



Financial Statements  
June 30, 2016 and 2015

# Hillcrest Family Services, Inc.

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Hillcrest Family Services, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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 Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillcrest Family Services, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 32 through 34 is presented for the purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements for Federal Awards*, is presented for purposes of additional analysis 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 financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2016 on our consideration of Hillcrest Family Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering Hillcrest Family Services, Inc.'s internal control over financial reporting and compliance.



Dubuque, Iowa  
October 27, 2016

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	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 393,846	\$ 495,716
Cash - custodial	23,926	16,175
Receivables		
Program service fees, net of allowances for uncollectibles of \$175,000 and \$66,000 in 2016 and 2015, respectively	4,353,040	1,951,035
Program grants	418,697	452,728
Estimated third-party payor settlements	857,897	2,093,211
Promises to give - Note 5	65,802	119,250
Prepaid and other expenses	165,867	179,111
Estimated insurance recoveries receivable	<u>219,118</u>	<u>249,985</u>
Total current assets	<u>6,498,193</u>	<u>5,557,211</u>
Property and Equipment, Net - Note 6	<u>8,971,856</u>	<u>9,404,277</u>
Other Assets		
Promises to give - Note 5	-	9,000
Investments - Note 3	1,517,847	1,529,853
Rental property, net of accumulated depreciation of \$22,220 and \$15,663 in 2016 and 2015, respectively	215,084	221,641
Beneficial interest in assets of community foundation	<u>13,747</u>	<u>13,747</u>
Total other assets	<u>1,746,678</u>	<u>1,774,241</u>
Total assets	<u>\$ 17,216,727</u>	<u>\$ 16,735,729</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.  
Statements of Financial Position  
June 30, 2016 and 2015

	2016	2015
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 7	\$ 330,707	\$ 318,506
Refunds payable - Note 10	23,684	28,571
Custodial funds	24,735	16,175
Accounts payable		
Trade	453,748	565,544
Estimated health claims payable - Note 16	195,161	159,997
Accrued Expenses		
Salaries and wages, including related taxes	760,531	602,178
Vacation	578,012	622,511
Payroll taxes and other benefits	110,580	131,855
Other	28,542	72,048
Estimated insurance claims liability - Note 15	219,118	249,985
Deferred revenue and grants - Note 11	105,229	157,442
	<u>2,830,047</u>	<u>2,924,812</u>
Long-Term Debt, Less Current Maturities and Unamortized Debt Issuance Costs of \$25,368 and \$26,920 in 2016 and 2015, respectively - Note 7	3,811,232	4,127,237
Interest Rate Swap - Note 7	108,564	30,547
	<u>6,749,843</u>	<u>7,082,596</u>
Total liabilities		
Net Assets		
Unrestricted		
Undesignated	8,792,383	8,005,080
Designated by Board - quasi-endowment - Note 12	1,242,358	1,237,473
	<u>10,034,741</u>	<u>9,242,553</u>
Temporarily restricted - Note 13	201,143	179,580
Permanently restricted - Note 13	231,000	231,000
	<u>10,466,884</u>	<u>9,653,133</u>
Total net assets		
	<u>10,466,884</u>	<u>9,653,133</u>
Total liabilities and net assets	<u>\$ 17,216,727</u>	<u>\$ 16,735,729</u>

	2016			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Support and Revenue				
Public Support				
Direct:				
Contributions	\$ 275,620	\$ 105,900	\$ -	\$ 381,520
Bequests -				
trusts/estates	25,132	-	-	25,132
Bowl for Kids Sake	24,438	-	-	24,438
Special event - lights	241,961	-	-	241,961
Indirect:				
Grants - federal				
awards	1,312,492	-	-	1,312,492
Grants - other	74,155	-	-	74,155
United Way	9,716	51,804	-	61,520
Total public support	<u>1,963,514</u>	<u>157,704</u>	<u>-</u>	<u>2,121,218</u>
Revenue				
Program service fees				
and grants, net -				
Note 2	21,367,083	-	-	21,367,083
Investment Return -				
Note 4	983	(1,903)	-	(920)
Distributions from and				
change in value of				
beneficial interest in				
assets of community				
foundation	-	-	-	-
Miscellaneous	40,972	-	-	40,972
Net assets released from				
restrictions - Note 13	134,238	(134,238)	-	-
Total revenue	<u>21,543,276</u>	<u>(136,141)</u>	<u>-</u>	<u>21,407,135</u>
Total public support				
and revenue	<u>23,506,790</u>	<u>21,563</u>	<u>-</u>	<u>23,528,353</u>
Expenses				
Program services	19,569,178	-	-	19,569,178
Supporting services				
General and				
administrative	2,608,277	-	-	2,608,277
Mission advancement	339,509	-	-	339,509
Special event - lights	110,702	-	-	110,702
Total expenses	<u>22,627,666</u>	<u>-</u>	<u>-</u>	<u>22,627,666</u>

See Notes to Financial Statements



Hillcrest Family Services, Inc.  
 Statements of Activities  
 Years Ended June 30, 2016 and 2015

2015			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 268,426	\$ -	\$ -	\$ 268,426
1,927	-	-	1,927
31,299	-	-	31,299
238,382	-	-	238,382
1,256,451	-	-	1,256,451
56,872	-	-	56,872
7,000	68,250	-	75,250
1,860,357	68,250	-	1,928,607
20,369,574	-	-	20,369,574
63,281	1,546	-	64,827
(255)	-	-	(255)
48,601	-	-	48,601
218,390	(218,390)	-	-
20,699,591	(216,844)	-	20,482,747
22,559,948	(148,594)	-	22,411,354
19,617,300	-	-	19,617,300
2,574,995	-	-	2,574,995
550,185	-	-	550,185
107,465	-	-	107,465
22,849,945	-	-	22,849,945

	2016			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Public Support and Revenue In Excess of (Less than) Expenses	\$ 879,124	\$ 21,563	\$ -	\$ 900,687
Other Changes in Net Assets				
Change in unrealized gains and losses on investments - Note 4	(8,918)	-	-	(8,918)
Loss on disposal of assets	-	-	-	-
Change in value of interest- rate swap	(78,018)	-	-	(78,018)
Change in Net Assets	792,188	21,563	-	813,751
Net Assets, Beginning of Year	9,242,553	179,580	231,000	9,653,133
Net Assets, End of Year	<u>\$ 10,034,741</u>	<u>\$ 201,143</u>	<u>\$ 231,000</u>	<u>\$ 10,466,884</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.  
 Statements of Activities  
 Years Ended June 30, 2016 and 2015

2015			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ (289,997)	\$ (148,594)	\$ -	\$ (438,591)
(56,665)	-	-	(56,665)
(554)	-	-	(554)
(30,547)	-	-	(30,547)
(377,763)	(148,594)	-	(526,357)
9,620,316	328,174	231,000	10,179,490
\$ 9,242,553	\$ 179,580	\$ 231,000	\$ 9,653,133

Program Services

	Residential Education	CMI Group Homes	Health Services	Schools	Shelter	Family Centered Services	Adoption
Salaries	\$ 1,956,738	\$ 2,302,368	\$ 690,359	\$ 2,230,793	\$ 258,126	\$ 56,604	\$ 47,090
Fringe Benefits	304,460	430,078	119,137	525,293	42,363	6,612	10,309
Payroll Taxes and Other	148,545	167,548	49,862	160,952	19,019	4,297	3,235
Total personnel expenses	2,409,743	2,899,994	859,358	2,917,038	319,508	67,513	60,634
Contracted Services	44,796	19,602	52,712	29,339	5,012	413	4,156
Supplies and Equipment							
Maintenance	292,795	308,815	134,797	82,641	39,930	330	389
Telephone	9,879	19,161	19,635	11,722	3,248	12	2,257
Postage and Shipping	1,027	889	1,364	564	214	-	516
Occupancy	145,996	182,437	88,832	139,839	29,271	1,059	4,261
Outside Printing	6,954	10	195	-	-	-	-
Professional Insurance	6,898	8,451	3,570	4,815	569	85	104
Travel	34,379	36,652	26,182	17,007	6,642	770	3,593
Conferences and							
Meetings	3,851	1,489	6,159	2,628	351	5	750
Subscriptions	124	817	-	-	-	-	-
Client Assistance	36,184	5,080	37,034	166	6,180	460	(1)
Dues	7,521	4,261	1,005	-	1,180	12	9,569
Miscellaneous	21,628	21,713	4,310	11,241	3,107	109	486
Interest and Amortization	27,826	53,364	328	71,454	1,256	-	107
Bad Debts	97,646	83,711	121,290	396	11,903	3,863	2,900
Total Expenses Before Depreciation	3,147,247	3,646,446	1,356,771	3,288,850	428,371	74,631	89,721
Depreciation	130,411	136,705	7,185	122,177	28,833	906	815
Total Expenses Before Allocation	3,277,658	3,783,151	1,363,956	3,411,027	457,204	75,537	90,536
General and Administrative Allocation	427,236	493,607	177,922	445,089	59,659	9,856	11,800
Total Expenses	<u>\$ 3,704,894</u>	<u>\$ 4,276,758</u>	<u>\$ 1,541,878</u>	<u>\$ 3,856,116</u>	<u>\$ 516,863</u>	<u>\$ 85,393</u>	<u>\$ 102,336</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2016

Program Services					
Hillcrest Supported Living IPRS/Voc	Transitional Housing	SSVF/ PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
\$ 808,867	\$ 38,495	\$ 93,678	\$ 3,651,276	\$ 59,356	\$ 12,193,750
136,297	8,700	21,217	615,707	24,028	2,244,201
58,686	2,807	6,627	254,878	4,065	880,521
1,003,850	50,002	121,522	4,521,861	87,449	15,318,472
16,383	-	318	304,826	629	478,186
4,113	2,338	866	59,835	521	927,370
15,500	3,141	753	85,765	2,037	173,110
446	-	45	3,838	605	9,508
27,806	18,246	2,612	263,711	3,276	907,346
-	-	-	3,911	-	11,070
1,370	118	168	12,084	134	38,366
29,218	675	3,152	52,263	413	210,946
888	248	303	20,670	-	37,342
-	-	-	-	-	941
(93)	2,694	13,593	1,542	129	102,968
1,794	91	59	14,470	-	39,962
2,169	9	816	63,659	2,667	131,914
804	730	108	12,986	240	169,203
24,151	-	-	139,213	-	485,073
1,128,399	78,292	144,315	5,560,634	98,100	19,041,777
11,771	18,905	576	66,510	2,607	527,401
1,140,170	97,197	144,891	5,627,144	100,707	19,569,178
148,592	12,588	18,892	735,209	13,110	2,553,560
<u>\$ 1,288,762</u>	<u>\$ 109,785</u>	<u>\$ 163,783</u>	<u>\$ 6,362,353</u>	<u>\$ 113,817</u>	<u>\$ 22,122,738</u>

Hillcrest Family Services, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2016

	Supporting Services					Total Expenses
	Total Program Services	General and Administrative	Mission Advancement	Special Event - Lights	Total Supporting Services	
Salaries	\$ 12,193,750	\$ 1,573,328	\$ 97,379	\$ -	\$ 1,670,707	\$ 13,864,457
Fringe Benefits	2,244,201	326,090	14,965	-	341,055	2,585,256
Payroll Taxes and Other	880,521	108,700	6,981	-	115,681	996,202
<b>Total personnel expenses</b>	<b>15,318,472</b>	<b>2,008,118</b>	<b>119,325</b>	<b>-</b>	<b>2,127,443</b>	<b>17,445,915</b>
Contracted Services	478,186	155,701	37,638	-	193,339	671,525
Supplies and Equipment						
Maintenance	927,370	75,482	6,726	-	82,208	1,009,578
Telephone	173,110	58,470	1,489	-	59,959	233,069
Postage and Shipping	9,508	5,117	1,142	-	6,259	15,767
Occupancy	907,346	17,524	21,432	-	38,956	946,302
Outside Printing	11,070	272	25,447	-	25,719	36,789
Professional Insurance	38,366	30,179	651	-	30,830	69,196
Travel	210,946	25,701	3,424	-	29,125	240,071
Conferences and Meetings	37,342	18,529	7,772	-	26,301	63,643
Subscriptions	941	807	264	-	1,071	2,012
Client Assistance	102,968	6,358	-	-	6,358	109,326
Dues	39,962	4,466	6,031	-	10,497	50,459
Miscellaneous	131,914	50,268	8,105	110,702	169,075	300,989
Interest and Amortization	169,203	12,889	7,025	-	19,914	189,117
Bad Debts (Recoveries)	485,073	(3,876)	12,039	-	8,163	493,236
<b>Total Expenses Before Depreciation</b>	<b>19,041,777</b>	<b>2,466,005</b>	<b>258,510</b>	<b>110,702</b>	<b>2,835,217</b>	<b>21,876,994</b>
Depreciation	527,401	142,272	80,999	-	223,271	750,672
<b>Total Expenses Before Allocation</b>	<b>19,569,178</b>	<b>2,608,277</b>	<b>339,509</b>	<b>110,702</b>	<b>3,058,488</b>	<b>22,627,666</b>
General and Administrative Allocation	2,553,560	(2,608,277)	41,263	13,454	(2,553,560)	-
<b>Total Expenses</b>	<b>\$ 22,122,738</b>	<b>\$ -</b>	<b>\$ 380,772</b>	<b>\$ 124,156</b>	<b>\$ 504,928</b>	<b>\$ 22,627,666</b>

Program Services

	Residential Education	CMI Group Homes	Health Services	Schools	Shelter	Family Centered Services	Adoption
Salaries	\$ 2,167,149	\$ 2,405,034	\$ 633,764	\$ 2,327,094	\$ 301,076	\$ 54,649	\$ 44,921
Fringe Benefits	410,264	573,856	124,601	608,336	56,432	6,048	8,766
Payroll Taxes and Other	160,014	179,334	46,794	167,334	22,576	3,869	3,456
Total personnel expenses	<u>2,737,427</u>	<u>3,158,224</u>	<u>805,159</u>	<u>3,102,764</u>	<u>380,084</u>	<u>64,566</u>	<u>57,143</u>
Contracted Services	87,632	30,148	93,277	24,681	5,476	740	12,093
Supplies and Equipment							
Maintenance	300,574	347,742	86,878	166,899	41,689	5,016	616
Telephone	11,700	22,842	18,585	13,694	3,682	40	2,210
Postage and Shipping	885	1,176	2,626	2,346	163	50	561
Occupancy	139,166	254,493	87,272	137,374	21,011	10,124	3,758
Outside Printing	-	360	300	-	-	-	-
Professional Insurance	5,262	6,854	1,475	4,476	545	127	105
Travel	29,433	41,794	20,111	27,938	5,418	1,110	2,813
Conferences and Meetings	11,960	2,505	7,919	8,420	1,509	353	815
Subscriptions	51	840	70	-	7	-	-
Client Assistance	37,969	9,258	29,312	3,684	6,186	722	-
Dues	3,481	3,584	151	-	451	16	1,691
Miscellaneous	20,210	24,610	6,498	8,391	2,740	78	369
Interest and Amortization	22,673	57,497	17	67,199	1,020	3,173	39
Bad Debts (Recoveries)	33,146	36,987	14,791	-	2,636	390	1,250
Total Expenses Before Depreciation	<u>3,441,569</u>	<u>3,998,914</u>	<u>1,174,441</u>	<u>3,567,866</u>	<u>472,617</u>	<u>86,505</u>	<u>83,463</u>
Depreciation	<u>132,969</u>	<u>128,117</u>	<u>11,159</u>	<u>133,058</u>	<u>29,047</u>	<u>5,510</u>	<u>719</u>
Total Expenses Before Allocation	<u>3,574,538</u>	<u>4,127,031</u>	<u>1,185,600</u>	<u>3,700,924</u>	<u>501,664</u>	<u>92,015</u>	<u>84,182</u>
General and Administrative Allocation	<u>454,521</u>	<u>525,374</u>	<u>150,742</u>	<u>470,957</u>	<u>63,793</u>	<u>11,692</u>	<u>10,703</u>
Total Expenses	<u>\$ 4,029,059</u>	<u>\$ 4,652,405</u>	<u>\$ 1,336,342</u>	<u>\$ 4,171,881</u>	<u>\$ 565,457</u>	<u>\$ 103,707</u>	<u>\$ 94,885</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2015

Program Services					
Hillcrest Supported					Total
Living IPRS/Voc	Transitional Housing	PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	Program Services
\$ 786,633	\$ 37,878	\$ 54,612	\$ 3,221,868	\$ 60,730	\$ 12,095,408
143,726	9,611	13,863	612,991	24,932	2,593,426
56,575	2,682	3,817	231,172	4,072	881,695
986,934	50,171	72,292	4,066,031	89,734	15,570,529
14,556	-	202	237,009	834	506,648
5,291	3,801	2,326	82,577	694	1,044,103
14,322	3,113	477	84,827	1,016	176,508
445	-	95	4,584	694	13,625
23,825	15,145	3,501	243,943	3,764	943,376
-	-	-	235	-	895
1,191	116	69	8,997	123	29,340
31,630	572	1,643	49,357	406	212,225
255	3	65	20,391	74	54,269
35	-	70	478	-	1,551
1,153	380	10,081	1,344	1,600	101,689
1,142	91	25	3,922	-	14,554
3,133	59	992	78,045	4,760	149,885
128	9	15	2,227	9	154,006
1,230	165	-	20,674	-	111,269
1,085,270	73,625	91,853	4,904,641	103,708	19,084,472
10,980	19,009	486	61,420	354	532,828
1,096,250	92,634	92,339	4,966,061	104,062	19,617,300
139,374	11,782	11,751	631,673	13,267	2,495,629
<u>\$ 1,235,624</u>	<u>\$ 104,416</u>	<u>\$ 104,090</u>	<u>\$ 5,597,734</u>	<u>\$ 117,329</u>	<u>\$ 22,112,929</u>



Hillcrest Family Services, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2015

	Supporting Services					Total Expenses
	Total Program Services	General and Administrative	Mission Advancement	Special Event - Lights	Total Supporting Services	
Salaries	\$ 12,095,408	\$ 1,434,475	\$ 191,624	\$ -	\$ 1,626,099	\$ 13,721,507
Fringe Benefits	2,593,426	342,996	30,214	-	373,210	2,966,636
Payroll Taxes and Other	881,695	105,155	12,012	-	117,167	998,862
<b>Total personnel expenses</b>	<b>15,570,529</b>	<b>1,882,626</b>	<b>233,850</b>	<b>-</b>	<b>2,116,476</b>	<b>17,687,005</b>
Contracted Services	506,648	201,717	59,848	-	261,565	768,213
Supplies and Equipment						
Maintenance	1,044,103	87,786	7,010	-	94,796	1,138,899
Telephone	176,508	56,404	887	-	57,291	233,799
Postage and Shipping	13,625	4,627	1,176	-	5,803	19,428
Occupancy	943,376	51,492	29,202	-	80,694	1,024,070
Outside Printing	895	226	31,521	-	31,747	32,642
Professional Insurance	29,340	29,035	628	-	29,663	59,003
Travel	212,225	23,062	4,721	-	27,783	240,008
Conferences and Meetings	54,269	18,711	6,159	-	24,870	79,139
Subscriptions	1,551	-	264	-	264	1,815
Client Assistance	101,689	6,458	(197)	-	6,261	107,950
Dues	14,554	2,286	5,515	-	7,801	22,355
Miscellaneous	149,885	62,769	4,943	107,465	175,177	325,062
Interest and Amortization	154,006	2,941	12,805	-	15,746	169,752
Bad Debts (Recoveries)	111,269	(9,272)	75,209	-	65,937	177,206
<b>Total Expenses Before Depreciation</b>	<b>19,084,472</b>	<b>2,420,868</b>	<b>473,541</b>	<b>107,465</b>	<b>3,001,874</b>	<b>22,086,346</b>
Depreciation	532,828	154,127	76,644	-	230,771	763,599
<b>Total Expenses Before Allocation</b>	<b>19,617,300</b>	<b>2,574,995</b>	<b>550,185</b>	<b>107,465</b>	<b>3,232,645</b>	<b>22,849,945</b>
General and Administrative Allocation	2,495,629	(2,574,995)	66,397	12,969	(2,495,629)	-
<b>Total Expenses</b>	<b>\$ 22,112,929</b>	<b>\$ -</b>	<b>\$ 616,582</b>	<b>\$ 120,434</b>	<b>\$ 737,016</b>	<b>\$ 22,849,945</b>

Hillcrest Family Services, Inc.  
Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ 813,751	\$ (526,357)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	750,672	763,599
Interest expense attributable to amortization of debt issuance costs	1,552	1,552
Loss on disposal of assets	-	554
Change in unrealized gains and losses on investments	8,918	56,665
Realized (gain) loss on sales of investments	16,569	(45,313)
Change in beneficial interest held by others	-	255
Bad debts	493,236	177,206
Change in value of interest rate swap	78,018	30,547
Changes in assets and liabilities		
Receivables	(1,563,448)	534,816
Prepaid expenses	13,244	(3,133)
Accounts/refunds payable	(81,519)	118,646
Accrued expenses	49,073	81,938
Deferred revenue and grants	(52,213)	26,593
Net Cash from Operating Activities	527,853	1,217,568
Cash Flows used for Investing Activities		
Purchase of property and equipment	(311,694)	(1,055,057)
Purchase of investments	(554,835)	(708,153)
Sale of investments	542,162	678,628
Net Cash used for Investing Activities	(324,367)	(1,084,582)
Cash Flows from (used for) Financing Activities		
Proceeds from issuance of long-term debt	-	780,500
Principal payments on long-term debt	(305,356)	(436,334)
Net Cash from (used for) Financing Activities	(305,356)	344,166
Change in Cash and Cash Equivalents	(101,870)	477,152
Cash and Cash Equivalents, Beginning of Year	495,716	18,564
Cash and Cash Equivalents, End of Year	\$ 393,846	\$ 495,716
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 187,565	\$ 168,200

## **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.

### **Cash and Cash Equivalents**

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Organization are excluded from this definition.

### **Receivables and Credit Policies**

Accounts receivable consist primarily of 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. Accounts receivable are written off when deemed uncollectible. At June 30, 2016 and 2015, the allowance related to self-pay accounts was \$175,000 and \$66,000, respectively.

### **Promises to Give**

The Organization records unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. At June 30, 2016 and 2015, no allowance was recorded as management estimates that all amounts are collectible.

### **Debt Issuance Costs**

Debt issuance costs are amortized using the straight-line method over the life of the bonds.

### **Property and Equipment**

Property and equipment additions over \$2,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 15 years for equipment, vehicles, and leasehold improvements, and up to 40 years for building and improvements. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2016 and 2015.

### **Rental Property**

Rental property consists of certain property that is not used in operations and is available for rental to third parties. Rental income is recorded as miscellaneous income.

### **Beneficial Interest in Assets Held by Community Foundation**

Hillcrest Family Services, Inc. established a permanent endowment fund (the Fund) under Community Foundation of Greater Dubuque's (the CFGD) Organization Endowment Fund program and named itself as beneficiary. Hillcrest Family Services, Inc. granted variance power to CFGD which allows CFGD to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of CFGD's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Fund is held and invested by CFGD for the benefit of Hillcrest Family Services, Inc., and is reported at fair value in the statement of financial position, with trust distributions and changes in fair value recognized in the statement of activities.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Investment income is reported in the statement of activities and consists of interest and dividend income, and realized and unrealized capital gains and losses, net of investment fees. Changes in unrealized gains and losses on investments are excluded from public support and revenue in excess of expenses unless the investments are trading securities.

### **Interest-Rate Swap**

The Organization uses an interest-rate swap to mitigate interest-rate risk on a note payable (Note 8). The related liability or asset is reported at fair value in the statement of financial position, and unrealized losses or gains are included in the statement of activities.

## **Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Trustees for quasi-endowment.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Organization's Board of Trustees.

The Organization reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements.

## **Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. 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.

## **Donated Goods and Services**

Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Organization records donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended June 30, 2016 and 2015.

### **Advertising Costs**

Advertising costs are expensed as incurred, and approximated \$39,000 and \$63,000, respectively, for the years ended June 30, 2016 and 2015.

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Self-Insurance Reserves**

The Organization provides for self-insurance reserves for estimated incurred but not reported claims for its employee health plan. This reserve, which is included in current liabilities on the statements of activities, is estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to the reserve are reflected in the operating results in the period in which the change in estimate is identified.

### **Income Taxes**

The Organization is organized as an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under Sections 509(a)(1) and (3), respectively. The Organization 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. The Organization files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

The Organization believes that it has appropriate support 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. The entities' Form 990, 990-T and other income tax filings required by state, local, or non-U.S. tax authorities are no longer subject to tax examination for the years before 2012.

### **Estimates**

The preparation of 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 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 and those differences could be material.

### **Financial Instruments and Credit Risk**

The Organization manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts.

Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and businesses supportive of the Organization's mission.

Investments are made by diversified investment managers whose performance is monitored by management and the Board of Trustees. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Board of Trustees believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

### **Subsequent Events**

The Organization has evaluated subsequent events through October 27, 2016, the date which the financial statements were available to be issued.

### **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. The Organization's Medicaid settlements have been finalized through the year ended June 30, 2015.

**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. The Organization’s Medicaid settlements have been finalized through the year ended June 30, 2015.

**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 2015 net program service fees and grants revenue increased approximately \$86,400 due to prior-year retroactive adjustments greater than amounts previously estimated.

A summary of revenue from the various payors for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Grants	24%	33%
Medicaid (MBC of Iowa)	12	23
County Board of Supervisors	22	23
Medicaid/Medicare	31	12
Commerical Insurance and Other Third-Party Payors and Clients	11	9
	100%	100%



### **Note 3 - Fair Value Measurements**

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, The Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Organization's investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values. The fair value of the Organization's beneficial interest in assets held by the Community Foundation is based on the fair value of fund investments as reported by the Community Foundation. This is considered to be a Level 3 measurement.

The interest rate swap agreement is valued using a third party's proprietary discounted cash flow model which considers past, present and future assumptions regarding interest rates and market conditions to estimate the fair value of the agreement. This is classified within Level 2.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2016:

	Fair Value Measurements at Report Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
<b>Investments</b>				
Money market (at cost)	\$ 76,442	\$ -	\$ -	\$ -
Land - Arizona (at cost)	1,050	-	-	-
<b>Mutual funds</b>				
Balanced funds	289,288	289,288	-	-
Fixed income funds	666,491	666,491	-	-
Value funds	299,830	299,830	-	-
Growth funds	184,746	184,746	-	-
	<u>\$ 1,517,847</u>	<u>\$ 1,440,355</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Assets of Community Foundation	<u>\$ 13,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,747</u>
<b>Liabilities</b>				
Interest Rate Swap	<u>\$ 108,564</u>	<u>\$ -</u>	<u>\$ 108,564</u>	<u>\$ -</u>

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2015:

	Fair Value Measurements at Report Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
<b>Investments</b>				
Money market (at cost)	\$ 69,472	\$ -	\$ -	\$ -
Land - Arizona (at cost)	1,050	-	-	-
<b>Mutual funds</b>				
Balanced funds	295,437	295,437	-	-
Fixed income funds	614,586	614,586	-	-
Value funds	275,170	275,170	-	-
Growth funds	274,138	274,138	-	-
	<u>\$ 1,529,853</u>	<u>\$ 1,459,331</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Assets of Community Foundation	<u>\$ 13,747</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,747</u>
<b>Liabilities</b>				
Interest Rate Swap	<u>\$ 30,547</u>	<u>\$ -</u>	<u>\$ 30,547</u>	<u>\$ -</u>

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2016 and 2015:

	2016	2015
Beginning Balance	\$ 13,747	\$ 14,002
Investment income	-	571
Grants approved	-	(640)
Administrative/investment fees	-	(186)
Ending Balance	<u>\$ 13,747</u>	<u>\$ 13,747</u>

**Note 4 - Investment Income**

*Investment Income*

Investment income is recorded net of investment fees of approximately \$10,640 and \$10,780 for the years ended June 30, 2016 and 2015. Investment income and changes in unrealized gains and losses on investments consist of the following:

	2016	2015
Revenue		
Investment Income		
Interest and dividend income	\$ 15,649	\$ 19,514
Realized gains (losses) on sale of investments	(16,569)	45,313
Total investment income	\$ (920)	\$ 64,827
Other Changes in Net Assets		
Changes in unrealized gains and losses on investments	\$ (8,918)	\$ (56,665)

*Investments in an Unrealized Gain (Loss) Position*

Investments in an unrealized gain (loss) position at June 30, 2016 are shown in the following table:

	Fair Value	Unrealized Loss	Fair Value	Unrealized Gain
Mutual Funds	\$ 513,279	\$ (27,583)	\$ 927,076	\$ 49,116

The duration of the investments in an unrealized loss position at June 30, 2016 is shown in the following table:

	Greater Than 12 Months		Less Than 12 Months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mutual Funds	\$ 66,083	\$ (3,945)	\$ 447,196	\$ (23,638)

Investments in an unrealized gain (loss) position at June 30, 2015 are shown in the following table:

	Fair Value	Unrealized Loss	Fair Value	Unrealized Gain
Mutual Funds	\$ 722,353	\$ (26,709)	\$ 736,978	\$ 57,160

The duration of the investments in an unrealized loss position at June 30, 2015 is shown in the following table:

	Greater Than 12 months		Less Than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mutual Funds	<u>\$ 151,585</u>	<u>\$ (6,096)</u>	<u>\$ 570,768</u>	<u>\$ (20,613)</u>

**Note 5 - Promises to Give**

Unconditional promises to give are estimated to be collected as follows at June 30, 2016 and 2015:

	2016	2015
Less Than One Year	\$ 65,802	\$ 119,250
One to Five Years	-	9,000
	<u>\$ 65,802</u>	<u>\$ 128,250</u>

**Note 6 - Property and Equipment**

Property and equipment consists of the following at June 30, 2016 and 2015:

	2016		2015	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 204,363	\$ -	\$ 204,363	\$ -
Land Improvements	279,027	151,471	279,027	130,334
Buildings	12,618,277	4,997,113	12,488,122	4,624,847
Equipment	2,891,226	2,252,532	2,810,912	1,983,369
Vehicles	659,341	552,387	630,774	509,486
Furniture, Fixtures, and Equipment	442,047	259,382	369,189	233,944
Leasehold Improvements	190,807	117,053	190,807	103,846
Construction in Progress	16,706	-	16,909	-
	<u>\$ 17,301,794</u>	<u>\$ 8,329,938</u>	<u>\$ 16,990,103</u>	<u>\$ 7,585,826</u>
Net Property and Equipment		<u>\$ 8,971,856</u>		<u>\$ 9,404,277</u>

**Note 7 - Long-Term Debt**

Mortgage and notes payable consist of the following:

	2016	2015
Mortgage Payable to Bank, Variable Interest Rate Currently 3.65%, Due in Monthly Installments of \$12,224, Including Interest, Due in August 2032, Secured by Real Estate	\$ 1,783,696	\$ 1,863,096
Community Facility Revenue Bonds, Series 2012, Variable Interest Rate Currently 2.22%, Due in Monthly Installments of \$9,547, Including Interest, Due in February 2033, Secured by Real Estate, Net of Unamortized Debt Issuances Costs of \$11,058 and \$11,725 (A) in 2016 and 2015, respectively	1,402,893	1,461,498
Note Payable to Bank, Accrues Interest at 3.5%, Due in Monthly Installments of \$3,551, Including Interest, Due in July 2021, Secured by Real Estate	445,476	471,729
Note Payable to Bank, Accrues Interest at 3.55%, Due in Monthly Installments of \$11,854, Including Interest, Due in October 2017, Secured by Real Estate, Net of Unamortized Debt Issuance Costs of \$14,310 and \$15,195 in 2016 and 2015, respectively	170,419	291,585
Note Payable to Bank, Accrues Interest at 3.5%, Due in Monthly Installments of \$2,046, Including Interest, Due in December 2021, Secured by Real Estate	262,958	277,857
Note Payable to Bank, Accrues Interest at 4.28%, Due in Monthly Installments of \$574, Including Interest, Due in June 2031, Secured by Real Estate	76,497	79,978
	4,141,939	4,445,743
Less Current Maturities	(330,707)	(318,506)
Long-Term Debt, Less Current Maturities	\$ 3,811,232	\$ 4,127,237

Under the terms of certain mortgages and notes, Hillcrest Family Services, Inc. is required to maintain certain measures of financial performance.

Future maturities of mortgage and notes payable are as follows:

Years Ending June 30,		
2017	\$	330,707
2018		245,939
2019		207,041
2020		214,675
2021		226,287
Thereafter		2,917,290
Total	\$	4,141,939

(A) – Hillcrest Family Services, Inc. entered into an interest rate protection agreement with a financial institution related to its Series 2012 Bonds pursuant to which Hillcrest pays a fixed rate of 3.77% per annum through February 2033 in exchange for an adjusted one month LIBOR variable rate (2.01% plus 67% of LIBOR or 2.31% at June 30, 2016 and 2.53% at June 30, 2015). The interest payment dates, notional amounts and maturities of the Swap contract are consistent with the Series 2012 Bonds. The effect of the Swap is to convert the Organization’s floating-rate debt to fixed-rate debt. During the years ended June 30, 2016 and 2015, the fair value of the liability under the Swap decreased \$78,017 and \$30,547, respectively, which has been reflected in the accompanying statements of activities. At June 30, 2016 and 2015, the fair value of the Swap liability was \$108,564 and \$30,547, respectively.

**Note 8 - Line of Credit**

The Organization has a line of credit available for up to \$750,000 with a bank. Interest is paid monthly at a rate of LIBOR plus 2.95% (4.21% at June 30, 2016). The line expires in January 2017, and is secured by substantially all assets of the Organization. At June 30, 2016, there was no balance outstanding on the line of credit. The line of credit is secured by a mortgage on the primary property at 1995 Asbury Road.

**Note 9 - Operating Leases**

Hillcrest Family Services, Inc. leases certain property and equipment under non-cancellable long-term operating lease agreements.

Future minimum lease payments are as follows:

Years Ending June 30,	
2017	\$ 271,642
2018	143,396
2019	54,150
2020	1,079
Total	\$ 470,267

Total lease expense for the years ended June 30, 2016 and 2015 totaled \$315,923 and \$326,000, respectively.

**Note 10 - Refunds Payable**

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

**Note 11 - 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 June 30, 2016 and 2015. Additional amounts are included for the Reflections in the Park event, the transitional housing program, and other activities.

**Note 12 - Endowments**

Hillcrest Family Services, Inc.'s endowment (the Endowment) consists of individual funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain unrestricted net assets designated for quasi-endowment by the Board of Trustees. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.



Hillcrest Family Services, Inc's Board of Trustees has interpreted the Iowa 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, unless there are explicit donor stipulations to the contrary. At June 30, 2016 and 2015, there were no such donor stipulations. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment 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. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

As of June 30, 2016 and 2015, Hillcrest Family Services, Inc had the following endowment net asset composition by type of fund:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>June 30, 2016</b>				
Donor-Restricted				
Endowment Funds	\$ -	\$ 43,439	\$ 231,000	\$ 274,439
Board-Designated				
Endowment Funds	<u>1,242,358</u>	<u>-</u>	<u>-</u>	<u>1,242,358</u>
	<u>\$ 1,242,358</u>	<u>\$ 43,439</u>	<u>\$ 231,000</u>	<u>\$ 1,516,797</u>
<b>June 30, 2015</b>				
Donor-Restricted				
Endowment Funds	\$ -	\$ 60,330	\$ 231,000	\$ 291,330
Board-Designated				
Endowment Funds	<u>1,237,473</u>	<u>-</u>	<u>-</u>	<u>1,237,473</u>
	<u>\$ 1,237,473</u>	<u>\$ 60,330</u>	<u>\$ 231,000</u>	<u>\$ 1,528,803</u>

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 the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2016 and 2015.

*Investment and Spending Policies*

Hillcrest Family Services, Inc. has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

Hillcrest Family Services, Inc. uses an endowment spending-rate formula to determine the amounts available to spend from the Endowment each year. The rate, determined and adjusted from time to time by the Board of Directors, is applied to the average fair value of the Endowment investments for the prior 3 years to determine the spending amount for the upcoming year. During 2016 and 2015, the maximum spending rate was 5%. 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 fair value is less than the endowed principal amount or when distributions would invade the original endowed principal amount. In establishing this policy, Hillcrest Family Services, Inc. considered the long-term expected return on the Endowment, and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 1,237,473	\$ 60,330	\$ 231,000	\$ 1,528,803
Investment Return:				
Investment income	12,894	2,976	-	15,870
Net realized and unrealized gain (loss)	(20,829)	(4,879)	-	(25,708)
Contributions	4,349	-	-	4,349
Transfer to Create Board Designated Endowment Funds	8,471	-	-	8,471
Appropriation of Endowment Assets Pursuant to Spending- Rate Policy	-	(14,988)	-	(14,988)
Endowment Net Assets, End of Year	\$ 1,242,358	\$ 43,439	\$ 231,000	\$ 1,516,797

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2015				
Endowment Net Assets, Beginning of Year	\$ 1,205,856	\$ 73,774	\$ 231,000	\$ 1,510,630
Investment Return:				
Investment income	15,611	3,840	-	19,451
Net realized and unrealized depreciation	(9,057)	(2,294)	-	(11,351)
Contributions	16,431	-	-	16,431
Transfer to Create Board Designated Endowment Funds	8,632	-	-	8,632
Appropriation of Endowment Assets Pursuant to Spending- Rate Policy	<u>-</u>	<u>(14,990)</u>	<u>-</u>	<u>(14,990)</u>
Endowment Net Assets, End of Year	<u>\$ 1,237,473</u>	<u>\$ 60,330</u>	<u>\$ 231,000</u>	<u>\$ 1,528,803</u>

**Note 13 - Restricted Net Assets**

Temporarily restricted net assets at June 30, 2016 and 2015 consist of:

	2016	2015
Time Restriction - United Way Contributions	\$ 51,804	\$ 107,250
Unspent Appreciation of Endowment Funds Which Must be Appropriated for Expenditure Before Use		
Restricted by donors for		
Educational programs	41,613	48,994
Family counseling	12	75
Available for general use	1,814	11,261
Time Restriction - Other Pledges	105,900	12,000
	\$ 201,143	\$ 179,580

Net assets were released from restrictions as follows during the years ended June 30, 2016 and 2015:

	2016	2015
Satisfaction of Purpose Restrictions		
Gift for School Art Room	\$ -	\$ 20,000
Expiration of Time Restrictions	107,250	120,000
Amounts Estimated to be Uncollectible	12,000	63,400
Restricted-Purpose Spending-Rate Distributions and Appropriations		
Educational programs	6,517	6,358
Family counseling	56	57
General use	8,415	8,575
	\$ 134,238	\$ 218,390

Permanently restricted net assets at June 30, 2016 and 2015 are held in perpetuity with the income to be used for:

	2016	2015
Unrestricted Support for Programs	\$ 150,000	\$ 150,000
Educational Programs	80,000	80,000
Family Counseling	1,000	1,000
	\$ 231,000	\$ 231,000

**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 June 30, 2016 and 2015 was as follows:

	2016	2015
Medicaid/Medicare	59%	9%
Grants	15	28
Commerical Insurance and Other Third-Party Payors and Clients	14	16
County Board of Supervisors	12	26
Medicaid (MBC of Iowa)	0	21
	100%	100%

**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.

**Worker's Compensation Insurance**

The Organization has worker's compensation insurance coverage to provide protection for costs related to employee injuries. The Organization has accrued estimated costs related to claims of \$219,000 and \$250,000 at June 30, 2016 and 2015, respectively. In addition, receivables of \$219,000 and \$250,000, respectively, have been recorded for expected insurance recoveries related to the cost of the claims.

**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. As of October 27, 2016 there is a lawsuit pending against the Organization. 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. However, it is at least reasonably possible that the Organization's estimate of its liability may change in the near term.

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 program services.

## **Note 16 - Employee Benefits**

### **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 June 30, 2016 and 2015, the provision for estimated health claims outstanding is \$195,161 and \$159,997.

### **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 June 30, 2016 and 2015 was \$449,959 and \$440,138, respectively.



Supplementary Information  
June 30, 2016 and 2015

**Hillcrest Family Services, Inc.**

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	Washington County MHC	Dubuque County MHC	Jackson County MHC	Asbury MHC
Salaries	\$ 388,781	\$ 1,217,928	\$ 271,895	\$ 219,236
Fringe Benefits	52,117	162,788	54,232	36,122
Payroll Taxes and Other	26,246	79,593	19,830	14,887
<b>Total personnel expenses</b>	<b>467,144</b>	<b>1,460,309</b>	<b>345,957</b>	<b>270,245</b>
Contracted Services	15,414	36,298	145,001	78,323
Supplies and Equipment				
Maintenance	3,717	11,779	6,778	6,846
Telephone	12,777	20,790	10,750	390
Postage and Shipping	1,150	903	288	187
Occupancy	24,136	71,837	33,540	9,245
Outside Printing	-	-	100	-
Professional Insurance	705	5,153	637	229
Travel	5,451	1,380	227	256
Conferences and Meetings	5,828	3,717	1,000	1,908
Subscriptions	-	-	-	-
Client Assistance	-	494	-	7
Dues	1,842	5,048	1,781	1,485
Miscellaneous	4,844	47,328	2,006	750
Interest	366	3,934	366	280
Bad Debts (Recoveries)	20,418	51,188	16,124	10,119
<b>Total Expenses Before Depreciation</b>	<b>563,792</b>	<b>1,720,158</b>	<b>564,555</b>	<b>380,270</b>
Depreciation	6,586	17,197	5,764	1,967
<b>Total Expenses Before Allocation</b>	<b>570,378</b>	<b>1,737,355</b>	<b>570,319</b>	<b>382,237</b>
General and Administrative Allocation	74,710	226,983	74,699	50,122
<b>Total Expenses</b>	<b>\$ 645,088</b>	<b>\$ 1,964,338</b>	<b>\$ 645,018</b>	<b>\$ 432,359</b>

Hillcrest Family Services, Inc.  
Schedule of Mental Health Center Expenses  
Year Ended June 30, 2016

Henry County MHC	Louisa County MHC	Wellness Center MHC	MH Solutions MHC	Integrated Health Homes	Total Program Services
\$ 161,004	\$ 102,357	\$ 271,494	\$ 77,413	\$ 941,168	\$ 3,651,276
20,106	15,504	51,398	13,879	209,561	615,707
12,684	7,819	20,460	5,022	68,337	254,878
193,794	125,680	343,352	96,314	1,219,066	4,521,861
4,601	4,687	7,152	5,476	7,874	304,826
3,366	1,399	8,616	6,247	11,087	59,835
3,413	2,589	9,507	1,410	24,139	85,765
282	243	18	-	767	3,838
10,125	6,324	41,099	14,430	52,975	263,711
-	10	395	3,396	10	3,911
267	445	1,726	102	2,820	12,084
2,412	1,563	6,299	94	34,581	52,263
3,205	1,761	869	-	2,382	20,670
-	-	-	-	-	-
-	-	95	-	946	1,542
1,483	1,460	493	70	808	14,470
441	2,391	1,481	420	3,998	63,659
172	165	4,606	1,113	1,984	12,986
10,054	12,927	350	3,894	14,139	139,213
233,615	161,644	426,058	132,966	1,377,576	5,560,634
1,723	2,628	15,551	869	14,225	66,510
235,338	164,272	441,609	133,835	1,391,801	5,627,144
30,832	21,506	57,606	17,318	181,433	735,209
<u>\$ 266,170</u>	<u>\$ 185,778</u>	<u>\$ 499,215</u>	<u>\$ 151,153</u>	<u>\$ 1,573,234</u>	<u>\$ 6,362,353</u>

	Washington County MHC	Dubuque County MHC	Jackson County MHC	Asbury MHC
Salaries	\$ 382,914	\$ 1,068,993	\$ 258,869	\$ 111,813
Fringe Benefits	52,556	204,649	55,222	22,194
Payroll Taxes and Other	27,313	75,405	19,220	8,075
 Total personnel expenses	 462,783	 1,349,047	 333,311	 142,082
Contracted Services	12,547	52,846	137,209	7,488
Supplies and Equipment				
Maintenance	6,269	11,842	6,534	7,529
Telephone	13,147	21,945	11,443	694
Postage and Shipping	1,002	1,896	401	31
Occupancy	22,945	73,450	29,603	16,364
Outside Printing	-	-	-	-
Professional Insurance	624	3,524	596	232
Travel	3,226	905	1,093	383
Conferences and Meetings	1,541	1,967	593	10,490
Subscriptions	-	-	-	-
Client Assistance	20	402	-	-
Dues	540	1,574	473	85
Miscellaneous	7,901	47,101	2,032	491
Interest	225	1,521	20	-
Bad Debts	3,496	11,067	2,164	(239)
 Total Expenses Before Depreciation	 536,266	 1,579,087	 525,472	 185,630
Depreciation	6,495	18,116	5,585	1,726
 Total Expenses Before Allocation	 542,761	 1,597,203	 531,057	 187,356
 General and Administrative Allocation	 68,984	 203,148	 67,535	 23,827
 Total Expenses	 <u>\$ 611,745</u>	 <u>\$ 1,800,351</u>	 <u>\$ 598,592</u>	 <u>\$ 211,183</u>

Hillcrest Family Services, Inc.  
Schedule of Mental Health Center Expenses  
Year Ended June 30, 2015

Henry County MHC	Louisa County MHC	Wellness Center MHC	MH Solutions MHC	Integrated Health Homes	Total Program Services
\$ 111,312	\$ 97,337	\$ 316,210	\$ -	\$ 874,420	\$ 3,221,868
20,730	13,251	66,114	-	178,275	612,991
8,629	7,543	22,082	-	62,905	231,172
140,671	118,131	404,406	-	1,115,600	4,066,031
3,528	3,999	9,520	-	9,872	237,009
5,872	7,534	11,791	-	25,206	82,577
6,392	4,899	9,150	-	17,157	84,827
259	239	130	-	626	4,584
8,415	7,533	46,180	-	39,453	243,943
-	115	-	-	120	235
174	344	1,074	-	2,429	8,997
1,238	2,332	7,697	-	32,483	49,357
418	327	1,755	-	3,300	20,391
-	-	443	-	35	478
-	-	-	-	922	1,344
260	140	118	-	732	3,922
-	4,159	4,807	-	11,554	78,045
101	206	136	-	18	2,227
2,397	1,367	422	-	-	20,674
169,725	151,325	497,629	-	1,259,507	4,904,641
1,504	2,413	13,761	-	11,820	61,420
171,229	153,738	511,390	-	1,271,327	4,966,061
21,764	19,539	65,051	-	161,825	631,673
<u>\$ 192,993</u>	<u>\$ 173,277</u>	<u>\$ 576,441</u>	<u>\$ -</u>	<u>\$ 1,433,152</u>	<u>\$ 5,597,734</u>

Hillcrest Family Services, Inc.

Schedules of Revenues and Expenses

WIC – Contract #5883AO35

Maternal Health – Contract #5888MH13

Contract Period: October 1, 2014 Through September 30, 2015

	<u>WIC</u>	<u>Maternal Health</u>
Revenues		
Iowa Department of Public Health	\$ 687,391	\$ 67,124
Title XIX	-	120,209
	<u>687,391</u>	<u>187,333</u>
Total revenues		
Expenses		
Salaries	323,774	98,249
Fringe benefits	61,208	24,965
Payroll taxes, etc.	23,526	6,942
Contracted services	23,252	8,492
Supplies and equipment maintenance	52,533	631
Telephone	11,316	1,150
Postage and shipping	420	33
Occupancy	55,818	3,519
Travel	12,081	148
Conferences and meetings	813	143
Subscriptions	-	-
Client assistance	20,612	-
Dues	25	-
Miscellaneous	3,648	1,239
Depreciation	16,329	9,164
	<u>605,355</u>	<u>154,675</u>
Total expenses		
General and administrative allocation	<u>82,081</u>	<u>20,758</u>
Revenues in excess of (less than) expenses	<u>\$ (45)</u>	<u>\$ 11,900</u>



**Independent Auditor’s 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Hillcrest Family Services, Inc. (Hillcrest), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2016.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in Part II of the accompanying schedule of findings and questioned costs as item 2016-A that we consider 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 Finding**

Hillcrest's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Hillcrest's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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



Dubuque, Iowa  
October 27, 2016

## **Independent Auditor’s Report on Compliance for Its Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance**

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

### **Report on Compliance for Its Major Federal Program**

We have audited Hillcrest Family Services, Inc.’s (Hillcrest) compliance with the types of compliance requirements described in the *OMB Circular Supplement* that could have a direct and material effect on its major federal program for the year then ended June 30, 2016. 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.

### **Management’s Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on the compliance for Hillcrest’s major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 on compliance for its major federal program. However, our audit does not provide a legal determination of Hillcrest’s compliance.



## Opinion on Its Major Federal Program

In our opinion, Hillcrest complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2016.

## Report on Internal Control over Compliance

Management of Hillcrest is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hillcrest's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the 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, noncompliance 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 that we consider to be a significant deficiency.

Hillcrest's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Hillcrest's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Dubuque, Iowa  
October 27, 2016

Hillcrest Family Services, Inc.  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. Department of Agriculture			
Passed through Iowa Department of Education			
National School Breakfast/Lunch Program Cluster			
School Breakfast Program	10.553	18638000	\$ 24,963
National School Lunch Program	10.555	18638000	71,683
Cluster total			<u>96,646</u>
Passed through Iowa Department of Public Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	5883AO35	<u>658,890</u>
Total U.S. Department of Agriculture			<u>755,536</u>
U.S. Department of Housing and Urban Development			
Direct Program			
Supportive Housing Program	14.235		<u>60,206</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>49,380</u>
Passed through State Department of Health and Human Services and Family Planning Council of Iowa			
Family Planning - Services	93.217	638-FY2014	<u>51,770</u>
Passed through Iowa Department of Human Services			
Temporary Assistance for Needy Families	93.558	ACFS-13-002	<u>86,502</u>
Passed through Iowa Department of Human Services			
Block Grants for Community Mental Health Services	93.958	MHDS 11-068	<u>123,664</u>
Passed through Iowa Department of Public Health			
Maternal and Child Health Services Block Grant to the States	93.994	5883MH13	32,494
Maternal and Child Health Services Block Grant to the States	93.994	5883MH13-FFS	9,809
			<u>42,303</u>
Total U.S. Department of Health and Human Services			<u>353,619</u>
Total			<u>\$ 1,169,361</u>

**Note A - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Hillcrest received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient, if any, is treated as an expenditure when it is paid to the subrecipient.

**Note B – Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Hillcrest’s summary of significant accounting policies is presented in Note 1 to the basic financial statements.

The organization has not elected to use the 10% de minimis cost rate.

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes (Part II)
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes (Part III)
Type of auditor's report issued on compliance for the major program	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Special Supplemental Nutrition Program for Women, Infants and Children	10.557
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

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**Section II - Financial Statement Findings**

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**Significant Deficiency:**

**2016 - A      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 notes 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.

**Views of Responsible Officials** – Management feels that committing the resources necessary to remain current on GAAP and FASB reporting requirements and corresponding note disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

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**Section III - Federal Award Findings and Questioned Costs**

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**2016 - 001**      **Passed-through Iowa Department of Public Health  
CFDA 10.557  
Special Supplemental Nutrition Program for Women, Infants, and Children**

**Procurement and Suspension and Debarment  
Significant Deficiency in Internal Control over Compliance**

**Criteria** – The Uniform Guidance, Section 200.303 Internal Controls, requires the non-Federal entity must establish and maintain effective internal controls over Federal awards that provide reasonable assurance that awards are being managed in compliance with Federal statutes, regulations and the terms and conditions of the Federal award.

**Suspension and Debarment Requirements**

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/>.

**Condition** – We tested compliance and internal controls over suspension and debarment and noted one “covered transaction”, in which there was no documentation to support that a System of Award Management (SAM) check was performed to determine if the entity was suspended or debarred.

**Cause** – There is a lack of effective controls over the suspension and debarment compliance requirements.

**Effect** – Failure to provide documentation of the SAM’s check being performed may result in disallowed cost.

**Questioned Costs** – None reported.

**Context/Sampling** – Program expenditures for the year ended June, 30, 2016, contained only the one tested “covered transaction”. Sampling was not used.

**Repeat Finding from Prior Year(s)** – No.

**Recommendation** – We recommend that management review and improve the approval and documentation process for program expenditures to identify “covered transactions” and ensure SAM’s check are performed.

**Views of Responsible Officials** – Agree.

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**Prior Audit Findings Related to the Financial Statements:**

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**2015 - A      Preparation of Financial Statements**

Initial Fiscal Year Finding Occurred: 2007

Finding Summary: Hillcrest Family Services, Inc. does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying notes 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.

Status: Management feels that committing the resources necessary to remain current on GAAP and FASB reporting requirements and corresponding note disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis. The comment has been repeated in 2016 as finding 2016-A. A corrective action plan was provided for this finding.

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**Prior Audit Findings and Questioned Costs for Federal Awards:**

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No federal findings reported in the prior year.