



Financial Statements
October 31, 2011 and 2010

Hillcrest Family Services, Inc.

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Independent Auditor's Report

The Board of Trustees
Hillcrest Family Services, Inc.
Dubuque, Iowa

We have audited the accompanying statements of financial position of Hillcrest Family Services, Inc., as of October 31, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of October 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2012, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Organization's financial statements as a whole. The supplementary schedules on pages 30 through 33 are presented for purposes of additional analysis and are not a required part of the financial statements of the Organization. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 basic financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
March 23, 2012

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| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 562,436 | \$ 478,211 |
| Cash - custodial | 61,549 | 43,656 |
| Receivables | | |
| Program service fees, net of allowances of \$178,396 in 2011 and \$106,621 in 2010 | 2,589,283 | 2,338,410 |
| Program grants | 280,403 | 1,071,678 |
| Estimated third-party payor settlements | 1,376,794 | 1,192,826 |
| Promises to give - Note 7 | 304,021 | 233,479 |
| Inventory | 221 | - |
| Prepaid expenses | 97,242 | 195,017 |
| Total current assets | <u>5,271,949</u> | <u>5,553,277</u> |
| Land, Buildings and Equipment, Net - Note 6 | <u>4,285,103</u> | <u>4,077,548</u> |
| Other Assets | | |
| Promises to give - Note 7 | 347,708 | 413,602 |
| Investments - Note 3 | 1,887,544 | 1,531,987 |
| Beneficial interest in net assets of community foundation - Note 4 | 11,490 | 11,745 |
| Total other assets | <u>2,246,742</u> | <u>1,957,334</u> |
| Total assets | <u>\$ 11,803,794</u> | <u>\$ 11,588,159</u> |

See Notes to Financial Statements

Hillcrest Family Services, Inc.
Statements of Financial Position
October 31, 2011 and 2010

| | 2011 | 2010 |
|--|---------------|---------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current maturities of long-term debt - Note 9 | \$ 139,500 | \$ 129,791 |
| Refunds payable - Note 8 | 3,178 | 40,751 |
| Custodial funds | 61,549 | 43,656 |
| Accounts payable | | |
| Trade | 252,797 | 409,561 |
| Construction | 83,736 | - |
| Estimated health claims payable - Note 11 | 50,000 | 132,000 |
| Accrued Expenses | | |
| Salaries and wages | 246,968 | 155,173 |
| Vacation | 497,170 | 465,514 |
| Payroll taxes and other benefits | 259,295 | 140,370 |
| Other | 94,403 | 47,585 |
| Pension liability - Note 11 | - | 140,855 |
| Deferred revenue and grants - Note 10 | 419,952 | 1,077,254 |
| Total Current Liabilities | 2,108,548 | 2,782,510 |
| Long-Term Debt, Less Current Maturities - Note 9 | 374,818 | 422,714 |
| Total liabilities | 2,483,366 | 3,205,224 |
| Net Assets | | |
| Unrestricted | | |
| Undesignated | 6,977,804 | 6,388,288 |
| Designated by Board - Note 3 | 100,000 | 100,000 |
| Designated by Board - Quasi-Endowment - Note 16 | 732,287 | 666,557 |
| Temporarily restricted - Note 12 | 1,066,304 | 840,672 |
| Permanently restricted - Note 12 | 444,033 | 387,418 |
| Total net assets | 9,320,428 | 8,382,935 |
| Total liabilities and net assets | \$ 11,803,794 | \$ 11,588,159 |

2011

| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total Net Assets |
|-------------------------------------|----------------------------|---|---|---------------------|
| Support and Revenue | | | | |
| Public Support | | | | |
| Direct: | | | | |
| Contributions | \$ 315,092 | \$ 282,247 | \$ - | \$ 597,339 |
| Bequests - | | | | |
| trusts/estates | 4,096 | - | - | 4,096 |
| Bowl for Kids Sake | 26,387 | - | - | 26,387 |
| The Big Event | 20,915 | - | - | 20,915 |
| Special event - lights | 150,578 | - | - | 150,578 |
| Indirect: | | | | |
| Grants - federal | | | | |
| awards | 1,334,453 | - | - | 1,334,453 |
| Grants - other | 579,498 | - | - | 579,498 |
| United Way - Note 7 | 12,596 | 117,000 | - | 129,596 |
| Total public support | <u>2,443,615</u> | <u>399,247</u> | <u>-</u> | <u>2,842,862</u> |
| Revenue | | | | |
| Program service fees | | | | |
| and grants, net - | | | | |
| Note 2 | 15,701,823 | - | - | 15,701,823 |
| Investment income - | | | | |
| Note 3 | 137,747 | - | - | 137,747 |
| Miscellaneous | 43,313 | - | - | 43,313 |
| Net assets released | | | | |
| from restrictions | 117,000 | (117,000) | - | - |
| Total revenue | <u>15,999,883</u> | <u>(117,000)</u> | <u>-</u> | <u>15,882,883</u> |
| Total public support and revenue | <u>18,443,498</u> | <u>282,247</u> | <u>-</u> | <u>18,725,745</u> |
| Expenses | | | | |
| Program services | 14,974,900 | - | - | 14,974,900 |
| Supporting services | | | | |
| General and | | | | |
| administrative | 2,069,775 | - | - | 2,069,775 |
| Mission advancement | 493,879 | - | - | 493,879 |
| Special event - lights | 105,475 | - | - | 105,475 |
| Total expenses | <u>17,644,029</u> | <u>-</u> | <u>-</u> | <u>17,644,029</u> |

Hillcrest Family Services, Inc.
 Statements of Activities and Changes in Net Assets
 Years Ended October 31, 2011 and 2010

| 2010 | | | |
|----------------------------|---|---|---------------------|
| Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total Net Assets |
| \$ 198,099 | \$ 360,925 | \$ 3,601 | \$ 562,625 |
| 1,644 | - | - | 1,644 |
| 19,700 | - | - | 19,700 |
| - | - | - | - |
| 141,476 | - | - | 141,476 |
| 1,384,694 | - | - | 1,384,694 |
| 315,122 | - | - | 315,122 |
| 10,797 | 117,000 | - | 127,797 |
| 2,071,532 | 477,925 | 3,601 | 2,553,058 |
| 15,415,397 | - | - | 15,415,397 |
| 102,132 | - | - | 102,132 |
| 30,883 | - | - | 30,883 |
| 151,538 | (151,538) | - | - |
| 15,699,950 | (151,538) | - | 15,548,412 |
| 17,771,482 | 326,387 | 3,601 | 18,101,470 |
| 14,834,315 | - | - | 14,834,315 |
| 2,099,058 | - | - | 2,099,058 |
| 448,788 | - | - | 448,788 |
| 99,029 | - | - | 99,029 |
| 17,481,190 | - | - | 17,481,190 |

| | 2011 | | | |
|---|----------------------------|---|---|---------------------|
| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total Net Assets |
| Public Support and Revenue in Excess of Expenses | \$ 799,469 | \$ 282,247 | \$ - | \$ 1,081,716 |
| Other Changes in Net Assets | | | | |
| Change in unrealized gains and losses on investments - Note 3 | (143,358) | - | - | (143,358) |
| Loss on disposal of assets | (865) | - | - | (865) |
| Pledges collected for endowment | - | (56,615) | 56,615 | - |
| Increase in Net Assets | 655,246 | 225,632 | 56,615 | 937,493 |
| Net Assets, Beginning of Year | 7,154,845 | 840,672 | 387,418 | 8,382,935 |
| Net Assets, End of Year | <u>\$ 7,810,091</u> | <u>\$ 1,066,304</u> | <u>\$ 444,033</u> | <u>\$ 9,320,428</u> |

See Notes to Financial Statements

Hillcrest Family Services, Inc.
 Statements of Activities and Changes in Net Assets
 Years Ended October 31, 2011 and 2010

| 2010 | | | |
|----------------------------|---|---|---------------------|
| Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total Net Assets |
| \$ 290,292 | \$ 326,387 | \$ 3,601 | \$ 620,280 |
| 45,951 | - | - | 45,951 |
| (12,550) | - | - | (12,550) |
| - | (18,295) | 18,295 | - |
| 323,693 | 308,092 | 21,896 | 653,681 |
| 6,831,152 | 532,580 | 365,522 | 7,729,254 |
| \$ 7,154,845 | \$ 840,672 | \$ 387,418 | \$ 8,382,935 |

Program Services

| | Residential Education | CMI Group Homes | Health Services | Schools | Shelter | Family Centered Services | Adoption |
|---------------------------------------|--------------------------|-----------------------|---------------------|---------------------|-------------------|--------------------------------|------------------|
| Salaries | \$ 1,824,216 | \$ 1,358,674 | \$ 870,603 | \$ 2,319,683 | \$ 236,799 | \$ 125,793 | \$ 39,292 |
| Fringe Benefits | 285,006 | 219,359 | 155,369 | 395,380 | 35,616 | 9,229 | 3,430 |
| Payroll Taxes and Other | 132,472 | 98,366 | 61,873 | 165,359 | 17,523 | 9,047 | 3,025 |
| Total personnel expenses | 2,241,694 | 1,676,399 | 1,087,845 | 2,880,422 | 289,938 | 144,069 | 45,747 |
| Contracted Services | 99,709 | 42,551 | 28,136 | 27,375 | 3,509 | 2,348 | 14,037 |
| Supplies and Equipment | | | | | | | |
| Maintenance | 196,056 | 170,285 | 179,667 | 175,216 | 23,988 | 2,412 | 1,316 |
| Telephone | (19,130) | 17,061 | 18,455 | (3,298) | 3,819 | 415 | 3,045 |
| Postage and Shipping | 1,699 | 1,191 | 4,273 | 3,227 | 246 | 77 | 157 |
| Occupancy | 118,310 | 223,836 | 86,662 | 136,120 | 59,129 | 18,610 | 1,924 |
| Outside Printing | - | 220 | 1,492 | 32 | - | - | 75 |
| Professional Insurance | 5,740 | 4,630 | 3,306 | 10,574 | 892 | 360 | 154 |
| Travel | 25,235 | 23,778 | 21,150 | 36,812 | 5,859 | 271 | 3,386 |
| Conferences and Meetings | 8,222 | 4,374 | 7,249 | 22,899 | 661 | 175 | 174 |
| Subscriptions | - | 436 | 274 | 235 | - | - | - |
| Client Assistance | 37,031 | 7,896 | 8,987 | 13,075 | 4,768 | 222 | 1 |
| Dues | 12,620 | 9,786 | 116 | 2,028 | 393 | 75 | 8,430 |
| Miscellaneous | 19,264 | 5,562 | 14,586 | 25,972 | 779 | 354 | 156 |
| Interest | 5,349 | 1,212 | - | 70 | - | 120 | - |
| Bad Debts | 22,164 | 5,306 | (3,076) | - | 5,235 | 2,508 | (250) |
| Total Expenses Before Depreciation | 2,773,963 | 2,194,523 | 1,459,122 | 3,330,759 | 399,216 | 172,016 | 78,352 |
| Depreciation | 138,757 | 19,863 | 4,785 | 49,762 | 12,390 | 7,701 | 73 |
| Total Expenses Before Allocation | 2,912,720 | 2,214,386 | 1,463,907 | 3,380,521 | 411,606 | 179,717 | 78,425 |
| General and Administrative Allocation | 387,215 | 294,380 | 194,613 | 449,412 | 54,719 | 23,893 | 10,425 |
| Total Expenses | <u>\$ 3,299,935</u> | <u>\$ 2,508,766</u> | <u>\$ 1,658,520</u> | <u>\$ 3,829,933</u> | <u>\$ 466,325</u> | <u>\$ 203,610</u> | <u>\$ 88,850</u> |

See Notes to Financial Statements

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2011

| Program Services | | | | | |
|------------------------|-------------------------|------------------|-----------------------------|------------------------------|------------------------------|
| Hillcrest Supported | | | Mental Health Centers | Big Brothers/ Big Sisters | Total Program Services |
| Living IPRS/Voc | Transitional Housing | PATH Grant | | | |
| \$ 729,609 | \$ 31,890 | \$ 30,430 | \$ 1,615,652 | \$ 55,266 | \$ 9,237,907 |
| 89,614 | 6,249 | 1,728 | 236,561 | 7,821 | 1,445,362 |
| 53,334 | 2,312 | 2,303 | 118,347 | 4,118 | 668,079 |
| 872,557 | 40,451 | 34,461 | 1,970,560 | 67,205 | 11,351,348 |
| 5,797 | 240 | - | 771,783 | 654 | 996,139 |
| 10,926 | 7,135 | 309 | 54,569 | 1,263 | 823,142 |
| 11,226 | 2,779 | 406 | 29,389 | 141 | 64,308 |
| 808 | 23 | 52 | 4,906 | 1,043 | 17,702 |
| 41,802 | 14,748 | 1,229 | 156,081 | 3,264 | 861,715 |
| - | - | - | - | 262 | 2,081 |
| 1,957 | 178 | - | 6,675 | 184 | 34,650 |
| 33,417 | 219 | 462 | 16,351 | 765 | 167,705 |
| 657 | 70 | 51 | 23,132 | 245 | 67,909 |
| - | - | 38 | 133 | - | 1,116 |
| 2,880 | 3,139 | 9,143 | 1,560 | - | 88,702 |
| 897 | 40 | 84 | 2,098 | 3,616 | 40,183 |
| 1,744 | (60) | 325 | 15,632 | 371 | 84,685 |
| - | - | - | - | - | 6,751 |
| - | 2,862 | - | 55,727 | - | 90,476 |
| 984,668 | 71,824 | 46,560 | 3,108,596 | 79,013 | 14,698,612 |
| 4,304 | 20,165 | - | 18,488 | - | 276,288 |
| 988,972 | 91,989 | 46,560 | 3,127,084 | 79,013 | 14,974,900 |
| 131,474 | 12,229 | 6,190 | 415,042 | 10,504 | 1,990,096 |
| <u>\$ 1,120,446</u> | <u>\$ 104,218</u> | <u>\$ 52,750</u> | <u>\$ 3,542,126</u> | <u>\$ 89,517</u> | <u>\$ 16,964,996</u> |

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2011

| | Supporting Services | | | | | Total Expenses |
|---------------------------------|------------------------|----------------------------|---------------------|------------------------|---------------------------|----------------------|
| | Total Program Services | General and Administrative | Mission Advancement | Special Event - Lights | Total Supporting Services | |
| Salaries | \$ 9,237,907 | \$ 1,260,756 | \$ 270,899 | \$ - | \$ 1,531,655 | \$ 10,769,562 |
| Fringe Benefits | 1,445,362 | 201,878 | 37,687 | - | 239,565 | 1,684,927 |
| Payroll Taxes and Other | 668,079 | 88,472 | 18,719 | - | 107,191 | 775,270 |
| Total personnel expenses | 11,351,348 | 1,551,106 | 327,305 | - | 1,878,411 | 13,229,759 |
| Contracted Services | 996,139 | 67,811 | 66,222 | - | 134,033 | 1,130,172 |
| Supplies and Equipment | | | | | | |
| Maintenance | 823,142 | 95,712 | 8,870 | - | 104,582 | 927,724 |
| Telephone | 64,308 | 33,762 | 2,348 | - | 36,110 | 100,418 |
| Postage and Shipping | 17,702 | 5,515 | 2,106 | - | 7,621 | 25,323 |
| Occupancy | 861,715 | 43,670 | 16,002 | - | 59,672 | 921,387 |
| Outside Printing | 2,081 | 274 | 40,106 | - | 40,380 | 42,461 |
| Professional Insurance | 34,650 | 18,301 | 1,176 | - | 19,477 | 54,127 |
| Travel | 167,705 | 20,261 | 9,562 | - | 29,823 | 197,528 |
| Conferences and | | | | | | |
| Meetings | 67,909 | 23,900 | 6,571 | - | 30,471 | 98,380 |
| Subscriptions | 1,116 | 1,434 | 318 | - | 1,752 | 2,868 |
| Client Assistance | 88,702 | 13 | - | - | 13 | 88,715 |
| Dues | 40,183 | 2,505 | 5,140 | - | 7,645 | 47,828 |
| Miscellaneous | 84,685 | 47,221 | 3,760 | 105,475 | 156,456 | 241,141 |
| Interest | 6,751 | 19,056 | 229 | - | 19,285 | 26,036 |
| Bad Debts | 90,476 | (6,622) | - | - | (6,622) | 83,854 |
| Total Expenses Before | 14,698,612 | 1,923,919 | 489,715 | 105,475 | 2,519,109 | 17,217,721 |
| Depreciation | 276,288 | 145,856 | 4,164 | - | 150,020 | 426,308 |
| Total Expenses Before | 14,974,900 | 2,069,775 | 493,879 | 105,475 | 2,669,129 | 17,644,029 |
| Allocation | | | | | | |
| General and Administrative | | | | | | |
| Allocation | 1,990,096 | (2,069,775) | 79,679 | - | (1,990,096) | - |
| Total Expenses | \$ 16,964,996 | \$ - | \$ 573,558 | \$ 105,475 | \$ 679,033 | \$ 17,644,029 |

Program Services

| | Residential Education | CMI Group Homes | Health Services | Schools | Shelter | Family Centered Services | Counseling |
|---------------------------------------|--------------------------|-----------------------|---------------------|---------------------|-------------------|--------------------------------|------------------|
| Salaries | \$ 1,735,481 | \$ 1,341,993 | \$ 887,552 | \$ 2,283,862 | \$ 260,005 | \$ 132,016 | \$ 24,934 |
| Fringe Benefits | 326,294 | 265,034 | 181,292 | 501,286 | 45,234 | 18,050 | 6,877 |
| Payroll Taxes and Other | 125,694 | 98,385 | 63,841 | 163,689 | 19,152 | 10,085 | 1,362 |
| Total personnel expenses | 2,187,469 | 1,705,412 | 1,132,685 | 2,948,837 | 324,391 | 160,151 | 33,173 |
| Contracted Services | 83,401 | 47,247 | 29,732 | 39,944 | 4,503 | 21,324 | 2,608 |
| Supplies and Equipment | | | | | | | |
| Maintenance | 188,547 | 160,057 | 288,039 | 146,518 | 25,337 | 17,537 | 1,026 |
| Telephone | (8,905) | 17,822 | 17,110 | 754 | 3,700 | 1,100 | 1,065 |
| Postage and Shipping | 1,366 | 1,273 | 4,093 | 3,260 | 212 | 109 | 181 |
| Occupancy | 100,465 | 226,666 | 92,371 | 129,424 | 53,075 | 1,947 | 7,803 |
| Outside Printing | 36 | (407) | 915 | - | - | - | - |
| Professional Insurance | 7,842 | 5,296 | 4,173 | 8,182 | 1,138 | 673 | 379 |
| Travel | 22,908 | 23,007 | 24,155 | 36,015 | 8,386 | 3,180 | 80 |
| Conferences and | | | | | | | |
| Meetings | 5,991 | 2,435 | 14,596 | 18,096 | 725 | 82 | - |
| Subscriptions | 188 | 437 | 243 | - | - | - | 45 |
| Client Assistance | 42,823 | 7,174 | 20,199 | 15,426 | 7,237 | - | - |
| Dues | 8,030 | 3,288 | 517 | 2,467 | 746 | 217 | 71 |
| Miscellaneous | 12,743 | 4,593 | 13,011 | 23,649 | 2,044 | 379 | 28 |
| Interest | 6,647 | 1,577 | 1 | - | - | - | - |
| Bad Debts | 16,803 | 3,393 | (9,631) | - | 4,577 | - | (1,219) |
| Total Expenses Before Depreciation | 2,676,354 | 2,209,270 | 1,632,209 | 3,372,572 | 436,071 | 206,699 | 45,240 |
| Depreciation | 126,723 | 26,562 | 5,557 | 38,680 | 15,020 | 806 | 364 |
| Total Expenses Before Allocation | 2,803,077 | 2,235,832 | 1,637,766 | 3,411,252 | 451,091 | 207,505 | 45,604 |
| General and Administrative Allocation | 382,515 | 305,105 | 223,489 | 465,481 | 61,556 | 28,319 | 6,225 |
| Total Expenses | <u>\$ 3,185,592</u> | <u>\$ 2,540,937</u> | <u>\$ 1,861,255</u> | <u>\$ 3,876,733</u> | <u>\$ 512,647</u> | <u>\$ 235,824</u> | <u>\$ 51,829</u> |

See Notes to Financial Statements

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2010

| Program Services | | | | | | |
|------------------|--|-------------------------|------------------|-----------------------------|------------------------------|------------------------------|
| Adoption | Hillcrest Supported Living IPRS/Voc | Transitional Housing | PATH Grant | Mental Health Centers | Big Brothers/ Big Sisters | Total Program Services |
| \$ 36,376 | \$ 741,308 | \$ 30,113 | \$ 25,137 | \$ 1,284,958 | \$ 61,845 | \$ 8,845,580 |
| 4,872 | 114,677 | 7,067 | 702 | 193,689 | 10,847 | 1,675,921 |
| 2,815 | 54,799 | 2,183 | 1,904 | 92,312 | 4,604 | 640,825 |
| 44,063 | 910,784 | 39,363 | 27,743 | 1,570,959 | 77,296 | 11,162,326 |
| 11,673 | 9,105 | 399 | 7 | 843,828 | 1,997 | 1,095,768 |
| 658 | 9,979 | 4,456 | 532 | 45,036 | 1,029 | 888,751 |
| 2,160 | 10,959 | 2,943 | 484 | 26,078 | 128 | 75,398 |
| 388 | 946 | 35 | 83 | 4,089 | 1,199 | 17,234 |
| 7,803 | 49,063 | 16,307 | 1,668 | 118,580 | - | 805,172 |
| 75 | - | - | - | 220 | 477 | 1,316 |
| 379 | 2,845 | 379 | - | 4,595 | 379 | 36,260 |
| 3,094 | 36,829 | 185 | 1,021 | 12,618 | 557 | 172,035 |
| 20 | 648 | 33 | 6 | 2,338 | 26 | 44,996 |
| 383 | - | - | - | 159 | - | 1,455 |
| - | 5,873 | 460 | 6,226 | 900 | - | 106,318 |
| 60 | 1,796 | 40 | 72 | 2,854 | 3,270 | 23,428 |
| 196 | 2,259 | 603 | 293 | 10,794 | 2,900 | 73,492 |
| - | - | - | - | - | - | 8,225 |
| (580) | 259 | 422 | - | 31,837 | - | 45,861 |
| 70,372 | 1,041,345 | 65,625 | 38,135 | 2,674,885 | 89,258 | 14,558,035 |
| 1,469 | 8,349 | 22,269 | - | 30,481 | - | 276,280 |
| 71,841 | 1,049,694 | 87,894 | 38,135 | 2,705,366 | 89,258 | 14,834,315 |
| 9,806 | 143,240 | 11,991 | 5,206 | 369,188 | 12,178 | 2,024,299 |
| <u>\$ 81,647</u> | <u>\$ 1,192,934</u> | <u>\$ 99,885</u> | <u>\$ 43,341</u> | <u>\$ 3,074,554</u> | <u>\$ 101,436</u> | <u>\$ 16,858,614</u> |

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2010

| | Supporting Services | | | | | Total Expenses |
|---|------------------------|----------------------------|---------------------|------------------------|---------------------------|----------------------|
| | Total Program Services | General and Administrative | Mission Advancement | Special Event - Lights | Total Supporting Services | |
| Salaries | \$ 8,845,580 | \$ 1,149,363 | \$ 245,235 | \$ - | \$ 1,394,598 | \$ 10,240,178 |
| Fringe Benefits | 1,675,921 | 256,766 | 39,067 | - | 295,833 | 1,971,754 |
| Payroll Taxes and Other | 640,825 | 87,048 | 17,446 | - | 104,494 | 745,319 |
| Total personnel expenses | 11,162,326 | 1,493,177 | 301,748 | - | 1,794,925 | 12,957,251 |
| Contracted Services | 1,095,768 | 71,775 | 57,031 | - | 128,806 | 1,224,574 |
| Supplies and Equipment | | | | | | |
| Maintenance | 888,751 | 123,548 | 8,936 | - | 132,484 | 1,021,235 |
| Telephone | 75,398 | 31,918 | 1,959 | - | 33,877 | 109,275 |
| Postage and Shipping | 17,234 | 6,181 | 2,166 | - | 8,347 | 25,581 |
| Occupancy | 805,172 | 87,248 | 32 | - | 87,280 | 892,452 |
| Outside Printing | 1,316 | - | 35,955 | - | 35,955 | 37,271 |
| Professional Insurance | 36,260 | 20,518 | 1,138 | - | 21,656 | 57,916 |
| Travel | 172,035 | 24,354 | 8,428 | - | 32,782 | 204,817 |
| Conferences and Meetings | 44,996 | 9,868 | 4,743 | - | 14,611 | 59,607 |
| Subscriptions | 1,455 | - | 284 | - | 284 | 1,739 |
| Client Assistance | 106,318 | - | - | - | - | 106,318 |
| Dues | 23,428 | 2,557 | 7,330 | - | 9,887 | 33,315 |
| Miscellaneous | 73,492 | 40,164 | 13,489 | 99,029 | 152,682 | 226,174 |
| Interest | 8,225 | 11,251 | 753 | - | 12,004 | 20,229 |
| Bad Debts | 45,861 | - | - | - | - | 45,861 |
| Total Expenses Before Depreciation | 14,558,035 | 1,922,559 | 443,992 | 99,029 | 2,465,580 | 17,023,615 |
| Depreciation | 276,280 | 176,499 | 4,796 | - | 181,295 | 457,575 |
| Total Expenses Before Allocation | 14,834,315 | 2,099,058 | 448,788 | 99,029 | 2,646,875 | 17,481,190 |
| General and Administrative Allocation | 2,024,299 | (2,099,058) | 60,821 | 13,938 | (2,024,299) | - |
| Total Expenses | \$ 16,858,614 | \$ - | \$ 509,609 | \$ 112,967 | \$ 622,576 | \$ 17,481,190 |

Hillcrest Family Services, Inc.
Statements of Cash Flows
Years Ended October 31, 2011 and 2010

| | 2011 | 2010 |
|--|-------------|-------------|
| Operating Activities | | |
| Increase in net assets | \$ 937,493 | \$ 653,681 |
| Adjustments to reconcile increase in net assets to net cash provided by (used for) operating activities | | |
| Depreciation | 426,308 | 457,575 |
| Loss on disposal of assets | 865 | 12,550 |
| Change in unrealized gains and losses on investments | 143,358 | (45,951) |
| Bad debts | 83,854 | 45,861 |
| Changes in assets and liabilities | | |
| Receivables | 267,932 | (1,559,685) |
| Inventory | (221) | 29,243 |
| Prepaid expenses | 97,775 | (43,441) |
| Accounts/refunds payable | (192,600) | (63,585) |
| Accrued expenses | 289,194 | (12,346) |
| Deferred revenue and grants | (657,302) | 779,158 |
| Pension liability | (140,855) | (1,638,926) |
| Net Cash Provided by (used for) Operating Activities | 1,255,801 | (1,385,866) |
| Investing Activities | | |
| Purchase of property and equipment | (634,729) | (381,350) |
| Purchase of investments | (1,639,402) | (879,621) |
| Sale of investments | 1,140,742 | 607,091 |
| Proceeds from sale of assets | - | 6,955 |
| Net Cash used for Investing Activities | (1,133,389) | (646,925) |
| Financing Activities | | |
| Proceeds from issuance of long-term debt | 92,000 | 445,000 |
| Principal payments on long-term debt | (130,187) | (97,947) |
| Net Cash Provided by (used for) Financing Activities | (38,187) | 347,053 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 84,225 | (1,685,738) |
| Cash and Cash Equivalents, Beginning of Year | 478,211 | 2,163,949 |
| Cash and Cash Equivalents, End of Year | \$ 562,436 | \$ 478,211 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for interest | \$ 26,036 | \$ 20,229 |
| Supplemental Disclosure of Noncash Investing and Financing Activities | | |
| Property and equipment financed through long-term debt | \$ 92,000 | \$ - |

Note 1 - Organization and Significant Accounting Policies

Organization

Hillcrest Family Services, Inc. (Organization) is located in Dubuque, Iowa. The purpose of the Organization is to provide a range of educational, counseling, and health services to individuals and families in an effort to improve the welfare of their clients.

Tax Exempt Status

The Organization is organized as an Iowa non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code section 501(c)(3). The Corporation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Organization believes that it has appropriate purpose for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Basis of Accounting

The financial statements of the Organization are prepared using the accrual basis of accounting.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents may include highly liquid investments with original maturities of three months or less, excluding assets limited as to use and other investments.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Trustees to supplement operations, over which the Board retains control and may at its discretion subsequently use for other purposes.

Property and Equipment

Property and equipment acquisitions in excess of \$2,000 are capitalized and are recorded at cost. Donated property and equipment are recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset, generally 3 to 15 years for equipment, vehicles, and leasehold improvements, and up to 40 years for buildings and improvements, and is computed using the straight-line method.

Accounts Receivable

Accounts receivable are uncollateralized individual and third-party payor obligations. Unpaid accounts receivable are not charged interest on amounts owed.

Payments of client receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of client receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from clients and third-party payors. Management reviews client receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from clients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market.

Pension Liability

Hillcrest Family Services, Inc. records an accrued pension liability for its defined benefit retirement plan. The accrued liability represents the underfunded status of the defined benefit plan which is the difference between the plan's projected benefit obligation and fair value of the plan assets as of the October 31 measurement date. This plan was terminated during the fiscal year ended October 31, 2008, and was closed out during the fiscal year ended October 31, 2011. See Note 11.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Public Support and Revenue in Excess of Expenses

Public support and revenue in excess of expenses excludes change in unrealized gains and losses on investments, gain (loss) on disposal of assets and pledges collected for endowment.

Program Service Revenue

Hillcrest Family Services, Inc. has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. The Organization is reimbursed at prospectively determined rates by some payors. Certain other payors reimburse at interim rates with final settlement determined after submission of annual cost reports. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value, and other investments are reported at the lower of cost or fair value. Investment income (including realized gains and losses on investments, interest, and dividends) is included in public support and revenue in excess of expenses unless the income or loss is restricted by donor or law. Change in unrealized gains and losses on investments is excluded from public support and revenue in excess of expenses unless the investments are trading securities.

Donated Goods and Services

Donated materials and equipment are reflected as contributions in the accompanying financial statements at their estimated fair market values at the date of receipt. No amounts have been reflected in the statements for donated services, inasmuch as no objective basis is available to measure the value of such services.

Promises to Give

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor stipulated time restrictions or purpose restrictions are met or accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the statement of activities and changes in net assets.

Fair Value Measurements

The Organization has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provide a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense totaled \$27,789 and \$26,519 for the years ended October 31, 2011 and 2010, respectively.

Reclassifications

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on decrease in net assets.

Note 2 - Net Program Service Fees

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicaid

The Medicaid program reimburses the Organization for services as defined in various agreements. The basis for reimbursement under these agreements may include discounts from established charges and prospectively determined rates, or may be based on a cost reimbursement methodology. Under this methodology, the Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports.

Grants

Hillcrest Family Services, Inc. has several grant agreements with various governmental organizations. These grants are administered by the various government agencies and grant awards are determined based on availability of funds and need. The Organization is required to submit documentation to the various grantors to verify allowable expenditures that will be reimbursed under the grant.

Medicaid (MBC of Iowa – an Affiliate of Magellan Behavioral Health)

The basis for reimbursement under agreements with Magellan is based on a cost reimbursement methodology. Under this methodology, the Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports.

County Board of Supervisors

The Organization has also entered into payment agreements with several county Board of Supervisors. The basis for reimbursement under these agreements may include discounts from established charges and prospectively determined rates. Rates are negotiated based on annual cost report information.

Medicare

The Medicare program reimburses the Organization for services under agreements that may include discounts from established charges and prospectively determined rates.

Other Payors

The Organization has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Organization under these agreements may include discounts from established charges and prospectively determined rates.

The 2011 and 2010 net program service fees and grants revenue increased approximately \$110,000 and \$16,000, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated.

A summary of revenue from the various payors for the years ended October 31, 2011 and 2010, is as follows:

| | 2011 | 2010 |
|---|------|------|
| Grants | 27% | 27% |
| Medicaid/ Medicare | 42 | 46 |
| Commerical Insurance and Other Third-Party Payors and Clients | 7 | 5 |
| Medicaid (MBC of Iowa) | 8 | 6 |
| County Board of Supervisors | 16 | 16 |
| | 100% | 100% |

Note 3 - Investments and Investment Income

Investments

Investments include the following at October 31, 2011 and 2010:

| | 2011 | | 2010 | |
|-------------------------|--------------|--------------|--------------|--------------|
| | Fair Value | Cost | Fair Value | Cost |
| Certificates of Deposit | \$ 131,604 | \$ 131,604 | \$ 126,545 | \$ 126,545 |
| Money Market Accounts | 412,632 | 412,632 | 50,572 | 50,572 |
| Common Stock | 658,918 | 688,005 | 464,432 | 435,530 |
| Mutual Funds | 683,340 | 688,783 | 889,388 | 809,462 |
| Land - Arizona | 1,050 | 1,050 | 1,050 | 1,050 |
| | \$ 1,887,544 | \$ 1,922,074 | \$ 1,531,987 | \$ 1,423,159 |

Assets Limited as to Use

Included in investments are funds designated by the Board of Trustees to supplement future operations.

Investments in an Unrealized Gain (Loss) Position

Investments in an unrealized gain (loss) position at October 31, 2011, are shown in the following table:

| | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> | <u>Unrealized Gain</u> |
|--------------|-------------------|----------------------------|-------------------|----------------------------|
| Common Stock | \$ 250,945 | \$ (87,247) | \$ 407,973 | \$ 58,160 |
| Mutual Funds | 279,477 | (15,331) | 403,863 | 9,888 |
| | <u>\$ 530,422</u> | <u>\$ (102,578)</u> | <u>\$ 811,836</u> | <u>\$ 68,048</u> |

The duration of the investments in an unrealized loss position at October 31, 2011, is shown in the following table:

| | <u>Greater Than 12 months</u> | | <u>Less Than 12 months</u> | |
|--------------|-------------------------------|----------------------------|----------------------------|----------------------------|
| | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> | <u>Unrealized Loss</u> |
| Common Stock | \$ 71,566 | \$ (18,721) | \$ 179,379 | \$ (68,526) |
| Mutual Funds | - | - | 279,477 | (15,331) |
| | <u>\$ 71,566</u> | <u>\$ (18,721)</u> | <u>\$ 458,856</u> | <u>\$ (83,857)</u> |

Investments in an unrealized gain (loss) position at October 31, 2010, are shown in the following table:

| | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> | <u>Unrealized Gain</u> |
|--------------|-------------------|----------------------------|---------------------|----------------------------|
| Common Stock | \$ 98,756 | \$ (42,282) | \$ 365,676 | \$ 71,184 |
| Mutual Funds | - | - | 889,388 | 79,926 |
| | <u>\$ 98,756</u> | <u>\$ (42,282)</u> | <u>\$ 1,255,064</u> | <u>\$ 151,110</u> |

The duration of the investments in an unrealized loss position at October 31, 2010, is shown in the following table:

| | <u>Greater Than 12 months</u> | | <u>Less Than 12 months</u> | |
|--------------|-------------------------------|----------------------------|----------------------------|----------------------------|
| | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> | <u>Unrealized Loss</u> |
| Common Stock | \$ 50,570 | \$ (35,453) | \$ 48,186 | \$ (6,829) |

The unrealized losses on the Organization's investments in common stock and mutual funds were caused by numerous changes in market factors. The Organization evaluated the near-term prospects of the issuers for common stock in relation to the severity and duration of the impairment. Based on that evaluation and the Organization's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Organization does not consider the investments in common stock and mutual funds to be other-than-temporarily impaired at October 31, 2011.

The Organization invests in various investment securities which are exposed to risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the statement of financial position.

Investment Income

Investment income is recorded net of investment fees of \$14,996 and \$12,065 for the years ended October 31, 2011 and 2010, respectively. Investment income and gains and losses on cash equivalents and other investments consist of the following for the years ended October 31, 2011 and 2010:

| | 2011 | 2010 |
|---|--------------|------------|
| Investment Income | | |
| Interest and dividend income | \$ 58,945 | \$ 44,542 |
| Realized gains and losses on sale of investments | 78,802 | 57,590 |
| Total investment income | \$ 137,747 | \$ 102,132 |
| Other Changes in Net Assets | | |
| Change in unrealized gains and losses on investments | \$ (143,358) | \$ 45,951 |

Note 4 - Beneficial Interest in Net Assets of Community Foundation

The Organization is a beneficiary of a community foundation maintained by an independent trustee. The assets maintained by the community foundation are to be held in perpetuity. The Organization expects to receive annual distributions of its share of the community foundation's income. These distributions will be recorded in the financial statements as investment income. The funds which have been invested directly by the Organization are recognized in the financial statements as a beneficial interest in net assets of the community foundation at the fair market value of the Organization's interest in the foundation. These funds amounted to \$11,490 and \$11,745 at October 31, 2011 and 2010, respectively.

The community foundation also holds funds contributed by individual donors for the benefit of Hillcrest Family Services, Inc. It should be noted, however, that the community foundation has variance power, which allows them to modify the donor's stipulations under certain circumstances as they monitor the changing needs of the community. These funds will not be recorded as an asset on the financial statements of the Organization. They total \$355,000 and \$295,000 at October 31, 2011 and 2010, respectively, and are held by the community foundation as permanently endowed for the support of Hillcrest Family Services, Inc.

Note 5 - Fair Value of Assets

Assets measured at fair value at October 31, 2011 and 2010, are as follows:

| | 2011 | 2010 |
|---|--------------|--------------|
| Assets | | |
| Mutual funds | \$ 683,340 | \$ 889,388 |
| Common stock | 658,918 | 464,432 |
| Beneficial interest in net assets of community foundation | 11,490 | 11,745 |
| Promises to give | 651,729 | 647,081 |
| Total assets | \$ 2,005,477 | \$ 2,012,646 |

The related fair values of these assets (measured on a recurring basis) are determined as follows:

| | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) |
|---|---|--|
| October 31, 2011 | | |
| Assets | | |
| Mutual funds | | |
| Fixed income funds | \$ 514,497 | \$ - |
| Growth funds | 62,924 | - |
| Balanced funds | 105,919 | - |
| Common stock | | |
| Basic materials | 98,898 | - |
| Consumer goods | 50,955 | - |
| Financial | 178,534 | - |
| Healthcare | 75,199 | - |
| Industrial goods | 45,520 | - |
| Services | 71,405 | - |
| Technology | 117,280 | - |
| Utilities | 21,127 | - |
| Beneficial interest in net assets of community foundation | - | 11,490 |
| Total assets | \$ 1,342,258 | \$ 11,490 |

Hillcrest Family Services, Inc.
Notes to Financial Statements
October 31, 2011 and 2010

| | <u>Quoted Prices in Active Markets (Level 1)</u> | <u>Other Observable Inputs (Level 2)</u> |
|---|--|--|
| October 31, 2010 | | |
| Assets | | |
| Mutual funds | | |
| Fixed income funds | \$ 629,571 | \$ - |
| Growth funds | 80,749 | - |
| Balanced funds | 122,078 | - |
| Money market funds | 56,990 | - |
| Common stock | | |
| Basic materials | 52,397 | - |
| Consumer goods | 34,607 | - |
| Financial | 158,165 | - |
| Healthcare | 50,997 | - |
| Industrial goods | 27,948 | - |
| Services | 52,474 | - |
| Technology | 77,473 | - |
| Utilities | 10,371 | - |
| Beneficial interest in net assets of community foundation | <u>-</u> | <u>11,745</u> |
| Total assets | <u>\$ 1,353,820</u> | <u>\$ 11,745</u> |

The fair value of the investments such as mutual funds and common stock is determined by reference to quoted market prices. The fair value of the beneficial interest in net assets of community foundation is based upon reports of the financial activity of the Organization's Endowed Fund account as provided by the community foundation.

The related fair values of assets measured on a non-recurring basis are determined as follows:

| | <u>Unobservable Inputs (Level 3)</u> |
|------------------|--|
| October 31, 2011 | |
| Assets | |
| Promises to give | <u>\$ 651,729</u> |
| October 31, 2010 | |
| Assets | |
| Promises to give | <u>\$ 647,081</u> |

The fair value of promises to give is determined based on the present value of expected future cash flows.

The Organization has no liabilities measured at fair market value in accordance with ASC 820.

Note 6 - Land, Buildings and Equipment

A summary of land, buildings, and equipment at October 31, 2011 and 2010, follows:

| | 2011 | | 2010 | |
|---------------------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| | Cost | Accumulated Depreciation | Cost | Accumulated Depreciation |
| Land | \$ 40,000 | \$ - | \$ 40,000 | \$ - |
| Land Improvements | 141,551 | 66,975 | 143,288 | 58,975 |
| Buildings | 6,588,223 | 3,551,763 | 6,452,194 | 3,348,592 |
| Equipment | 1,548,374 | 1,056,637 | 1,454,960 | 897,360 |
| Vehicles | 478,283 | 425,181 | 474,283 | 391,824 |
| Furniture, Fixtures, and Equipment | 248,205 | 174,592 | 247,245 | 163,754 |
| Leasehold Improvements | 85,835 | 46,575 | 85,835 | 39,666 |
| Construction in Progress | 476,355 | - | 79,914 | - |
| | <u>\$ 9,606,826</u> | <u>\$ 5,321,723</u> | <u>\$ 8,977,719</u> | <u>\$ 4,900,171</u> |
| Net Land, Buildings and Equipment | | <u>\$ 4,285,103</u> | | <u>\$ 4,077,548</u> |

Construction in progress consists primarily of projects related to the construction of the Hadley Chapel and a school and gymnasium. The estimated total cost Hillcrest is committed to for the Hadley Chapel project is \$1.1 million and \$2.5 million for the school and gymnasium project. These projects will be funded through a capital campaign, financing and operations with an estimated completion date of July 2012 for both projects.

Note 7 - Unconditional Promises

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate of 5%. No allowance has been recorded at October 31, 2011 and 2010, due to management's estimate that all amounts will be collected. Included in amounts due in less than one year are United Way contributions, totaling \$117,000 at October 31, 2011 and 2010, respectively. Promises to give are due as follows:

| | 2011 | 2010 |
|---------------------------|-------------------|-------------------|
| Less Than One Year | \$ 311,457 | \$ 239,214 |
| One to Five Years | 400,973 | 524,198 |
| | 712,430 | 763,412 |
| Less Unamortized Discount | <u>(60,701)</u> | <u>(116,331)</u> |
| | <u>\$ 651,729</u> | <u>\$ 647,081</u> |

Note 8 - Refunds Payable

Refunds payable consists of monies due to clients, third-party payors and counties for over payments on account balances.

Note 9 - Long-Term Debt and Line of Credit

Long-term debt consists of:

| | 2011 | 2010 |
|--|----------------------|----------------------|
| 6.00% Note Payable to Bank, Due in Monthly Installments of \$1,865 Including Interest, Due in December 2013, Secured by Real Estate | \$ 43,658 | \$ 62,755 |
| 4.99% Note Payable to Bank, Due in Monthly Installments of \$918 Including Interest, Due in March 2014, Secured by Vehicles | 24,163 | 33,713 |
| 5.54% Note Payable to Bank, Due in Monthly Installments of \$1,130 Including Interest, Due in February 2013, Secured by Vehicles | 17,348 | 29,554 |
| 6.49% Note Payable to Bank, Due in Monthly Installments of \$720 Including Interest, Due in July 2012, Secured by Vehicles | 15,848 | 21,748 |
| 4.50% Mortgage Payable to Bank, Due in Monthly Installments of \$8,310 Including Interest, Due in April 2015, Secured by Real Estate | 321,755 | 404,735 |
| 4.28% Note Payable to Bank, Due in Monthly Installments of \$574 Including Interest, Due in June 2031, Secured by Real Estate | 91,546 | - |
| Less Current Maturities | 514,318 (139,500) | 552,505 (129,791) |
| Long-Term Debt, Less Current Maturities | \$ 374,818 | \$ 422,714 |

Future principal payments on the above loans are as follows:

| Year Ending October 31, | |
|-------------------------|------------|
| 2012 | \$ 139,500 |
| 2013 | 137,278 |
| 2014 | 107,010 |
| 2015 | 51,935 |
| 2016 | 3,599 |
| Thereafter | 74,996 |
| Total | \$ 514,318 |

The Organization has a line of credit available for up to \$500,000 with a bank. Interest is paid monthly at a rate of LIBOR plus 2.95% (3.89% at October 31, 2011). The line expires in June 2012, and is secured by substantially all assets of the Organization. At October 31, 2011 and 2010, there was no balance outstanding on the line of credit.

Note 10 - Deferred Revenue and Grants

Deferred revenue and grants include an advance from the Iowa Department of Public Health earmarked for future periods. The advance was \$43,666 at October 31, 2011 and 2010. Additional amounts are included for the Reflections in the Park event, the transitional housing program, and other activities.

Note 11 - Employee Benefit Plans

Self-Insured Health Plan

Hillcrest Family Services, Inc. self-insures for losses related to employee health benefits. Reinsurance coverage is maintained for specific individual and aggregate liability losses over specified amounts. At October 31, 2011 and 2010, the provision for estimated health claims outstanding is \$50,000 and \$132,000, respectively.

401(k) Retirement Plans

The Organization has a qualified 401(k) retirement plan which covers all bargaining employees who have completed two years of service and are 21 years of age or older. The Organization makes discretionary contributions of 3% of eligible compensation. The Organization also matches 50% of employee contributions up to 4% of eligible compensation.

The Organization has a qualified 401(k) retirement plan that covers all non-bargaining employees who have completed one year of service and are 21 years of age or older. The Organization makes discretionary contributions of 3% of eligible compensation. The Organization also matches 50% of employee contributions up to 4% of eligible compensation.

The employer contributions for the 401(k) plans for the years ended October 31, 2011 and 2010, were \$353,263 and \$344,988, respectively.

Defined Benefit Pension Plan and Plan Termination

Hillcrest Family Services, Inc. had a defined benefit pension plan covering substantially all non-bargaining employees. The Organization notified its employees during 2007 of its intent to terminate the defined benefit pension plan. Plan benefits were frozen on December 31, 2007. According to the plan document, participants become 100% vested in their accrued benefit upon plan termination. Benefits were to be distributed to the participants in the manner and priorities allowed by the plan, as soon as practicable. The Organization satisfied all liabilities, and the plan was closed during the year ended October 31, 2011. The Organization accrued a liability of \$140,855 as of October 31, 2010, which was equal to the shortfall in the benefit obligation and the fair value of the plan assets as of that date.

The Organization's pension plan assets as of October 31, 2010, were invested in money market accounts.

Note 12 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at October 31, 2011 and 2010:

| | 2011 | 2010 |
|---|--------------|------------|
| Time Restriction - United Way Contributions | \$ 117,000 | \$ 117,000 |
| Time Restriction - Other Pledges | 534,729 | 530,081 |
| Construction of a Family Life Center | 414,575 | 193,591 |
| | \$ 1,066,304 | \$ 840,672 |

Permanently restricted net assets at October 31, 2011 and 2010, are held in perpetuity with the income to be used for:

| | 2011 | 2010 |
|------------------------------------|------------|------------|
| Unrestricted Support for Programs | \$ 150,000 | \$ 150,000 |
| Support for the Family Life Center | 213,033 | 156,418 |
| Educational Programs | 80,000 | 80,000 |
| Family Counseling | 1,000 | 1,000 |
| | \$ 444,033 | \$ 387,418 |

Note 13 - Operating Leases

The Organization leases certain property and equipment under non-cancellable long-term operating lease agreements. Total lease expense for the years ended October 31, 2011 and 2010, was \$367,234 and \$388,158, respectively.

Minimum future lease payments are as follows:

| Year Ending October 31, | | |
|-------------------------|----|-----------|
| 2012 | \$ | 323,890 |
| 2013 | | 261,481 |
| 2014 | | 263,450 |
| 2015 | | 259,022 |
| 2016 | | 181,590 |
| Thereafter | | 134,342 |
| Total | \$ | 1,423,775 |

Note 14 - Concentrations of Credit Risk

Hillcrest Family Services, Inc. grants credit without collateral to its clients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and clients at October 31, 2011 and 2010, was as follows:

| | 2011 | 2010 |
|---|------|------|
| Medicaid/ Medicare | 19% | 15% |
| Grants | 52 | 61 |
| County Board of Supervisors | 4 | 1 |
| Medicaid (MBC of Iowa) | 13 | 11 |
| Commerical Insurance and Other Third-Party Payors and Clients | 12 | 12 |
| | 100% | 100% |

The Organization's cash balances are maintained in various bank deposit accounts and at times may be in excess of federally insured limits. Management believes these financial institutions have strong credit ratings and that credit risk related to these deposits is minimal.

Note 15 - Contingencies

Liability Insurance

The Organization has liability insurance coverage to provide protection for general liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Excess Liability Umbrella Insurance

The Organization also has excess liability umbrella coverage on a claims-made basis subject to a limit of \$4,000,000 per occurrence and an annual aggregate limit of \$4,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Litigations, Claims, and Disputes

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Organization.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient and resident services.

Note 16 - Endowments

Hillcrest Family Services, Inc.'s endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi-endowment). As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of Hillcrest Family Services, Inc. has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

The composition of Endowment Net Assets by fund type as of October 31, 2011 and 2010, respectively, is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|------------------|--------------|---------------------------|---------------------------|--------------|
| October 31, 2011 | | | | |
| Donor-Restricted | | | | |
| Endowment Funds | \$ - | \$ - | \$ 444,033 | \$ 444,033 |
| Board-Designated | | | | |
| Endowment Funds | 732,287 | - | - | 732,287 |
| | \$ 732,287 | \$ - | \$ 444,033 | \$ 1,176,320 |
| October 31, 2010 | | | | |
| Donor-Restricted | | | | |
| Endowment Funds | \$ - | \$ - | \$ 387,418 | \$ 387,418 |
| Board-Designated | | | | |
| Endowment Funds | 666,557 | - | - | 666,557 |
| | \$ 666,557 | \$ - | \$ 387,418 | \$ 1,053,975 |

Changes in endowment net assets for the years ended October 31, 2011 and 2010, are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| October 31, 2011 | | | | |
| Endowment Net Assets, Beginning of Year | \$ 666,557 | \$ - | \$ 387,418 | \$ 1,053,975 |
| Investment Return: | | | | |
| Investment income | 21,971 | 16,097 | - | 38,068 |
| Net realized and unrealized depreciation | (21,910) | (13,339) | - | (35,249) |
| Contributions | 72,279 | - | 56,615 | 128,894 |
| Appropriation of Endowment Assets for Expenditure | <u>(6,610)</u> | <u>(2,758)</u> | <u>-</u> | <u>(9,368)</u> |
| Endowment Net Assets, End of Year | <u>\$ 732,287</u> | <u>\$ -</u> | <u>\$ 444,033</u> | <u>\$ 1,176,320</u> |
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| October 31, 2010 | | | | |
| Endowment Net Assets, Beginning of Year | \$ 578,489 | \$ - | \$ 365,522 | \$ 944,011 |
| Investment Return: | | | | |
| Investment income | 19,219 | 18,881 | - | 38,100 |
| Net realized and unrealized appreciation | 50,335 | 53,526 | - | 103,861 |
| Contributions | 24,604 | - | 21,896 | 46,500 |
| Appropriation of Endowment Assets for Expenditure | <u>(6,090)</u> | <u>(72,407)</u> | <u>-</u> | <u>(78,497)</u> |
| Endowment Net Assets, End of Year | <u>\$ 666,557</u> | <u>\$ -</u> | <u>\$ 387,418</u> | <u>\$ 1,053,975</u> |

The components of endowment funds classified as permanently restricted net assets as of October 31, 2011 and 2010, respectively, are as follows:

Endowment Only Restricted Net Assets

| | 2011 | 2010 |
|--|------------|------------|
| Permanently Restricted Net Assets | | |
| The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA | \$ 444,033 | \$ 387,418 |

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Hillcrest Family Services, Inc. to retain as a fund of perpetual duration. There were no such deficiencies as of October 31, 2011 and 2010.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board designated funds.

The endowment assets of the Organization are commingled with its other investments. Under its investment policy, as approved by the Board of Trustees, the assets are invested in a manner that will help to ensure that the assets are managed in the best interests of the Organization and at the most economical cost. The primary goal of the investment assets of the Organization is to develop a customized portfolio that can help achieve the best possible returns while helping to reduce certain types of risks. To accomplish the Organization's asset mix, the Manager is authorized to utilize portfolios of equity securities (common stock and convertible securities), fixed-income securities and short-term (cash) investments.

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 to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's investment objectives of the endowment funds are to assure preservation of capital through minimization of default risk and to realize the best available total rate of return commensurate with the appropriate risk levels. The investment objective is the long-term growth of principal and creating an annual income stream.

Annually the Board of Trustees may approve, by a simple majority, a withdrawal of quarterly disbursements from the fund. Such disbursements for the next fiscal year are to be based on no more than 5% of the three-year average market value of the fund as of 10/31 of each year. Fluctuations of the market may cause the principal to go below the value of the donor's gift(s). Distributions will not occur when the endowment market value is less than the endowed principal amount or when distributions would invade the original endowed principal amount.

Note 17 - Subsequent Events

On December 29, 2011, Hillcrest Family Services was approved to issue up to \$2,080,000 in Community Facility Revenue Bonds through the City of Peosta, Iowa. These funds are for the purpose of the Hillcrest Family Services Projects disclosed in Note 6 as construction in progress. Advances for the projects will be available through August 1, 2012. The interest rate on the bonds is fixed at 3.65% through July 2022. Beginning August 2022, the interest rate will equal the 10-year LIBOR (as published in the Wall Street Journal or comparable publication approved by the Lender) plus 2.5%. There are no principal payments required during the advance period. Principal repayments will begin on the first of the month succeeding the final advance, or September 1, 2012, whichever is earlier, through August 1, 2032. At March 22, 2012, Hillcrest Family Services had drawn approximately \$184,000 in advances.

The Organization has evaluated subsequent events through March 22, 2012, the date which the financial statements were available to be issued.



Supplementary Information
October 31, 2011 and 2010

Hillcrest Family Services, Inc.

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2011

| Program Service Fees and Grants, Net | Gross Fees | Contractual Allowance | Estimated Cost Settlement | Administrative Adjustment | Net Fees |
|--|----------------------|-----------------------|---------------------------|---------------------------|----------------------|
| Residential education | \$ 3,344,635 | \$ (38,367) | \$ 82,028 | \$ (27,490) | \$ 3,360,806 |
| CMI group homes | 2,622,740 | (51,511) | - | (18,524) | 2,552,705 |
| Health services | 869,544 | (372,950) | - | 13 | 496,607 |
| Schools | 3,744,377 | - | - | - | 3,744,377 |
| Shelter | 436,593 | (858) | - | (6,440) | 429,295 |
| Family centered services | 231,052 | 4,075 | 8,193 | (418) | 242,902 |
| Counseling | - | (49) | - | - | (49) |
| Adoption | 73,635 | - | - | - | 73,635 |
| Hillcrest supported living/IPRS/VOC | 1,262,005 | (132,805) | 674 | (18,604) | 1,111,270 |
| Transitional housing | 21,045 | - | - | (485) | 20,560 |
| Washington County Mental Health Center | 840,741 | (332,070) | 124,420 | (51,350) | 581,741 |
| Dubuque County Mental Health Center | 2,769,960 | (1,013,811) | 401,735 | 29,183 | 2,187,067 |
| Jackson County Mental Health Center | 955,090 | (408,063) | 190,288 | 19,648 | 756,963 |
| Asbury Mental Health Center | 125,358 | (39,545) | 14,554 | (350) | 100,017 |
| PATH Grant | 4,737 | - | - | (385) | 4,352 |
| WRAP/Recovery Grant | 40,557 | (2,619) | 5,814 | (4,177) | 39,575 |
| Total program service fees and grants, net | <u>\$ 17,342,069</u> | <u>\$ (2,388,573)</u> | <u>\$ 827,706</u> | <u>\$ (79,379)</u> | <u>\$ 15,701,823</u> |

Hillcrest Family Services, Inc.
Schedules of Program Service Fees and Grants, Net
Years Ended October 31, 2011 and 2010

| Program Service Fees and Grants, Net | 2010 | | | | |
|--|--------------------------|---------------------------|---------------------------|---------------------------|--------------------------|
| | Gross Fees | Contractual Allowance | Estimated Cost Settlement | Administrative Adjustment | Net Fees |
| Residential education | \$ 3,501,115 | \$ (31,434) | \$ 46,693 | \$ (12,007) | \$ 3,504,367 |
| CMI group homes | 2,575,310 | (48,082) | 28,727 | (4,484) | 2,551,471 |
| Health services | 717,979 | (168,680) | - | 3,192 | 552,491 |
| Schools | 3,841,482 | - | - | - | 3,841,482 |
| Shelter | 542,675 | (2,143) | - | - | 540,532 |
| Family centered services | 202,780 | 195 | 4,664 | (810) | 206,829 |
| Counseling | 61,718 | (29,547) | - | 30 | 32,201 |
| Adoption | 58,323 | - | - | - | 58,323 |
| Hillcrest supported | | | | | |
| living/IPRS/VOC | 1,256,091 | (96,605) | 57,795 | (10,461) | 1,206,820 |
| Transitional housing | 7,620 | - | - | (554) | 7,066 |
| Washington County Mental | | | | | |
| Health Center | 703,267 | (304,371) | 89,075 | (8,271) | 479,700 |
| Dubuque County Mental | | | | | |
| Health Center | 2,631,802 | (954,562) | 249,322 | (30,116) | 1,896,446 |
| Jackson County Mental | | | | | |
| Health Center | 700,466 | (297,142) | 99,275 | (3,288) | 499,311 |
| Asbury Mental Health Center | - | - | - | - | - |
| PATH Grant | 6,047 | - | - | - | 6,047 |
| WRAP/Recovery Grant | 37,390 | (592) | - | (4,487) | 32,311 |
| Total program service fees and grants, net | <u>\$ 16,844,065</u> | <u>\$ (1,932,963)</u> | <u>\$ 575,551</u> | <u>\$ (71,256)</u> | <u>\$ 15,415,397</u> |

| | 2011 | | |
|--|-----------------------------|--------------------------|--------------------------|
| | Washington County MHC | Dubuque County MHC | Jackson County MHC |
| Salaries | \$ 178,658 | \$ 876,412 | \$ 224,270 |
| Fringe Benefits | 22,865 | 129,246 | 30,514 |
| Payroll Taxes and Other | 13,117 | 63,732 | 17,927 |
| Total personnel expenses | <u>214,640</u> | <u>1,069,390</u> | <u>272,711</u> |
| Contracted Services | 155,908 | 502,998 | 107,604 |
| Supplies and Equipment | | | |
| Maintenance | 7,462 | 19,280 | 11,739 |
| Telephone | 4,608 | 14,041 | 5,184 |
| Postage and Shipping | 1,428 | 2,665 | 658 |
| Occupancy | 2,149 | 73,054 | 40,197 |
| Professional Insurance | 889 | 3,511 | 784 |
| Travel | 4,142 | 775 | 1,759 |
| Conferences and Meetings | 932 | 1,391 | 422 |
| Subscriptions | - | 110 | - |
| Client Assistance | - | 600 | - |
| Dues | 214 | 1,449 | 256 |
| Miscellaneous | 3,856 | 3,595 | 2,141 |
| Bad Debts | 2,217 | 39,905 | 11,605 |
| Total Expenses Before Depreciation | <u>398,445</u> | <u>1,732,764</u> | <u>455,060</u> |
| Depreciation | <u>2,211</u> | <u>10,624</u> | <u>3,005</u> |
| Total Expenses Before Allocation | 400,656 | 1,743,388 | 458,065 |
| General and Administrative Allocation | <u>53,263</u> | <u>231,767</u> | <u>60,895</u> |
| Total Expenses | <u>\$ 453,919</u> | <u>\$ 1,975,155</u> | <u>\$ 518,960</u> |

Hillcrest Family Services, Inc.
 Schedule of Mental Health Center Expenses
 Year Ended October 31, 2011

| 2011 | | |
|---------------|---------------------------|------------------------------|
| Asbury MHC | Wellness Center MHC | Total Program Services |
| \$ 44,294 | \$ 292,018 | \$ 1,615,652 |
| 1,149 | 52,787 | 236,561 |
| 2,757 | 20,814 | 118,347 |
| 48,200 | 365,619 | 1,970,560 |
| 721 | 4,552 | 771,783 |
| 763 | 15,325 | 54,569 |
| - | 5,556 | 29,389 |
| - | 155 | 4,906 |
| 6,401 | 34,280 | 156,081 |
| - | 1,491 | 6,675 |
| 5 | 9,670 | 16,351 |
| 277 | 20,110 | 23,132 |
| - | 23 | 133 |
| - | 960 | 1,560 |
| 38 | 141 | 2,098 |
| 104 | 5,936 | 15,632 |
| 1,000 | 1,000 | 55,727 |
| 57,509 | 464,818 | 3,108,596 |
| 68 | 2,580 | 18,488 |
| 57,577 | 467,398 | 3,127,084 |
| 6,981 | 62,136 | 415,042 |
| \$ 64,558 | \$ 529,534 | \$ 3,542,126 |

| | 2010 | | |
|--|-----------------------------|--------------------------|--------------------------|
| | Washington County MHC | Dubuque County MHC | Jackson County MHC |
| Salaries | \$ 182,947 | \$ 831,914 | \$ 178,262 |
| Fringe Benefits | 27,506 | 132,795 | 23,031 |
| Payroll Taxes and Other | 13,127 | 60,539 | 12,496 |
| Total personnel expenses | <u>223,580</u> | <u>1,025,248</u> | <u>213,789</u> |
| Contracted Services | 172,784 | 549,555 | 121,311 |
| Supplies and Equipment | | | |
| Maintenance | 6,156 | 22,690 | 11,072 |
| Telephone | 4,312 | 13,043 | 5,615 |
| Postage and Shipping | 1,303 | 1,941 | 802 |
| Occupancy | 2,131 | 51,864 | 34,710 |
| Outside Printing | - | 220 | - |
| Professional Insurance | 801 | 2,656 | 759 |
| Travel | 5,599 | 647 | 2,341 |
| Conferences and Meetings | 340 | 1,388 | 658 |
| Subscriptions | - | 110 | - |
| Client Assistance | - | 900 | - |
| Dues | 416 | 1,898 | 436 |
| Miscellaneous | 2,378 | 5,520 | 1,625 |
| Bad Debts | (3,174) | 25,784 | 8,456 |
| Total Expenses Before Depreciation | <u>416,626</u> | <u>1,703,464</u> | <u>401,574</u> |
| Depreciation | <u>3,248</u> | <u>20,448</u> | <u>4,549</u> |
| Total Expenses Before Allocation | 419,874 | 1,723,912 | 406,123 |
| General and Administrative Allocation | <u>57,294</u> | <u>235,256</u> | <u>55,424</u> |
| Total Expenses | <u>\$ 477,168</u> | <u>\$ 1,959,168</u> | <u>\$ 461,547</u> |

Hillcrest Family Services, Inc.
Schedule of Mental Health Center Expenses
Year Ended October 31, 2010

| 2010 | | |
|---------------|---------------------------|------------------------------|
| Asbury MHC | Wellness Center MHC | Total Program Services |
| \$ - | \$ 91,835 | \$ 1,284,958 |
| - | 10,357 | 193,689 |
| - | 6,150 | 92,312 |
| - | 108,342 | 1,570,959 |
| - | 178 | 843,828 |
| - | 5,118 | 45,036 |
| - | 3,108 | 26,078 |
| - | 43 | 4,089 |
| - | 29,875 | 118,580 |
| - | - | 220 |
| - | 379 | 4,595 |
| - | 4,031 | 12,618 |
| - | (48) | 2,338 |
| - | 49 | 159 |
| - | - | 900 |
| - | 104 | 2,854 |
| - | 1,271 | 10,794 |
| - | 771 | 31,837 |
| - | 153,221 | 2,674,885 |
| - | 2,236 | 30,481 |
| - | 155,457 | 2,705,366 |
| - | 21,214 | 369,188 |
| \$ - | \$ 176,671 | \$ 3,074,554 |

Hillcrest Family Services, Inc.

Schedules of Revenues and Expenses

WIC – Contract #5888AO35

Maternal Health – Contract #5888MH13

Contract Period: October 1, 2010 Through September 30, 2011

| | WIC | Maternal Health |
|--|--------------------|--------------------|
| Revenues | | |
| Iowa Department of Public Health | \$ 711,759 | \$ 25,752 |
| Title XIX | - | 104,384 |
| United Way | - | 4,167 |
| Miscellaneous | - | 15,205 |
| | <u>711,759</u> | <u>149,508</u> |
| Expenses | | |
| Salaries | 393,329 | 87,198 |
| Fringe benefits | 86,597 | 21,704 |
| Payroll taxes, etc. | 28,215 | 5,856 |
| Contracted services | 1,650 | 7,935 |
| Supplies and equipment maintenance | 44,507 | 2,105 |
| Telephone | 13,785 | 387 |
| Postage and shipping | 1,690 | 116 |
| Occupancy | 47,283 | 3,757 |
| Travel | 10,972 | 814 |
| Conferences and meetings | 5,471 | 432 |
| Subscriptions | 274 | - |
| Client assistance | 18,965 | 54 |
| Dues | 35 | - |
| Miscellaneous | 3,906 | 100 |
| Depreciation | 439 | 201 |
| | <u>657,118</u> | <u>130,659</u> |
| Total expenses | <u>657,118</u> | <u>130,659</u> |
| General and administrative allocation | <u>86,699</u> | <u>16,669</u> |
| Revenues in excess of (less than) expenses | <u>\$ (32,058)</u> | <u>\$ 2,180</u> |

Hillcrest Family Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended October 31, 2011

| Grantor/Program | Federal CFDA Number | Pass-Through Entity Identifying Number | Program Expenditures |
|--|---------------------------|--|-------------------------|
| U.S. Department of Agriculture | | | |
| Passed through Iowa Department of Education | | | |
| School Breakfast Program | 10.553/ | | |
| National School Lunch Program | 10.555 | 18638000 | \$ 108,373 |
| Passed through Iowa Department of Public Health | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 5881AO35 | 666,007 |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 5882AO35 | 44,054 |
| | | | <u>710,061</u> |
| Total U.S. Department of Agriculture | | | <u>818,434</u> |
| U.S. Department of Housing and Urban Development | | | |
| Direct Program | | | |
| Supportive Housing Program | 14.235 | | <u>89,374</u> |
| U.S. Department of Health and Human Services | | | |
| Passed through Iowa Department of Human Services | | | |
| Projects for Assistance in Transition from Homelessness | 93.150 | MHDS 11-040 | <u>37,076</u> |
| Passed through State Department of Health and Human Services and Family Planning Council of Iowa | | | |
| Family Planning - Services | 93.217 | 572-FY2011 | 105,097 |
| Family Planning - Services | 93.217 | 613-FY2012 | 55,118 |
| | | | <u>160,215</u> |
| Passed through Iowa Department of Human Services | | | |
| Block Grants for Community Mental Health Services | 93.958 | MHDS 11-068 | <u>133,455</u> |
| Passed through Iowa Department of Public Health | | | |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 5881MH13 | 33,755 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 5882MH13 | 2,699 |
| | | | <u>36,454</u> |
| Total U.S. Department of Health and Human Services | | | <u>367,200</u> |
| Total | | | <u>\$ 1,275,008</u> |

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hillcrest Family Services, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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*

The Board of Trustees
Hillcrest Family Services, Inc.
Dubuque, Iowa

We have audited the financial statements of Hillcrest Family Services, Inc. (Hillcrest), as of and for the year ended October 31, 2011, and have issued our report thereon dated March 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillcrest's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hillcrest's internal control over financial reporting.

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 Hillcrest's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. *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. We consider the deficiency described in Part II of the accompanying schedule of findings and questioned costs as item II-A-11 to be a significant deficiency.

Compliance and Other Matters

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

Hillcrest's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Hillcrest's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, others within Hillcrest Family Services, Inc., federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
March 23, 2012



Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Its Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
Hillcrest Family Services, Inc.
Dubuque, Iowa

Compliance

We have audited the compliance of Hillcrest Family Services, Inc. (Hillcrest) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended October 31, 2011. Hillcrest's major federal program is identified in the summary of the independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of Hillcrest's management. Our responsibility is to express an opinion on Hillcrest's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hillcrest's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hillcrest's compliance with those requirements.

In our opinion, Hillcrest Family Services, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended October 31, 2011.

Internal Control over Compliance

Management of Hillcrest Family Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered Hillcrest's internal control over compliance with requirements that could have a direct and material effect on its major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hillcrest's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management, others within Hillcrest Family Services, Inc., federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Dubuque, Iowa
March 23, 2012

Part I: Summary of the Independent Auditor's Results:

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

Material weakness identified No
 Significant deficiency Yes

Noncompliance material to financial statements noted No

Federal Awards

Internal control over major program:

Material weakness identified No
 Significant deficiency None reported

Type of auditor's report issued on compliance for major program Unqualified

Any audit findings disclosed that are required to be reported in
 accordance with Circular A-133, Section .510(a) No

Identification of major program:

CFDA Number
 10.557

Name of Federal Program or Cluster
 Special Supplemental Nutrition Program
 for Women, Infants, and Children

Dollar threshold used to distinguish
 between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee No

Part II: Findings Related to the Financial Statements

Significant Deficiencies

II-A-11 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – Hillcrest Family Services, Inc. does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the entity. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Hillcrest's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in Hillcrest's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and FASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were noted.

Internal Control over Compliance:

No material weaknesses in internal control over compliance were noted.