



CONSOLIDATED FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

June 30, 2017

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, 2017, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the 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 auditing standards generally accepted in the United States of America. 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, 2017, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 auditing standards generally accepted in the United States of America. 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
November 14, 2017

BECKET ACADEMY, INC. AND AFFILIATES
Consolidated Statement of Financial Position
June 30, 2017

ASSETS

Current assets	
Cash and cash equivalents	\$ 7,135,852
Assets whose use is limited	131,833
Tuition and fees receivable, net of allowance for doubtful accounts of \$226,000	5,891,169
Current portion of notes receivable	52,668
Prepaid expenses	<u>147,465</u>
Total current assets	<u>13,358,987</u>
Property and equipment	
Land and land improvements	2,697,633
Buildings and building improvements	14,349,177
Leasehold improvements	2,264,372
Vehicles and equipment	3,941,042
Furniture and fixtures	1,386,386
Construction-in-progress	<u>1,545,504</u>
	26,184,114
Less accumulated depreciation	<u>9,045,154</u>
Net property and equipment	<u>17,138,960</u>
Other assets	
Replacement reserves	7,544
Notes receivable, net of current portion	<u>50,000</u>
Total other assets	<u>57,544</u>
Total assets	<u><u>\$ 30,555,491</u></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	\$ 1,335,000
Accounts payable	896,781
Accrued expenses	2,434,557
Prepaid tuition	203,044
Estimated third-party payor settlements	<u>304,002</u>
Total current liabilities	5,173,384
Long-term debt, net of current portion and unamortized deferred costs	<u>7,556,972</u>
Total liabilities	12,730,356
Unrestricted net assets	<u>17,825,135</u>
Total liabilities and net assets	\$ <u>30,555,491</u>

BECKET ACADEMY, INC. AND AFFILIATES

Consolidated Statement of Activities

Year Ended June 30, 2017

Changes in unrestricted net assets	
Revenue and support	
Tuition, room and board, and other support, net	\$ 58,888,986
State nutrition program	157,661
Other revenue	<u>510,379</u>
Total revenue and support	<u>59,557,026</u>
Expenses	
Program expenses	
Education and home life	50,419,217
Supporting expenses	
General administration	<u>5,088,975</u>
Total expenses	55,508,192
Gain on disposal of property and equipment	<u>75,879</u>
Total change in net assets	4,124,713
Net assets, beginning of year	<u>13,700,422</u>
Net assets, end of year	<u>\$ 17,825,135</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, 2017

Cash flows from operating activities	
Change in net assets	\$ 4,124,713
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	1,612,865
Gain on disposal of property and equipment	(75,879)
Change in allowance for doubtful accounts	15,000
Decrease (increase) in	
Tuition and fees receivable	258,756
Prepaid expenses	100,457
Notes receivable	(58,868)
Other receivable	349,310
Decrease in	
Accounts payable	(94,200)
Accrued expenses	(361,651)
Prepaid tuition	(121,385)
Estimated third-party payor settlements	<u>(20,693)</u>
Net cash provided by operating activities	<u>5,728,425</u>
Cash flows from investing activities	
Decrease in replacement reserve	30,321
Proceeds from sale of property and equipment	388,398
Purchase of property and equipment	(3,373,334)
Increase in assets whose use is limited	<u>(64,561)</u>
Net cash used by investing activities	<u>(3,019,176)</u>
Cash flows from financing activities	
Proceeds from long-term borrowings	355,000
Principal payments on long-term borrowings	(1,357,668)
Payment of deferred financing costs	<u>(14,273)</u>
Net cash used by financing activities	<u>(1,016,941)</u>
Net increase in cash and cash equivalents	1,692,308
Cash and cash equivalents, beginning of year	<u>5,443,544</u>
Cash and cash equivalents, end of year	<u>\$ 7,135,852</u>
<u>Supplemental disclosures</u>	
Noncash investing and financing transactions	
Acquisition of property and equipment with issuance of long-term debt to seller's financing company	<u>\$ 726,412</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, 2017

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, New Hampshire. 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 Mountain Valley Treatment Center (MVTC) 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, New Hampshire.

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 New England School for Girls and Vermont School for Girls, each a 30 bed residential treatment program for girls operated 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, East Haverhill Academy in Pike, New Hampshire, the Depot Street program, 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 MVTC. 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, MVTC 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, 2017

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, 2017.

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 \$329,932 in 2017.

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017

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.

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 a mortgage note payable to Maine State Housing Authority. This mortgage note requires Becket to maintain a replacement reserve fund in a separate account for the purpose of providing a cash reserve for future property replacement needs. This restricted amount is classified as "replacement reserves" in the consolidated statement of financial position and is 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. 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.

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017

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.

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 \$330,069 in 2017.

2. Significant Concentrations and Estimated Third-Party Payor Settlements

Approximately 16% of the revenue recorded during 2017 was from beneficiaries of the New Hampshire Medicaid program.

Approximately 11% of the revenue recorded during 2017 was from the Vermont Department of Education and various school districts located in Maine, New Hampshire, Vermont, Massachusetts, New York and Connecticut.

Approximately 20% of the revenue recorded during 2017 was from the Massachusetts Department of Mental Health and Developmental Services.

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017

Approximately 19% of the revenue recorded during 2017 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.

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.

The estimated balance due to MaineCare was \$304,002 as of June 30, 2017 relating to balances from prior years currently under appeal.

Due to the concentration of residents who receive benefits from the various state 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:

Becket Academy, Inc.

Note receivable from an employee bearing interest of 5% annually. Payments of \$25,000, plus accrued interest, on June 30, annually through 2020. If the employee remains employed by Becket on the day such payments are due, the payment amount shall be forgiven.

\$ 75,000

Mountain Valley Treatment Center

Note receivable from an employee bearing interest of 4% annually. Due in September 2017.

27,668

Total notes receivable

102,668

Less current portion

(52,668)

Notes receivable, net of current portion

50,000

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017

4. Lines of Credit

Becket holds a line of credit agreement with Key Bank under which Key Bank agrees to advance up to \$250,000 to Becket upon request. Monies advanced accrue interest at the rate of 5.25%. There was no balance outstanding as of June 30, 2017. The line of credit is collateralized by a security interest in all assets of Becket.

VPI holds a line of credit agreement with Bar Harbor Bank & Trust under which Bar Harbor Bank & Trust agrees to advance up to \$250,000 to VPI upon request. Monies advanced accrue interest at the rate of 5.50%. There was no balance outstanding as of June 30, 2017.

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.	\$ 283,451
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.	181,713
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	88,620
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.	494,037
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.	297,409
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.	195,780
Note payable to Bar Harbor Bank & Trust, due in monthly installments of \$4,636, including interest at 4.5%, through February 2032; collateralized by certain real estate of Becket.	103,371

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017

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.	277,391
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.	279,815
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.	365,620
Note payable to Bar Harbor Bank & Trust, due in monthly installments of \$4,636, including interest at 4.625%, through June 2034; collateralized by certain real estate of Becket.	654,040
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.	227,275
Various vehicle notes payable to financial institutions, due in monthly installments, including interest, ranging from \$291 to \$793, totaling \$19,747.18. Interest rates range from 0% to 9.50%. Maturities range from July 2018 through June 2021. The notes are collateralized by vehicles.	<u>233,106</u>
Total Becket Academy, Inc.	<u>3,681,628</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% (5.25% at June 30, 2017), through April 2028; collateralized by real estate in Plymouth, New Hampshire.	655,337
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% (5.25% at June 30, 2017), through April 2028; collateralized by real estate in Plymouth, New Hampshire.	589,595

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017

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% (5.25% at June 30, 2017), through April 2028; collateralized by real estate in Haverhill, New Hampshire.	241,632
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.	102,370
Various vehicle and equipment notes payable to financial institutions, payable in monthly installments, including interest, ranging from \$327 to \$677, totaling \$7,340. Interest rates range from 0% to 7.94%. Maturities range from February 2019 through March 2022. The notes are collateralized by vehicles and equipment.	<u>285,930</u>
Total Mount Prospect Academy, Inc.	<u>1,874,864</u>

Mountain Valley Treatment Center

Note payable to Meredith Village Savings Bank, due in monthly installments of \$3,884, including interest at 6.25%, through May 2019, at which time the remaining balance is due in full; collateralized by real estate in Plymouth, New Hampshire.	193,273
Various vehicle and equipment notes payable to financial institutions, payable in monthly installments, including interest, ranging from \$393 to \$770, totaling \$7,358. Interest rates range from 0% to 4.09%. Maturities range from December 2018 through October 2021. The notes are collateralized by vehicles and equipment.	<u>205,005</u>
Total Mountain Valley Treatment Center	<u>398,278</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.	1,154,488
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.	690,037

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017

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.	138,602
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
Note payable to Bar Harbor Bank & Trust, 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. Principal and interest payments of \$2,232 through October 2035; collateralized by properties in Bennington, Vermont.	333,795
Note payable to Lake Sunapee Bank, at fixed interest rate of 4.75% through May 2022, and then repriced every five years to FHLB, 5-Year Constant Maturity Treasury Rate plus 3.25% every five years until maturity. Principal and interest payments of \$1,842 through May 2027; collateralized by properties in Bennington, Vermont.	283,570
Various vehicle and equipment notes payable to financial institutions, payable in monthly installments, including interest, ranging from \$303 to \$823, totaling \$12,000. Interest rates range from 0% to 12.95%. Maturities range from March 2018 through April 2022 The notes are collateralized by vehicles and equipment.	<u>461,535</u>
Total Vermont Permanency Initiative, Inc.	<u>3,137,027</u>
	9,091,797
Less: Current portion	1,335,000
Deferred finance costs, net	<u>199,825</u>
Long-term debt, net of current portion and unamortized deferred costs	<u>\$ 7,556,972</u>

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017

Maturities of long-term debt are as follows:

2018	\$ 1,335,000
2019	948,000
2020	978,000
2021	616,000
2022	503,000
Thereafter	<u>4,711,797</u>
	<u>\$ 9,091,797</u>

Interest expense charged to operations, including amortization of deferred costs of \$20,749, was \$504,745 in 2017. 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 senior management of the Organization. Total rent for all leases was \$1,296,519 in 2017. Total rent paid to related parties was \$328,000 in 2017.

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

2018	\$ 882,688
2019	592,263
2020	301,607
2021	<u>125,114</u>
Total	<u>\$ 1,901,672</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 \$3,885,150 of the expected claims. At June 30, 2017, the Organization has accrued \$459,271, 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, 2017

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.

Property Purchases

The Organization had entered into purchase and sales agreement to purchase several properties in Haverhill and Plainfield, New Hampshire as of June 30, 2017 for land and buildings totaling \$2,524,000 for the purpose of expanding programs. These agreements were finalized in August 2017. To finance these purchases the Organization obtained the following notes payable:

MVTC note payable of \$1,300,000 to Walnut Inns, Inc., due in monthly installments of \$8,224, including interest of 4.50%, through August 2022; collateralized by real estate associated with the debt.

Becket Academy note payable of \$450,000 to Edward M. Van Dorn, due in month installments of \$1,665, including interest of 6.0%, through September 2019; collateralized by real estate associated with the loan.

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	\$ 152,089
MPA	89,425
MVTC	33,879
VPI	<u>119,540</u>
Total	<u>\$ 394,933</u>

BECKET ACADEMY, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017

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). This law imposes a 6% 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 \$308,207 in 2017.

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 annual surplus limit from 5% of current-year contract revenue to 20%. As of June 30, 2017, as a result of the amendment, the Organization did not identify a contingent liability based on the 20% contractor annual surplus revenue retention criteria.

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 November 14, 2017, which is the date that the consolidated financial statements were available to be issued.

Purchase of Property

On September 21, 2017 Becket signed a purchase and sale agreement to purchase land and building in Auburn, Maine for the purposes of relocating one of its programs. The agreement is contingent upon approval from both the board of Becket and Maine's Department of Education. The total purchase price for the land and building is \$1,150,000 and the agreement is expected to be finalized in November 2017. The Organization plans to purchase this property through a bank financing arrangement.

SUPPLEMENTARY INFORMATION

BECKET ACADEMY, INC. AND AFFILIATES

Consolidating Statement of Financial Position

June 30, 2017

ASSETS

	Becket Academy, Inc.	Mount Prospect Academy, Inc.	Mountain Valley Treatment Center	Vermont Permanency Initiative	Total	Intercompany Eliminations	Consolidated Total
Current assets							
Cash and cash equivalents	\$ 4,497,652	\$ 979,980	\$ 1,014,157	\$ 644,063	\$ 7,135,852	\$ -	\$ 7,135,852
Assets whose use is limited	64,425	67,408	-	-	131,833	-	131,833
Tuition and fees receivable, net	2,710,940	971,124	61,814	2,147,291	5,891,169	-	5,891,169
Current portion of notes receivable	25,000	-	27,688	-	52,688	-	52,688
Prepaid expenses	126,969	11,865	2,353	6,278	147,465	-	147,465
Due from related parties	<u>2,214,790</u>	<u>1,133,126</u>	<u>73,300</u>	<u>15,774</u>	<u>3,436,990</u>	<u>(3,436,990)</u>	<u>-</u>
Total current assets	<u>9,639,776</u>	<u>3,163,503</u>	<u>1,179,292</u>	<u>2,813,406</u>	<u>16,795,977</u>	<u>(3,436,990)</u>	<u>13,358,987</u>
Property and equipment							
Land and land improvements	808,649	602,718	364,574	921,692	2,697,633	-	2,697,633
Buildings and building improvements	6,146,528	3,175,379	1,487,404	3,539,866	14,349,177	-	14,349,177
Leasehold improvements	861,748	393,094	623,956	385,574	2,264,372	-	2,264,372
Vehicles and equipment	1,501,836	1,028,497	669,217	741,492	3,941,042	-	3,941,042
Furniture and fixtures	604,223	258,995	370,600	152,568	1,386,386	-	1,386,386
Construction-in-progress	<u>127,928</u>	<u>914,230</u>	<u>341,366</u>	<u>161,980</u>	<u>1,545,504</u>	<u>-</u>	<u>1,545,504</u>
Less accumulated depreciation	<u>10,050,912</u>	<u>6,372,913</u>	<u>3,857,117</u>	<u>5,903,172</u>	<u>26,184,114</u>	<u>-</u>	<u>26,184,114</u>
	<u>3,628,411</u>	<u>2,908,072</u>	<u>1,860,014</u>	<u>648,657</u>	<u>9,045,154</u>	<u>-</u>	<u>9,045,154</u>
Net property and equipment	<u>6,422,501</u>	<u>3,464,841</u>	<u>1,997,103</u>	<u>5,254,515</u>	<u>17,138,960</u>	<u>-</u>	<u>17,138,960</u>
Other assets							
Replacement reserves	7,544	-	-	-	7,544	-	7,544
Notes receivable, net of current portion	<u>440,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>440,329</u>	<u>(390,329)</u>	<u>50,000</u>
Total other assets	<u>447,873</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>447,873</u>	<u>(390,329)</u>	<u>57,544</u>
Total assets	<u>\$ 16,510,150</u>	<u>\$ 6,628,344</u>	<u>\$ 3,176,395</u>	<u>\$ 8,067,921</u>	<u>\$ 34,382,810</u>	<u>\$ (3,827,319)</u>	<u>\$ 30,555,491</u>

BECKET ACADEMY, INC. AND AFFILIATES

Consolidating Statement of Financial Position (Concluded)

June 30, 2017

LIABILITIES AND NET ASSETS

	Becket Academy, Inc.	Mount Prospect Academy, Inc.	Mountain Valley Treatment Center	Vermont Permanency Initiative	<u>Total</u>	Intercompany Eliminations	<u>Consolidated Total</u>
Current liabilities							
Current portion of long-term debt	\$ 804,000	\$ 208,000	\$ 104,000	\$ 219,000	\$ 1,335,000	\$ -	\$ 1,335,000
Accounts payable	381,230	191,967	129,330	194,254	896,781	-	896,781
Accrued expenses	917,059	430,787	219,243	867,468	2,434,557	-	2,434,557
Prepaid tuition	-	-	203,044	-	203,044	-	203,044
Estimated third-party payor settlements	304,002	-	-	-	304,002	-	304,002
Due to related parties	-	-	1,354,685	2,082,305	3,436,990	(3,436,990)	-
Total current liabilities	2,406,291	830,754	2,010,302	3,363,027	8,610,374	(3,436,990)	5,173,384
Long-term liabilities							
Long-term debt, net of current portion and unamortized deferred costs	2,808,799	1,638,220	288,230	2,821,723	7,556,972	-	7,556,972
Note payable	-	-	-	390,329	390,329	(390,329)	-
Total liabilities	5,215,090	2,468,974	2,298,532	6,575,079	16,557,675	(3,827,319)	12,730,356
Unrestricted net assets	11,295,060	4,159,370	877,863	1,492,842	17,825,135	-	17,825,135
Total liabilities and net assets (deficit)	<u>\$ 16,510,150</u>	<u>\$ 6,628,344</u>	<u>\$ 3,176,395</u>	<u>\$ 8,067,921</u>	<u>\$ 34,382,810</u>	<u>\$ (3,827,319)</u>	<u>\$ 30,555,491</u>

BECKET ACADEMY, INC. AND AFFILIATES

Consolidating Statement of Activities

Year Ended June 30, 2017

	Becket Academy, Inc.	Mount Prospect Academy, Inc.	Mountain Valley Treatment 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	\$ 27,878,117	\$ 8,547,467	\$ 4,678,573	\$ 17,784,829	\$ 58,888,986	\$ -	\$ 58,888,986
State nutrition program	59,472	98,189	-	-	157,661	-	157,661
Management fees	504,287	32,282	-	-	536,569	(536,569)	-
Other revenue	393,727	155,526	106,440	13,087	668,780	(158,401)	510,379
Forgiveness of intercompany debt	-	-	928,888	-	928,888	(928,888)	-
Total revenue and support	<u>28,835,603</u>	<u>8,833,464</u>	<u>5,713,901</u>	<u>17,797,916</u>	<u>61,180,884</u>	<u>(1,623,858)</u>	<u>59,557,026</u>
Expenses							
Program expenses							
Education and home life	23,258,029	7,177,086	4,306,314	15,836,189	50,577,618	(158,401)	50,419,217
Supporting expenses	2,970,220	744,088	417,979	1,493,257	5,625,544	(536,569)	5,088,975
General administration	26,228,249	7,921,174	4,724,293	17,329,446	56,203,162	(694,970)	55,508,192
Total expenses	<u>53,062</u>	<u>25,723</u>	<u>(5,247)</u>	<u>2,341</u>	<u>75,879</u>	<u>-</u>	<u>75,879</u>
Gain (loss) on disposal of property and equipment	(928,888)	-	-	-	(928,888)	928,888	-
Forgiveness of intercompany debt	1,731,528	938,013	984,361	470,811	4,124,713	-	4,124,713
Change in net assets	9,563,532	3,221,357	(106,498)	1,022,031	13,700,422	-	13,700,422
Net assets (deficit), beginning of year	\$ 11,295,060	\$ 4,159,370	\$ 877,863	\$ 1,492,842	\$ 17,825,135	\$ -	\$ 17,825,135
Net assets, end of year							

BECKETT ACADEMY, INC. AND AFFILIATES

Consolidating Statement of Functional Expenses

Year Ended June 30, 2017

	Education and Home Life						General Administration						
	Beckett Academy, Inc.	Mount Prospect Academy, Inc.	Mountain Valley Treatment Center	Vermont Permanency Initiative	Intercompany Eliminations	Total Program Expenses	Beckett Academy, Inc.	Mount Prospect Academy, Inc.	Mountain Valley Treatment Center	Vermont Permanency Initiative	Intercompany Eliminations	Total Supporting Expenses	Total Expenses
Salaries and wages	\$ 14,326,215	\$ 4,271,410	\$ 2,146,511	\$ 9,652,369	\$ -	\$ 30,396,505	\$ 1,767,827	\$ 402,311	\$ -	\$ 608,639	\$ -	\$ 2,778,777	\$ 33,175,282
Employee benefits	1,848,653	787,970	448,219	1,262,189	-	4,347,031	227,927	74,217	-	79,589	-	381,733	4,728,764
Payroll taxes	1,249,353	360,232	169,399	1,002,033	-	2,781,017	146,874	17,406	-	64,102	-	228,382	3,009,399
Total personnel costs	17,424,221	5,419,612	2,764,129	11,916,591	-	37,524,553	2,142,628	493,934	-	752,330	-	3,388,892	40,913,445
Advertising	77,950	13,284	-	44,403	-	135,637	7,717	192	184,400	2,123	-	194,432	330,069
Athletic transport and recreation	64,238	23,960	48,554	113,871	-	250,623	-	-	-	-	-	-	250,623
Auto repairs and leasing	372,287	33,238	52,069	280,547	(93,092)	645,049	37,823	903	-	-	-	38,726	683,775
Bad debts, net of recoveries	80,830	18,698	15,958	72,071	-	187,557	-	-	-	-	-	-	187,557
Consultation	273,277	-	25,920	108,223	-	407,420	650	-	-	-	-	650	408,070
Dues and subscriptions	7,651	4,829	9,799	1,195	-	23,474	7,028	346	-	1,172	-	8,546	32,020
Equipment rental and maintenance	46,408	24,833	29,704	38,321	-	139,266	16,831	-	-	-	-	16,831	156,097
Facilities rental expense	727,968	146,301	195,192	255,167	(65,309)	1,259,319	37,200	-	-	-	-	37,200	1,296,519
Farm	-	-	31,534	-	-	31,534	-	-	-	-	-	-	31,534
Food and supplies	626,463	203,566	127,378	698,462	-	1,655,869	21,320	3,019	287	3,666	-	28,302	1,684,171
Heating fuel	112,391	27,972	23,553	111,265	-	275,181	3,141	-	3,141	-	-	3,141	278,322
Home life supplies	196,878	44,190	36,244	145,823	-	423,135	6,529	-	10,219	-	-	16,748	439,883
Infirmity supplies	19,287	24,571	5,589	82,195	-	131,642	-	-	-	-	-	-	131,642
Insurance	324,841	61,886	62,618	127,700	-	577,045	-	-	-	-	-	-	577,045
Interest	95,068	8,257	13,755	100,617	-	217,697	124,760	74,070	1,132	87,086	-	287,048	504,745
Management fees	-	-	-	-	-	-	-	-	-	-	(536,569)	-	-
Materials and supplies	10,805	5,960	5,431	8,220	-	30,416	21,866	12,481	194	1,861	-	36,402	66,818
Office supplies	178,019	50,887	45,664	91,300	-	365,870	52,661	14,030	141	27,647	-	94,479	460,349
Other	343,732	9,726	21,885	25,226	-	400,549	101,387	29,003	78,704	23,763	-	232,857	633,406
Other occupancy costs	258,436	30,960	47,774	120,544	-	457,714	5,623	-	-	-	-	5,623	463,337
Pension contribution	126,240	87,314	33,483	31,061	-	278,098	25,849	2,111	396	88,479	-	116,835	394,933
Professional services	95,341	58,977	188,374	103,541	-	446,233	235,135	99,393	38,040	20,186	-	392,754	838,987
Real estate taxes	101,282	68,577	52,749	133,359	-	355,967	8,038	-	-	-	-	8,038	364,005
Repair and maintenance	218,549	47,126	67,352	124,211	-	457,238	5,488	-	-	-	-	5,488	462,736
Student clothing and personal items	34,785	13,325	4,082	81,451	-	133,643	-	-	-	-	-	-	133,643
Student educational supplies	31,112	116,051	12,555	50,566	-	210,284	-	-	-	-	-	-	210,284
Student transportation	447,572	200,858	57,647	236,770	-	942,847	7,659	342	-	-	-	8,001	950,848
Teacher training and development	67,139	37,774	36,999	94,915	-	236,827	10,853	2,287	7,364	9,172	-	29,676	286,503
Telephone	132,772	57,632	33,783	118,792	-	342,979	16,747	3,832	-	4,482	-	25,061	368,040
Travel	5,344	-	-	2,972	-	8,316	25,143	2,992	3,688	23,076	-	54,899	63,215
Utilities	134,202	56,675	28,357	109,936	-	329,170	4,285	-	-	-	-	4,285	333,455
Depreciation	522,841	280,047	228,203	406,874	-	1,538,065	43,849	5,153	5,048	-	-	54,051	1,592,116
Total	\$ 23,258,029	\$ 7,177,086	\$ 4,306,314	\$ 15,836,189	\$ (158,401)	\$ 50,419,217	\$ 2,970,220	\$ 744,088	\$ 417,979	\$ 1,493,257	\$ (536,569)	\$ 5,088,975	\$ 55,508,192