EVENTS:**

| | 2024 | | |
|---|---|---|---|
| | Golf Tournament | St. Patrick's Day Event | Total |
| Special event revenues | | | |
| Ticket sales and fees | $ 19,021 | $ 16,973 | $ 35,994 |
| Sponsorships | 54,277 | 54,787 | 109,064 |
| Total event revenues | 73,298 | 71,760 | 145,058 |
| Cost of direct benefits to donors | | | |
| Rent and facility costs | 18,444 | 14,384 | 32,828 |
| Other direct expenses | 39,491 | 15,123 | 54,614 |
| Total cost of direct benefits | 57,935 | 29,507 | 87,442 |
| Special events, net | $ 15,363 | $ 42,253 | $ 57,616 |

| | 2023 | | |
|---|---|---|---|
| | Golf Tournament | St. Patrick's Day Event | Total |
| Special event revenues | | | |
| Ticket sales and fees | $ 20,627 | $ 11,245 | $ 31,872 |
| Sponsorships | 56,056 | 64,716 | 120,772 |
| Total event revenues | 76,683 | 75,961 | 152,644 |
| Cost of direct benefits to donors | | | |
| Rent and facility costs | 20,440 | 15,080 | 35,520 |
| Other direct expenses | 29,288 | 10,039 | 39,327 |
| Total cost of direct benefits | 49,728 | 25,119 | 74,847 |
| Special events, net | $ 26,955 | $ 50,842 | $ 77,797 |

## NOTE 13 - RELATED PARTY TRANSACTIONS

A member of the Board of Directors is the Vice President of an automobile association. During fiscal year 2024, the Organization incurred $1,562 ($1,598 in 2023) 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 $40,605 of expenses for services by the centers during fiscal year 2024 ($42,163 in 2023).

A member of the Board of Directors owns a local electrical contracting company with which the Organization does business. The Organization incurred $30,334 of expenses in fiscal year 2024 ($50,841 in 2023).

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 $33,000 in fiscal year 2024 ($33,000 in 2023) for services provided.

## NOTE 14 - 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 $500,000 and $233,000 were accrued and payable from Hillcrest Educational Centers, Inc. to Hillcrest Educational Foundation, Inc. in fiscal years 2024 and 2023, respectively. During the years ended June 30, 2024 and 2023, Hillcrest Educational Foundation, Inc. made contributions of $1,076,550 and $-0- 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 is reasonably certain to be extended through fiscal year 2030. Total lease income received from Hillcrest Dental Care, Inc. was $76,000 for each of the years ending June 30, 2024 and 2023.

*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 2024 was $122,945 ($119,364 in 2023).

**NOTE 14 - (Continued)**

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 |
|---|---|---|---|
| 2025 | $ 76,000 | $ 117,727 | $ 193,727 |

*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, 2024 the outstanding balance was $-0- ($15,675 as of June 30, 2023).

**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, 2024 consisted of Hillcrest providing administrative and accounting services for which a management fee was charged.

**NOTE 15 - 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.

| | 2024 | Comparative 2023 |
|---|---|---|
| Financial assets at year end: | | |
| Cash and equivalents | $ 61,441 | $ 166,689 |
| Accounts receivable | 6,287,089 | 4,821,448 |
| Grants and contributions receivable | 31,118 | 27,049 |
| Long-term investments | 15,329,792 | 13,065,614 |
| Total financial assets | 21,709,440 | 18,080,800 |
| Less board designated long-term investments that can be drawn upon if the Board of Directors approves that action | 15,329,792 | 13,065,614 |
| Financial assets available to meet general expenditures over the next twelve months | $ 6,379,648 | $ 5,015,186 |

**NOTE 15 - (Continued)**

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 $5,000,000. 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.

## 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 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, 2024, 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, 2024.

**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, 2024