



CONSOLIDATED FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

June 30, 2016

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

Boards of Trustees
Becket Academy, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of Becket Academy, Inc. and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Becket Academy, Inc. and Affiliates as of June 30, 2016, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedules are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
December 14, 2016

BECKET ACADEMY, INC. AND AFFILIATES
Consolidated Statement of Financial Position
June 30, 2016

ASSETS

Current assets	
Cash and cash equivalents	\$ 5,443,544
Assets whose use is limited	67,272
Tuition and fees receivable, net of allowance for doubtful accounts of \$211,000	6,164,925
Current portion of notes receivable	15,000
Other receivable	349,310
Prepaid expenses	<u>247,922</u>
Total current assets	<u>12,287,973</u>
Property and equipment	
Land and land improvements	2,703,090
Buildings and building improvements	13,257,166
Leasehold improvements	1,579,773
Vehicles and equipment	3,420,170
Furniture and fixtures	1,256,278
Construction-in-progress	<u>1,126,290</u>
	23,342,767
Less accumulated depreciation	<u>8,398,918</u>
Net property and equipment	<u>14,943,849</u>
Other assets	
Replacement reserves	37,865
Notes receivable, net of current portion	<u>28,800</u>
Total other assets	<u>66,665</u>
Total assets	<u>\$ 27,298,487</u>

The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES AND NET ASSETS

Current liabilities	
Current portion of long-term debt	\$ 1,057,000
Accounts payable	990,981
Accrued expenses	2,796,209
Prepaid tuition	324,429
Estimated third-party payor settlements	<u>324,695</u>
Total current liabilities	5,493,314
Long-term debt, net of current portion and unamortized deferred costs	<u>8,104,751</u>
Total liabilities	13,598,065
Unrestricted net assets	<u>13,700,422</u>
Total liabilities and net assets	\$ <u>27,298,487</u>

BECKET ACADEMY, INC. AND AFFILIATES

Consolidated Statement of Activities

Year Ended June 30, 2016

Changes in unrestricted net assets	
Revenue and support	
Tuition, room and board, and other support, net	\$ 54,118,241
State nutrition program	133,593
Other revenue	<u>529,652</u>
Total revenue and support	<u>54,781,486</u>
Operating expenses	
Program expenses	
Education and home life	45,351,067
Supporting expenses	
General administration	<u>4,572,641</u>
Total operating expenses	49,923,708
Loss on disposal of property and equipment	<u>(13,403)</u>
Total change in net assets	4,844,375
Net assets, beginning of year	<u>8,856,047</u>
Net assets, end of year	<u>\$ 13,700,422</u>

The accompanying notes are an integral part of these consolidated financial statements.

BECKET ACADEMY, INC. AND AFFILIATES

Consolidated Statement of Cash Flows

Year Ended June 30, 2016

Cash flows from operating activities	
Change in net assets	\$ 4,844,375
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	1,465,066
Loss on disposal of property and equipment	13,403
Change in allowance for doubtful accounts	91,000
Decrease (increase) in	
Tuition and fees receivable	(1,863,412)
Prepaid expenses	(197,398)
Notes receivable	135,500
Other receivable	(349,310)
Increase (decrease) in	
Accounts payable	446,994
Accrued expenses	585,271
Prepaid tuition	60,126
Estimated third-party payor settlements	<u>(1,373)</u>
Net cash provided by operating activities	<u>5,230,242</u>
Cash flows from investing activities	
Increase in replacement reserve	(866)
Proceeds from sale of property and equipment	34,882
Purchase of property and equipment	(1,964,525)
Increase in assets whose use is limited	<u>(2,576)</u>
Net cash used by investing activities	<u>(1,933,085)</u>
Cash flows from financing activities	
Principal payments on long-term borrowings	(919,451)
Payment of deferred financing costs	<u>(44,069)</u>
Net cash used by financing activities	<u>(963,520)</u>
Net increase in cash and cash equivalents	2,333,637
Cash and cash equivalents, beginning of year	<u>3,109,907</u>
Cash and cash equivalents, end of year	<u>\$ 5,443,544</u>
<u>Supplemental disclosures</u>	
Noncash transactions	
Acquisition of property and equipment with issuance of long-term debt	<u>\$ 1,028,870</u>

The accompanying notes are an integral part of these consolidated financial statements.

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

Nature of Business

Becket Academy, Inc. and Affiliates (the Organization) provides community-based and residential treatment and education services to children, adolescents and young adults through various schools and programs collectively known as the Becket Family of Services.

Becket Academy, Inc. (Becket) is a not-for-profit corporation incorporated under provisions of the laws of the State of Maine with residential programs at locations in Gorham, Belgrade, Lewiston, Auburn and Litchfield, Maine, and Rumney, N.H. Becket operates two region based special purpose schools to serve the residents at the programs and community students in need of specialized academic services. Becket also operates adult group homes in Maine, Massachusetts and New Hampshire.

The Upper Valley Stewardship Center (UVSC) is a not-for-profit corporation incorporated under provisions of the laws of the State of Maine. Becket is its sole member and they are currently governed by the same Board of Trustees. MVTC provides residential treatment for adolescents struggling with anxiety disorders at a location in East Haverhill, NH. Effective July 5, 2016 the Corporation amended its articles of incorporation to change its corporate name to Mountain Valley Treatment Center.

Mount Prospect Academy (MPA) is a not-for-profit corporation incorporated under provisions of the General Statutes of the State of New Hampshire. MPA has a self-perpetuating Board of Trustees completely separate from the Board which governs Becket. Despite the division of control among these entities, they continue to be economically reliant on each other. MPA is licensed by the State of New Hampshire and operates a residential school in Plymouth, New Hampshire. MPA also provides comprehensive in-home and community support services to families in New Hampshire and northeastern Massachusetts under the name Project Connect and Solid Foundations.

Vermont Permanency Initiative (VPI) is a not-for-profit corporation incorporated under provisions of the General Statutes of the State of Vermont. VPI operates the Vermont School for Girls, a 55-bed co-educational residential treatment program and the Vail House, a 4-bed female crisis support program in Bennington, Vermont. VPI also operates Connecticut River Academy, LLC (CRA), a specialized day school in Bradford, Vermont, the Becket House at Newbury in Newbury, Vermont, and the Becket House at Campton, in Campton, New Hampshire. VPI offers community based support to youth and families in Vermont through the trade name Vermont Support & Stabilization. VPI has a self-perpetuating Board of Trustees that is comprised of the same members as MPA, and completely separate from the Board which governs Becket and UVSC. Despite the division of control among these various entities, they continue to be economically reliant on each other.

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the activity of Becket, MPA, UVSC and VPI. All material intercompany transactions and balances have been eliminated in consolidation.

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

Basis of Presentation

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. The Organization displays its activities and net assets in three classes: unrestricted, temporarily restricted and permanently restricted.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (that is, situations in which the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization had no temporarily or permanently restricted net assets as of June 30, 2016.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All unrestricted, highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

The Organization maintains its cash and certificates of deposit in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant risk with respect to these accounts.

Assets Whose Use is Limited

Assets whose use is limited consists of cash and cash equivalents reserved for the Organization's self-insurance plans.

Tuition and Fees Receivable

Tuition and fees receivable are stated at the amount the Organization expects to collect from outstanding balances, net of discounts of \$337,030. The Organization provides for probable uncollectible amounts through a charge to current-year earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

Property and Equipment

Property and equipment are stated at cost or, if donated, at the fair market value at the date of donation. Expenditures for repairs and maintenance are expensed when incurred, and betterments and assets purchased in excess of \$1,000 are considered for capitalization.

Depreciation of property and equipment is charged against operations using the straight-line method over the estimated useful lives of these assets, as follows:

	<u>Years</u>
Land improvements	7 - 10
Buildings and building improvements	7 - 30
Leasehold improvements	5 - 25
Vehicles and equipment	3 - 5
Furniture and fixtures	2 - 15

When assets are sold or disposed of, the related cost and accumulated depreciation and amortization are removed from the respective accounts, and any resulting gain or loss is included in the consolidated statement of activities.

Replacement Reserves

Becket has mortgage notes payable to Maine State Housing Authority. These mortgage notes require Becket to maintain replacement reserve funds in separate accounts for the purpose of providing a cash reserve for future property replacement needs. These restricted amounts are classified as "replacement reserves" in the consolidated statement of financial position and are generally not available for routine operating expenses.

Deferred Costs

Certain costs related to long-term debt, such as accountants, attorneys and underwriting fees, are capitalized and amortized on a straight-line basis over the lives of the respective debt issues, which mature at various dates through January 2038. These costs are presented as a direct deduction from the carrying amount of the related long-term debt. In addition, the amortization of the deferred costs is included with interest expense.

Tuition, Room and Board, and Other Support and Other Changes in Net Assets

Tuition, room and board, and other support are recorded as increases in unrestricted net assets at the time the services are provided. In some circumstances, tuition revenues are received prior to the school year and are recorded as a current liability under prepaid tuition. Expenses are reported as decreases in unrestricted net assets. Gains and losses on other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions, if any, on net assets by fulfillment of the donor-stipulated purpose or by passage of the stipulated time period are reported as reclassifications between the applicable classes of net assets.

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

Additionally, the Organization has contractual arrangements with the Maine Department of Health and Human Services (DHHS) to render services to qualifying residents under certain cost-based and fee-for-service reimbursement programs which may result in the Organization receiving payments for such services which differ from the standard charges. The Organization records its revenue at the net amount expected to be paid by DHHS based upon established rates.

Income Taxes

The entities comprising the Organization are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code), whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax.

Allocation of Costs

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising expense totaled \$218,483 in 2016.

2. Significant Concentrations and Estimated Third-Party Payor Settlements

Approximately 15% of the revenue recorded during 2016 was from beneficiaries of the New Hampshire Medicaid program.

Approximately 10% of the revenue recorded during 2016 was from beneficiaries of the Vermont Medicaid program.

Approximately 10% of the revenue recorded during 2016 was from the Vermont Department of Education and various school districts located in Maine, New Hampshire, Vermont, Massachusetts, New York and Connecticut.

Approximately 18% of the revenue recorded during 2016 was from the Massachusetts Department of Mental Health and Developmental Services.

Approximately 18% of the revenue recorded during 2016 was from beneficiaries of the Maine Medicaid (MaineCare) program. Under this program, the provider is reimbursed for the care of qualified residents at specified interim rates during the year. Differences between these interim contractual rates and the "cost" of this care, as defined by the Principles of Reimbursement (the Principles) governing the respective programs, are determined and settled on a retroactive basis. Laws and regulations governing the MaineCare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

The consolidated financial statements reflect estimated settlements due under the MaineCare program. Although management expects to receive the estimated amounts, different interpretations of the governing Principles by regulatory authorities could result in subsequent adjustments. Settlements do not become final until cost reports are audited and approved by DHHS. Differences between estimated and actual settlements are recorded as contractual adjustments in the year of final determination.

Cost reports for 2014, 2015 and 2016 have not reached final settlement. The estimated balance due to MaineCare was \$324,695 as of June 30, 2016. As of December 14, 2016, these amounts have increased by \$1,600 for final audit reports received for 2012 and 2013. Of this amount, approximately \$132,100 has been audited and is subject to cost settlement. The Organization has requested an informal review from the State of Maine on the audited and cost settled amount. For 2011, the total amount under appeal is \$194,195.

Following is a summary of net Maine revenue for 2016:

Tuition, room and board, and other fees	\$ 15,552,799
Provision for contractual adjustments under third-party reimbursement programs	<u>(389)</u>
Net Maine revenue	<u>\$ 15,552,410</u>

Due to the concentration of residents who receive benefits from the Medicaid reimbursement programs, the Organization is highly dependent upon regulatory authorities' establishing reimbursement rates that are adequate to sustain the Organization's operations.

3. Notes Receivable

Notes receivable consists of the following:

Upper Valley Stewardship Center

Note receivable from an employee bearing interest of 4% annually. Seventy-five percent of the note receivable will amortize over five years with the balance to be paid as a balloon payment in 2017.

	<u>43,800</u>
	43,800
Less current portion	<u>15,000</u>
Notes receivable, net of current portion	<u>\$ 28,800</u>

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

4. Lines of Credit

Becket holds a line of credit agreement with Key Bank under which Key Bank agrees to advance up to \$225,000 to Becket upon request. Monies advanced accrue interest at the rate of 4.50%. There was no balance outstanding as of June 30, 2016. The line of credit is collateralized by a security interest in all assets of Becket.

VPI has available line of credit agreement with Lake Sunapee Bank under which Lake Sunapee Bank agrees to advance up to \$250,000 to VPI upon request. Monies advanced accrue interest at the rate of 4.75%. There was no balance outstanding as of June 30, 2016.

5. Long-Term Debt

Long-term debt consists of the following:

Becket Academy, Inc.

Note payable to Maine State Housing Authority, due in monthly installments of \$2,661, including interest at 7.0%, through April 2032; collateralized by land, buildings and equipment in Litchfield, Maine.	\$ 293,974
Note payable to Maine State Housing Authority, due in monthly installments of \$2,565, including interest at 7.0%, through March 2031; collateralized by land, buildings and equipment in Norridgewock, Maine.	293,303
Note payable to Maine State Housing Authority, due in monthly installments of \$1,830, including interest at 7.0%, through October 2029; collateralized by real estate in Lewiston, Maine.	190,654
Note payable to Maine State Housing Authority, due in monthly installments of \$1,830, including interest at 5.5%, through December 2030; collateralized by real estate in Lewiston, Maine	92,932
Note payable to Key Bank, due in monthly installments of \$3,608, including interest at 3.99%, through October 2017, at which time the remaining balance is due in full; collateralized by real estate in Belgrade, Maine.	516,848
Note payable to United Bank, due in monthly installments of \$2,178, including interest at 4.25%, through February 2023; collateralized by certain real estate in Lakeville, Massachusetts.	310,431

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

Note payable to United Bank, due in monthly installments of \$2,158, including interest at 4.25%, through January 2023; collateralized by real estate in Springfield, Massachusetts.	204,585
Note payable to Lake Sunapee Bank, due in monthly installments of \$4,636, including interest at 4.5%, through February 2032; collateralized by certain real estate of Becket.	108,278
Note payable to Coastal Enterprises, Inc., due in monthly installments of \$4,985, including interest at 6.0%, through March 2023, at which time the remaining balance is due in full; collateralized by substantially all assets of Becket.	319,187
Note payable to United Bank, due in monthly installments of \$2,158, including interest at 4.25%, through March 2023; collateralized by real estate in Westminister, Massachusetts.	291,984
Note payable to Coastal Enterprises, Inc., due in monthly installments of \$5,572, including interest at 6.0%, through February 2024, at which time the remaining balance is due in full; collateralized by real estate in Auburn and Belgrade, Maine.	408,799
Note payable to Lake Sunapee Bank, due in monthly installments of \$4,636, including interest at 4.625%, through June 2034; collateralized by certain real estate of Becket.	678,796
Note payable to Union Bank, due in monthly installments of \$3,079, including interest at 4.25%, through September 2019, at which time the remaining balance is due in full; collateralized by real estate in Bethlehem, New Hampshire.	253,946
Various vehicle notes payable to financial institutions, due in monthly installments, including interest, ranging from \$291 to \$793, totaling \$20,394. Interest rates range from 0% to 9.50%. Maturities range from March 2016 through February 2021. The notes are collateralized by vehicles.	<u>404,136</u>
Total Becket Academy, Inc.	<u>4,367,853</u>

Mount Prospect Academy, Inc.

Note payable to Meredith Village Savings Bank, due in monthly installments of \$6,294, including interest adjusted annually in April to <i>The Wall Street Journal's</i> prime rate plus 1% (4.50% at June 30, 2016), through April 2028; collateralized by real estate in Plymouth, New Hampshire.	701,108
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BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

Note payable to Meredith Village Savings Bank, due in monthly installments of \$5,392, including interest adjusted annually in April to <i>The Wall Street Journal's</i> prime rate plus 1% (4.50% at June 30, 2016), through April 2028; collateralized by real estate in Plymouth, New Hampshire.	630,777
Note payable to Meredith Village Savings Bank, due in monthly installments of \$2,827, including interest adjusted annually in April to <i>The Wall Street Journal's</i> prime rate plus 1% (4.50% at June 30, 2016), through April 2028; collateralized by real estate in Haverhill, New Hampshire.	258,501
Note payable to Community Guarantee Savings Bank, due in monthly installments of \$1,617, including interest at 6.50%, through December 2023; collateralized by real estate associated with the debt.	114,852
Various vehicle and equipment notes payable to financial institutions, payable in monthly installments, including interest, ranging from \$296 to \$717, totaling \$13,004. Interest rates range from 0% to 7.94%. Maturities range from March 2017 through August 2021. The notes are collateralized by vehicles and equipment.	<u>321,633</u>
Total Mount Prospect Academy, Inc.	<u>2,026,871</u>

Upper Valley Stewardship Center

Note payable to Meredith Village Savings Bank, due in monthly installments of \$3,772, including interest at 6.25%, through May 2017, at which time the remaining balance is due in full; collateralized by real estate in Plymouth, New Hampshire.	221,941
Various vehicle and equipment notes payable to financial institutions, payable in monthly installments, including interest, ranging from \$393 to \$770, totaling \$5,654. Interest rates range from 0% to 4.09%. Maturities range from June 2017 through October 2020. The notes are collateralized by vehicles and equipment.	<u>155,086</u>
Total Upper Valley Stewardship Center	<u>377,027</u>

Vermont Permanency Initiative, Inc.

Note payable to Merritt Family, due in monthly installments of \$8,835, including interest at 7.0%, through January 2038, at which time the remaining balance is due in full; collateralized by land and property in Bennington, Vermont.	1,178,761
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BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

Note payable to Woodsville Guaranty Savings Bank, due in monthly installments of \$5,372, including interest at 6.0%, through August 2022, at which time the remaining balance is due in full; collateralized by real estate in Newbury, Vermont.	712,371
Note payable to William and Carol Bailey, due in monthly installments of \$1,988, including interest at 6.0%, through August 2019, at which time the remaining balance is due in full; collateralized by real estate in Newbury, Vermont.	153,648
Note payable to William and Carol Bailey, at an interest rate of 5.0%. Interest only payments of \$313 are due in monthly installments through August 2019. Principal and interest payments will commence September 2019 of \$1,415 through September 2024; collateralized by real estate in Newbury, Vermont.	75,000
\$350,000 note payable to Lake Sunapee Bank, at fixed interest rate of 4.50% through October 2020, and then repriced every five years to FHLB, 5-Year Constant Maturity Treasury Rate plus 3.25% every five years until maturity. Interest-only payments for first three months through December 2015. Principal and interest payments of \$2,232 commence on January 2016 until October 2035; collateralized by properties in Bennington, Vermont. At June 30, 2016, VPI had yet to draw \$70,000 of the loan proceeds. These funds were received subsequent to year end.	274,832
Various vehicle and equipment notes payable to financial institutions, payable in monthly installments, including interest, ranging from \$309 to \$847, totaling \$3,441. Interest rates range from 4.49% to 12.95%. Maturities range from January 2017 through November 2018. The notes are collateralized by vehicles and equipment.	<u>201,690</u>
Total Vermont Permanency Initiative, Inc.	<u>2,596,302</u>
	9,368,053
Less: Current portion	1,057,000
Deferred finance costs, net	<u>206,302</u>
Long-term debt, net of current portion and unamortized deferred costs	<u>\$ 8,104,751</u>

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

Maturities of long-term debt are as follows:

2017	\$ 1,057,000
2018	1,227,000
2019	640,000
2020	835,000
2021	512,000
Thereafter	<u>5,097,053</u>
	\$ <u>9,368,053</u>

Interest expense charged to operations, including amortization of deferred costs of \$19,068, was \$532,740 in 2016. Cash paid for interest approximates interest expense.

6. **Commitments and Contingencies**

Operating Leases

The Organization leases facilities from various parties, including related parties. All related party leases are at or below fair market value as determined by independent licensed appraisers. Certain facilities used for the operations of the Organization are owned and maintained by entities, trusts or individuals related to the Organization's President. Total rent for all leases was \$1,300,747 in 2016. Total rent paid to related parties was \$443,000 in 2016.

Future minimum lease payments for all non-cancelable leases having a lease term in excess of one year are as follows:

2017	\$ 1,080,571
2018	727,836
2019	591,166
2020	270,681
2021	<u>112,421</u>
Total	\$ <u>2,782,675</u>

Self-Insurance

The Organization has a self-insured healthcare plan for substantially all of its employees. The Organization has obtained reinsurance coverage to limit its exposure associated with this plan individually of \$75,000 with an aggregate limit of 125% of the expected claims. At June 30, 2016, the Organization has accrued \$418,722, under the self-insurance contract, reported in the Organization's accrued expenses in the consolidated statement of financial position.

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

Litigation

The Organization is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without a material adverse effect on the Organization's future positions or results of operations.

7. Defined Contribution Retirement Plans

The Organization provides defined contribution retirement plans for eligible employees. All employees aged 21 or older may begin participation in the plans. Years of service requirements range from one to two years depending on the entity. Plan contributions by participants and the Organization range from three percent to five percent of regular salary.

Employer contributions were as follows:

Becket	\$ 101,102
MPA	76,551
UVSC	34,206
VPI	<u>83,369</u>
Total	<u>\$ 295,228</u>

8. Service Provider Tax

The Maine Legislature enacted legislation that repealed the sales tax on certain kinds of services and replaced it with a new Service Provider Tax (SPT). Effective January 1, 2016, the State of Maine increased the SPT percent from 5% to 6%. This law imposes a SPT on the "value" (i.e., sales price) of certain services provided in the State, including Private Non-Medical Institutions services and certain clinical and outpatient services. Providers are taxed based on all revenue, regardless of source, received for the purpose of providing food, shelter and treatment. MaineCare is then reimbursing facilities for their portion of the tax by increasing their direct care per diem rate. The portion of the tax paid on revenue generated from private pay residents will not be funded by MaineCare.

Total SPT expense was \$256,547 in 2016.

9. Surplus Revenue Retention

The Organization is allowed to retain a portion of any surplus generated by its contracts with the Commonwealth of Massachusetts. During 2016, the Commonwealth of Massachusetts Operational Services Division amended the surplus revenue retention by eliminating the 20% cumulative limits on surplus revenue retention and increasing the the annual surplus limit from 5% of current-year contract revenue to 20%. As of June 30, 2016, as a result of the amendment, the Organization did not identify a contingent liability based on the 20% contractor annual surplus revenue retention criteria.

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016

10. Subsequent Events

For purposes of the preparation of these consolidated financial statements in conformity with U.S. GAAP, management has considered transactions or events occurring through December 14, 2016, which is the date that the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

BECKET ACADEMY, INC. AND AFFILIATES
Consolidating Statement of Financial Position

June 30, 2016

ASSETS

	Becket Academy, Inc.	Mount Prospect Academy, Inc.	Upper Valley Stewardship Center	Vermont Permanency Initiative	Total	Intercompany Eliminations	Consolidated Total
Current assets							
Cash and cash equivalents	\$ 1,585,759	\$ 1,544,306	\$ 1,316,644	\$ 996,835	\$ 5,443,544	\$ -	\$ 5,443,544
Assets whose use is limited	-	67,272	-	-	67,272	-	67,272
Tuition and fees receivable, net	3,412,309	1,049,496	8,983	1,694,137	6,164,925	-	6,164,925
Current portion of notes receivable	57,980	-	15,000	-	72,980	(57,980)	15,000
Other receivable	349,310	-	-	-	349,310	-	349,310
Prepaid expenses	228,370	9,804	3,526	6,222	247,922	-	247,922
Due from related parties	3,661,144	136,783	20,827	65,561	3,884,315	(3,884,315)	-
Total current assets	<u>9,294,872</u>	<u>2,807,661</u>	<u>1,364,980</u>	<u>2,762,755</u>	<u>16,230,268</u>	<u>(3,942,295)</u>	<u>12,287,973</u>
Property and equipment							
Land and land improvements	752,235	592,379	597,259	761,217	2,703,090	-	2,703,090
Buildings and building improvements	6,409,581	3,264,454	1,191,969	2,391,162	13,257,166	-	13,257,166
Leasehold improvements	447,840	417,901	615,562	98,470	1,579,773	-	1,579,773
Vehicles and equipment	1,537,448	1,054,967	458,113	369,642	3,420,170	-	3,420,170
Furniture and fixtures	578,093	270,748	339,410	68,027	1,256,278	-	1,256,278
Construction-in-progress	339,407	413,370	39,325	334,188	1,126,290	-	1,126,290
Less accumulated depreciation	<u>10,064,604</u>	<u>6,013,819</u>	<u>3,241,638</u>	<u>4,022,706</u>	<u>23,342,767</u>	<u>-</u>	<u>23,342,767</u>
	<u>3,562,016</u>	<u>2,857,305</u>	<u>1,608,119</u>	<u>371,478</u>	<u>8,398,918</u>	<u>-</u>	<u>8,398,918</u>
Net property and equipment	<u>6,502,588</u>	<u>3,156,514</u>	<u>1,633,519</u>	<u>3,651,228</u>	<u>14,943,849</u>	<u>-</u>	<u>14,943,849</u>
Other assets							
Replacement reserves	37,865	-	-	-	37,865	-	37,865
Notes receivable, net of current portion	390,330	-	28,800	-	419,130	(390,330)	28,800
Total other assets	<u>428,195</u>	<u>-</u>	<u>28,800</u>	<u>-</u>	<u>456,995</u>	<u>(390,330)</u>	<u>66,665</u>
Total assets	<u>\$ 16,225,655</u>	<u>\$ 5,964,175</u>	<u>\$ 3,027,299</u>	<u>\$ 6,413,983</u>	<u>\$ 31,631,112</u>	<u>\$ (4,332,625)</u>	<u>\$ 27,298,487</u>

BECKET ACADEMY, INC. AND AFFILIATES

Consolidating Statement of Financial Position (Concluded)

June 30, 2016

LIABILITIES AND NET ASSETS (DEFICIT)

	Becket Academy, Inc.	Mount Prospect Academy, Inc.	Upper Valley Stewardship Center	Vermont Permanency Initiative	Total	Intercompany Eliminations	Consolidated Total
Current liabilities							
Current portion of long-term debt	\$ 418,000	\$ 229,000	\$ 279,000	\$ 188,980	\$ 1,114,980	\$ (57,980)	\$ 1,057,000
Accounts payable	525,623	133,539	84,600	247,219	990,981	-	990,981
Accrued expenses	1,521,642	389,144	201,665	683,758	2,796,209	-	2,796,209
Prepaid tuition	-	-	304,111	20,318	324,429	-	324,429
Estimated third-party payor settlements	324,695	-	-	-	324,695	-	324,695
Due to related parties	-	224,331	2,173,056	1,486,928	3,884,315	(3,884,315)	-
Total current liabilities	2,789,960	976,014	3,042,432	2,627,203	9,435,609	(3,942,295)	5,493,314
Long-term liabilities							
Long-term debt, net of current portion and unamortized deferred costs	3,872,163	1,766,804	91,365	2,374,419	8,104,751	-	8,104,751
Note payable	-	-	-	390,330	390,330	(390,330)	-
Total liabilities	6,662,123	2,742,818	3,133,797	5,391,952	17,930,690	(4,332,625)	13,598,065
Unrestricted net assets (deficit)	<u>9,563,532</u>	<u>3,221,357</u>	<u>(106,498)</u>	<u>1,022,031</u>	<u>13,700,422</u>	<u>-</u>	<u>13,700,422</u>
Total liabilities and net assets (deficit)	<u>\$ 16,225,655</u>	<u>\$ 5,964,175</u>	<u>\$ 3,027,299</u>	<u>\$ 6,413,983</u>	<u>\$ 31,631,112</u>	<u>\$ (4,332,625)</u>	<u>\$ 27,298,487</u>

BECKET ACADEMY, INC. AND AFFILIATES

Consolidating Statement of Activities

Year Ended June 30, 2016

	Becket Academy, Inc.	Mount Prospect Academy, Inc.	Upper Valley Stewardship Center	Vermont Permanency Initiative	Total	Intercompany Eliminations	Consolidated Total
Changes in unrestricted net assets							
Revenue and support							
Tuition, room and board, and other support, net	\$ 24,995,856	\$ 8,643,843	\$ 5,011,892	\$ 15,466,650	\$ 54,118,241	\$ -	\$ 54,118,241
State nutrition program	52,279	81,314	-	-	133,593	-	133,593
Management fees	506,998	-	-	-	506,998	(506,998)	-
Other revenue	425,961	143,857	81,989	19,586	671,393	(141,741)	529,652
Total revenue and support	<u>25,981,094</u>	<u>8,869,014</u>	<u>5,093,881</u>	<u>15,486,236</u>	<u>55,430,225</u>	<u>(648,739)</u>	<u>54,781,486</u>
Operating expenses							
Program expenses							
Education and home life	20,166,009	6,965,801	4,324,154	14,036,844	45,492,808	(141,741)	45,351,067
Supporting expenses	2,918,423	774,933	317,868	1,068,415	5,079,639	(506,998)	4,572,641
General administration							
Total operating expenses	23,084,432	7,740,734	4,642,022	15,105,259	50,572,447	(648,739)	49,923,708
Gain (loss) on disposal of property and equipment	4,857	(11,067)	(14,724)	7,531	(13,403)	-	(13,403)
Change in net assets (deficit)	2,901,519	1,117,213	437,135	388,508	4,844,375	-	4,844,375
Net assets (deficit), beginning of year	6,662,013	2,104,144	(543,633)	633,523	8,856,047	-	8,856,047
Net assets (deficit), end of year	<u>\$ 9,563,532</u>	<u>\$ 3,221,357</u>	<u>\$ (106,498)</u>	<u>\$ 1,022,031</u>	<u>\$ 13,700,422</u>	<u>\$ -</u>	<u>\$ 13,700,422</u>

BECKET ACADEMY, INC. AND AFFILIATES

Consolidating Statement of Functional Expenses

Year Ended June 30, 2016

	Education and Home Life				General Administration				Total Expenses				
	Becket Academy, Inc.	Mount Prospect Academy, Inc.	Upper Valley Stewardship Center	Vermont Permanency Initiative	Intercompany Eliminations	Total Program Expenses	Becket Academy, Inc.	Mount Prospect Academy, Inc.		Upper Valley Stewardship Center	Vermont Permanency Initiative	Intercompany Eliminations	Total Supporting Expenses
Salaries and wages	\$ 12,498,477	\$ 3,965,462	\$ 2,157,129	\$ 8,530,859	\$ -	\$ 27,151,927	\$ 1,776,139	\$ 322,963	\$ -	\$ 390,474	\$ -	\$ 2,489,576	\$ 29,641,503
Employee benefits	1,379,202	647,446	364,014	1,223,865	-	3,614,527	233,830	64,097	-	79,664	-	377,591	3,992,118
Payroll taxes	1,064,145	378,768	169,821	858,441	-	2,471,175	151,223	30,848	-	39,293	-	221,364	2,692,539
Total personnel costs	14,941,824	4,991,676	2,690,964	10,613,165	-	33,237,629	2,161,192	417,908	-	509,431	-	3,088,531	36,326,160
Advertising	40,737	10,678	10,178	14,817	-	76,410	13,205	5,680	122,829	359	-	142,073	218,483
Athletic transport and recreation	45,850	19,611	42,624	110,609	-	218,694	-	-	-	-	-	-	218,694
Auto repairs and leasing	274,305	29,490	48,800	264,044	(57,024)	559,615	16,164	-	-	-	-	16,164	575,779
Bad debts, net of recoveries	165,251	73,519	58,473	2,998	-	300,241	-	-	-	-	-	-	300,241
Consultation	228,534	-	16,850	83,345	-	328,729	-	-	-	-	-	-	328,729
Contracted labor	-	-	12,000	-	-	12,000	-	-	-	-	-	-	12,000
Dues and subscriptions	6,089	5,380	2,414	1,076	-	14,959	5,457	346	-	353	-	6,156	21,115
Equipment rental and maintenance	57,076	21,438	28,851	36,508	-	143,873	13,447	-	-	-	-	13,447	157,320
Facilities rental expense	645,457	223,393	224,742	254,672	(84,717)	1,263,547	37,200	-	-	-	-	37,200	1,300,747
Farm	-	-	38,315	-	-	38,315	-	-	-	-	-	-	38,315
Food and supplies	570,453	199,075	152,887	650,386	-	1,572,801	12,241	2,834	-	2,986	-	18,061	1,590,862
Heating fuel	102,924	20,582	17,928	110,639	-	252,073	2,026	-	-	-	-	2,026	254,099
Home life supplies	190,376	33,840	23,458	127,117	-	374,791	14,305	-	19,678	-	-	33,983	408,774
Infirmity supplies	17,958	23,856	4,114	89,974	-	135,902	-	-	-	-	-	-	135,902
Insurance	267,330	93,488	60,883	72,596	-	494,297	-	-	-	-	-	-	494,297
Interest	93,043	11,435	14,536	97,605	-	216,619	142,750	82,780	914	89,677	-	316,121	532,740
Management fees	-	-	-	-	-	-	-	-	-	-	-	-	-
Materials and supplies	15,303	7,574	6,564	9,694	-	39,135	23,386	85,434	95,557	326,007	(506,998)	37,543	76,678
Office supplies	171,240	71,367	41,533	66,429	-	350,569	51,090	13,315	15	20,315	-	83,441	434,010
Other	284,138	10,987	1,545	23,582	-	320,252	64,362	28,542	65,812	-	-	181,613	501,865
Other occupancy costs	201,441	33,117	31,431	123,374	-	389,363	2,527	-	-	-	-	2,527	391,890
Pension contribution	94,361	76,551	34,206	31,680	-	236,798	6,741	-	-	51,689	-	58,430	295,228
Professional services	114,703	53,868	242,861	95,788	-	507,220	255,842	117,932	4,341	5,613	-	383,728	890,948
Real estate taxes	103,262	67,691	40,385	122,530	-	333,868	9,443	-	-	-	-	9,443	343,311
Repair and maintenance	191,016	63,268	74,749	114,065	-	443,098	4,116	31	-	-	-	4,147	447,245
Student clothing and personal items	27,826	15,390	329	77,152	-	120,697	-	-	-	-	-	-	120,697
Student educational supplies	34,066	110,536	14,752	52,732	-	212,086	-	-	-	-	-	-	212,086
Student transportation	379,314	244,121	61,770	235,979	-	921,184	-	680	-	-	-	680	921,864
Teacher training and development	57,142	33,758	40,094	78,287	-	209,281	1,037	12	1,044	15,353	-	17,446	226,727
Telephone	113,865	73,142	36,089	98,173	-	321,269	16,707	884	884	4,126	-	21,717	342,986
Travel	-	-	-	-	-	-	23,914	2,458	2,470	12,138	-	40,980	40,980
Utilities	123,032	62,551	24,066	103,562	-	313,211	3,727	-	-	-	-	3,727	316,938
Depreciation	608,093	284,419	225,763	274,266	-	1,392,541	37,544	4,076	5,208	6,629	-	53,457	1,445,998
Total	\$ 20,166,009	\$ 6,965,801	\$ 4,324,154	\$ 14,036,844	\$ (141,741)	\$ 45,351,067	\$ 2,918,423	\$ 774,933	\$ 317,868	\$ 1,068,415	\$ (506,998)	\$ 4,572,641	\$ 49,923,708