



Financial Statements
October 31, 2013 and 2012

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 October 31, 2013 and 2012, 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 audit 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 October 31, 2013 and 2012, 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 45 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 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 audits 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 March 12, 2014 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
March 12, 2014

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	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 340,894	\$ 806,643
Cash - custodial	63,073	77,119
Receivables		
Program service fees, net of allowances for uncollectibles of \$37,000 in 2013 and \$7,000 in 2012	2,427,573	2,090,293
Program grants	368,742	284,218
Estimated third-party payor settlements	1,890,360	1,609,283
Promises to give	206,247	280,323
Prepaid expenses	227,862	299,006
Estimated insurance recoveries receivable	151,434	-
Total current assets	<u>5,676,185</u>	<u>5,446,885</u>
Property and Equipment, Net	<u>9,621,278</u>	<u>9,229,667</u>
Other Assets		
Promises to give	164,366	299,893
Investments	1,349,421	1,149,206
Beneficial interest in assets of community foundation	13,102	11,258
Deferred financing costs, net of accumulated amortization	29,506	30,391
Total other assets	<u>1,556,395</u>	<u>1,490,748</u>
Total assets	<u>\$ 16,853,858</u>	<u>\$ 16,167,300</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.
 Statements of Financial Position
 October 31, 2013 and 2012

	2013	2012
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 268,145	\$ 489,358
Refunds payable	7,648	10,110
Custodial funds	63,072	77,119
Accounts payable		
Trade	370,694	458,595
Construction	-	165,819
Estimated health claims payable	205,000	150,000
Accrued Expenses		
Salaries and wages	481,869	372,583
Vacation	621,621	525,639
Payroll taxes and other benefits	102,218	85,656
Other	118,914	105,005
Estimated insurance claims liability	151,434	-
Deferred revenue and grants	195,662	259,002
Total Current Liabilities	2,586,277	2,698,886
Long-Term Debt, Less Current Maturities	4,118,690	4,145,668
Total liabilities	6,704,967	6,844,554
Net Assets		
Unrestricted		
Undesignated	8,562,206	7,586,931
Designated by Board - quasi-endowment	1,052,481	877,700
	9,614,687	8,464,631
Temporarily restricted	303,204	627,115
Permanently restricted	231,000	231,000
Total net assets	10,148,891	9,322,746
Total liabilities and net assets	\$ 16,853,858	\$ 16,167,300

2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Support and Revenue				
Public Support				
Direct:				
Contributions	\$ 567,497	\$ 20,000	\$ -	\$ 587,497
Bequests -				
trusts/estates	100	-	-	100
Bowl for Kids Sake	15,948	-	-	15,948
The Big Event	3,000	-	-	3,000
Special event - lights	209,388	-	-	209,388
Indirect:				
Grants - federal				
awards	1,252,815	-	-	1,252,815
Grants - other	168,961	-	-	168,961
United Way	4,036	117,000	-	121,036
Total public support	2,221,745	137,000	-	2,358,745
Revenue				
Program service fees				
and grants, net -				
Note 2	19,349,986	-	-	19,349,986
Investment income -				
Note 4	31,119	64,890	-	96,009
Miscellaneous	66,449	-	-	66,449
Net assets released from				
restrictions - Note 12	525,801	(525,801)	-	-
Total revenue	19,973,355	(460,911)	-	19,512,444
Total public support				
and revenue	22,195,100	(323,911)	-	21,871,189
Expenses				
Program services	18,214,171	-	-	18,214,171
Supporting services				
General and				
administrative	2,358,746	-	-	2,358,746
Mission advancement	410,861	-	-	410,861
Special event - lights	99,638	-	-	99,638
Total expenses	21,083,416	-	-	21,083,416

Hillcrest Family Services, Inc.
 Statements of Activities
 Years Ended October 31, 2013 and 2012

2012			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 324,782	\$ 114,858	\$ -	\$ 439,640
6,940	-	-	6,940
24,893	-	-	24,893
14,055	-	-	14,055
184,745	-	-	184,745
1,243,332	-	-	1,243,332
541,364	-	-	541,364
9,611	117,000	-	126,611
2,349,722	231,858	-	2,581,580
15,803,079	-	-	15,803,079
44,993	-	-	44,993
46,604	-	-	46,604
884,080	(671,047)	(213,033)	-
16,778,756	(671,047)	(213,033)	15,894,676
19,128,478	(439,189)	(213,033)	18,476,256
15,215,000	-	-	15,215,000
2,077,166	-	-	2,077,166
565,956	-	-	565,956
109,980	-	-	109,980
17,968,102	-	-	17,968,102

	2013			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Public Support and Revenue in Excess of (Less than) Expenses	\$ 1,111,684	\$ (323,911)	\$ -	\$ 787,773
Other Changes in Net Assets Change in unrealized gains and losses on investments - Note 4	<u>38,372</u>	<u>-</u>	<u>-</u>	<u>38,372</u>
Change in Net Assets	1,150,056	(323,911)	-	826,145
Net Assets, Beginning of Year	<u>8,464,631</u>	<u>627,115</u>	<u>231,000</u>	<u>9,322,746</u>
Net Assets, End of Year	<u><u>\$ 9,614,687</u></u>	<u><u>\$ 303,204</u></u>	<u><u>\$ 231,000</u></u>	<u><u>\$ 10,148,891</u></u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.
 Statements of Activities
 Years Ended October 31, 2013 and 2012

2012			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 1,160,376	\$ (439,189)	\$ (213,033)	\$ 508,154
72,046	-	-	72,046
1,232,422	(439,189)	(213,033)	580,200
7,232,209	1,066,304	444,033	8,742,546
\$ 8,464,631	\$ 627,115	\$ 231,000	\$ 9,322,746

Program Services

	Residential Education	CMI Group Homes	Health Services	Schools	Shelter	Family Centered Services	Adoption
Salaries	\$ 2,190,084	\$ 2,809,973	\$ 735,248	\$ 2,497,112	\$ 289,799	\$ 66,086	\$ 45,032
Fringe Benefits	430,144	507,970	159,623	584,206	47,472	7,421	7,948
Payroll Taxes and Other	161,494	204,057	51,915	179,104	21,390	4,998	3,344
Total personnel expenses	2,781,722	3,522,000	946,786	3,260,422	358,661	78,505	56,324
Contracted Services	71,397	23,079	49,313	18,869	3,510	1,001	21,236
Supplies and Equipment							
Maintenance	208,948	394,282	132,372	163,238	30,446	1,363	1,093
Telephone	(46,926)	31,655	15,365	14,210	4,347	55	2,578
Postage and Shipping	1,381	2,370	3,108	2,656	223	62	714
Occupancy	114,017	328,333	87,131	177,326	27,031	20,820	2,230
Outside Printing	51	232	30	50	-	-	-
Professional Insurance	4,173	5,723	1,717	4,468	520	179	102
Travel	25,886	52,506	19,049	31,919	3,550	795	3,317
Conferences and Meetings	7,744	3,008	5,026	9,940	688	472	730
Subscriptions	-	1,507	364	-	-	-	-
Client Assistance	32,963	8,949	32,406	9,064	7,045	837	-
Dues	6,635	4,868	131	2,033	446	28	2,724
Miscellaneous	18,588	28,582	3,859	12,664	1,491	-	17
Interest	3,771	48,184	-	81,385	8,552	3,782	-
Bad Debts (Recoveries)	(1,395)	35,793	4,822	-	-	-	-
Total Expenses Before Depreciation and Amortization	3,228,955	4,491,071	1,301,479	3,788,244	446,510	107,899	91,065
Depreciation and Amortization	143,948	55,843	11,413	134,067	15,284	9,556	88
Total Expenses Before Allocation	3,372,903	4,546,914	1,312,892	3,922,311	461,794	117,455	91,153
General and Administrative Allocation	424,883	572,772	165,384	494,094	58,172	14,798	11,483
Total Expenses	<u>\$ 3,797,786</u>	<u>\$ 5,119,686</u>	<u>\$ 1,478,276</u>	<u>\$ 4,416,405</u>	<u>\$ 519,966</u>	<u>\$ 132,253</u>	<u>\$ 102,636</u>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2013

Program Services					
Hillcrest Supported Living IPRS/Voc	Transitional Housing	PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
\$ 679,393	\$ 35,614	\$ 37,770	\$ 2,003,941	\$ 59,407	\$ 11,449,459
115,586	8,598	3,541	375,444	8,773	2,256,726
48,742	2,613	2,852	145,453	4,455	830,417
843,721	46,825	44,163	2,524,838	72,635	14,536,602
5,580	1,014	28	300,369	3,367	498,763
11,503	3,411	301	53,751	1,026	1,001,734
11,826	2,951	215	33,368	1,022	70,666
690	-	47	4,410	904	16,565
33,793	17,954	1,444	200,971	3,455	1,014,505
-	-	-	15	15	393
906	120	282	3,895	86	22,171
31,044	1,613	1,067	14,255	818	185,819
423	25	-	12,700	119	40,875
90	-	45	45	-	2,051
1,821	6,331	5,197	-	-	104,613
868	36	18	2,243	3,190	23,220
2,554	100	123	18,418	5,245	91,641
-	-	-	299	-	145,973
-	(1,431)	-	5,636	-	43,425
944,819	78,949	52,930	3,175,213	91,882	17,799,016
4,569	19,190	-	21,197	-	415,155
949,388	98,139	52,930	3,196,410	91,882	18,214,171
119,594	12,361	6,668	402,651	11,574	2,294,434
<u>\$ 1,068,982</u>	<u>\$ 110,500</u>	<u>\$ 59,598</u>	<u>\$ 3,599,061</u>	<u>\$ 103,456</u>	<u>\$ 20,508,605</u>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2013

	Supporting Services					Total Expenses
	Total Program Services	General and Administrative	Mission Advancement	Special Event - Lights	Total Supporting Services	
Salaries	\$ 11,449,459	\$ 1,353,281	\$ 178,581	\$ -	\$ 1,531,862	\$ 12,981,321
Fringe Benefits	2,256,726	276,236	19,906	-	296,142	2,552,868
Payroll Taxes and Other	830,417	98,707	11,438	-	110,145	940,562
 Total personnel expenses	 14,536,602	 1,728,224	 209,925	 -	 1,938,149	 16,474,751
 Contracted Services	 498,763	 145,650	 64,508	 -	 210,158	 708,921
Supplies and Equipment						
Maintenance	1,001,734	143,978	11,568	-	155,546	1,157,280
Telephone	70,666	39,753	961	-	40,714	111,380
Postage and Shipping	16,565	6,349	1,504	-	7,853	24,418
Occupancy	1,014,505	50,050	20,040	-	70,090	1,084,595
Outside Printing	393	388	29,776	-	30,164	30,557
Professional Insurance	22,171	17,141	607	-	17,748	39,919
Travel	185,819	22,971	4,382	-	27,353	213,172
Conferences and						
Meetings	40,875	22,213	3,019	-	25,232	66,107
Subscriptions	2,051	1,656	269	-	1,925	3,976
Client Assistance	104,613	40	-	-	40	104,653
Dues	23,220	2,450	5,332	-	7,782	31,002
Miscellaneous	91,641	53,514	1,025	99,638	154,177	245,818
Interest	145,973	8,273	9,192	-	17,465	163,438
Bad Debts (Recoveries)	43,425	(23,710)	-	-	(23,710)	19,715
Total Expenses Before						
Depreciation and Amortization	17,799,016	2,218,940	362,108	99,638	2,680,686	20,479,702
Depreciation and Amortization	415,155	139,806	48,753	-	188,559	603,714
 Total Expenses Before Allocation	 18,214,171	 2,358,746	 410,861	 99,638	 2,869,245	 21,083,416
 General and Administrative Allocation	 2,294,434	 (2,358,746)	 51,761	 12,551	 (2,294,434)	 -
 Total Expenses	 <u>\$ 20,508,605</u>	 <u>\$ -</u>	 <u>\$ 462,622</u>	 <u>\$ 112,189</u>	 <u>\$ 574,811</u>	 <u>\$ 21,083,416</u>

Program Services

	Residential Education	CMI Group Homes	Health Services	Schools	Shelter	Family Centered Services	Adoption
Salaries	\$ 1,916,842	\$ 1,366,411	\$ 897,854	\$ 2,280,799	\$ 251,183	\$ 77,600	\$ 36,772
Fringe Benefits	355,747	263,078	179,286	495,458	35,713	6,769	5,609
Payroll Taxes and Other	140,603	99,919	64,100	164,289	18,598	5,946	2,747
Total personnel expenses	2,413,192	1,729,408	1,141,240	2,940,546	305,494	90,315	45,128
Contracted Services	70,733	46,945	26,959	21,873	4,212	1,111	12,620
Supplies and Equipment							
Maintenance	221,016	187,606	159,409	168,646	32,541	1,157	1,812
Telephone	(25,477)	17,030	16,237	(5,938)	4,225	22	2,674
Postage and Shipping	1,457	881	3,378	3,036	244	35	322
Occupancy	122,386	202,527	85,812	140,157	51,251	30,614	2,242
Outside Printing	-	310	1,037	6,116	-	-	100
Professional Insurance	3,657	2,767	2,181	4,531	515	217	88
Travel	26,755	21,420	20,719	28,099	6,420	1,365	3,168
Conferences and Meetings	5,113	4,008	13,839	5,765	625	87	408
Subscriptions	-	583	511	488	-	-	-
Client Assistance	37,665	8,731	17,266	10,883	6,123	-	10
Dues	5,562	3,280	286	2,022	449	29	626
Miscellaneous	19,550	6,969	2,925	13,396	979	283	47
Interest	4,346	1,212	-	12,376	-	3,925	-
Bad Debts (Recoveries)	3,244	875	(219)	-	(1,384)	(1,967)	800
Total Expenses Before Depreciation	2,909,199	2,234,552	1,491,580	3,351,996	411,694	127,193	70,045
Depreciation	139,035	21,639	8,983	64,926	8,998	9,013	89
Total Expenses Before Allocation	3,048,234	2,256,191	1,500,563	3,416,922	420,692	136,206	70,134
General and Administrative Allocation	398,385	294,917	196,147	446,641	54,991	17,865	9,168
Total Expenses	<u>\$ 3,446,619</u>	<u>\$ 2,551,108</u>	<u>\$ 1,696,710</u>	<u>\$ 3,863,563</u>	<u>\$ 475,683</u>	<u>\$ 154,071</u>	<u>\$ 79,302</u>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2012

Program Services					
Hillcrest Supported Living IPRS/Voc	Transitional Housing	PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
\$ 683,076	\$ 33,232	\$ 38,203	\$ 1,824,642	\$ 54,672	\$ 9,461,286
101,173	8,084	2,857	329,919	8,251	1,791,944
49,611	2,446	2,883	133,079	4,040	688,261
833,860	43,762	43,943	2,287,640	66,963	11,941,491
5,861	-	-	532,870	660	723,844
5,650	3,342	496	72,326	2,482	856,483
11,663	2,863	150	31,969	714	56,132
616	3	35	5,567	1,158	16,732
34,963	14,439	1,432	194,628	3,021	883,472
-	-	-	128	190	7,881
1,000	105	285	4,721	99	20,166
32,639	529	1,433	15,460	798	158,805
978	35	192	21,240	274	52,564
86	-	43	300	-	2,011
3,399	4,845	4,885	1,035	-	94,842
1,569	41	22	3,109	3,119	20,114
1,293	730	27	6,830	1,642	54,671
-	-	-	-	-	21,859
-	1,331	-	6,264	-	8,944
933,577	72,025	52,943	3,184,087	81,120	14,920,011
4,596	19,797	-	17,913	-	294,989
938,173	91,822	52,943	3,202,000	81,120	15,215,000
122,631	12,002	6,921	418,546	10,603	1,988,817
<u>\$ 1,060,804</u>	<u>\$ 103,824</u>	<u>\$ 59,864</u>	<u>\$ 3,620,546</u>	<u>\$ 91,723</u>	<u>\$ 17,203,817</u>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2012

	Supporting Services					Total Expenses
	Total Program Services	General and Administrative	Mission Advancement	Special Event - Lights	Total Supporting Services	
Salaries	\$ 9,461,286	\$ 1,258,616	\$ 263,887	\$ -	\$ 1,522,503	\$ 10,983,789
Fringe Benefits	1,791,944	247,143	38,500	-	285,643	2,077,587
Payroll Taxes and Other	688,261	94,418	17,861	-	112,279	800,540
Total personnel expenses	11,941,491	1,600,177	320,248	-	1,920,425	13,861,916
Contracted Services	723,844	74,431	104,094	-	178,525	902,369
Supplies and Equipment						
Maintenance	856,483	133,901	25,227	-	159,128	1,015,611
Telephone	56,132	34,108	1,787	-	35,895	92,027
Postage and Shipping	16,732	5,436	1,722	-	7,158	23,890
Occupancy	883,472	42,371	16,625	-	58,996	942,468
Outside Printing	7,881	1,042	48,741	-	49,783	57,664
Professional Insurance	20,166	11,035	765	-	11,800	31,966
Travel	158,805	24,960	8,324	-	33,284	192,089
Conferences and Meetings	52,564	16,090	6,079	-	22,169	74,733
Subscriptions	2,011	1,416	338	-	1,754	3,765
Client Assistance	94,842	10	-	-	10	94,852
Dues	20,114	1,967	5,256	-	7,223	27,337
Miscellaneous	54,671	41,932	20,480	109,980	172,392	227,063
Interest	21,859	12,172	40	-	12,212	34,071
Bad Debts (Recoveries)	8,944	(61,581)	-	-	(61,581)	(52,637)
Total Expenses Before Depreciation	14,920,011	1,939,467	559,726	109,980	2,609,173	17,529,184
Depreciation	294,989	137,699	6,230	-	143,929	438,918
Total Expenses Before Allocation	15,215,000	2,077,166	565,956	109,980	2,753,102	17,968,102
General and Administrative Allocation	1,988,817	(2,077,166)	73,974	14,375	(1,988,817)	-
Total Expenses	\$ 17,203,817	\$ -	\$ 639,930	\$ 124,355	\$ 764,285	\$ 17,968,102

Hillcrest Family Services, Inc.
Statements of Cash Flows
Years Ended October 31, 2013 and 2012

	2013	2012
Operating Activities		
Change in net assets	\$ 826,145	\$ 580,200
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	603,714	438,918
Change in unrealized gains and losses on investments	(38,372)	(72,046)
Realized (gain) loss on sales of investments	65,696	(2,124)
Bad debts (recoveries)	19,715	(52,637)
Changes in assets and liabilities		
Receivables	(512,993)	(191,046)
Inventory	-	221
Prepaid expenses	71,144	(201,764)
Accounts/refunds payable	(201,182)	394,813
Accrued expenses	235,739	(8,953)
Deferred revenue and grants	(63,340)	(160,950)
Net Cash provided by Operating Activities	1,006,266	724,632
Investing Activities		
Purchase of property and equipment	(994,440)	(5,383,334)
Purchase of investments	(1,418,389)	(39,619)
Sale of investments	1,189,006	852,359
Net Cash used for Investing Activities	(1,223,823)	(4,570,594)
Financing Activities		
Proceeds from issuance of long-term debt	425,000	4,260,000
Principal payments on long-term debt	(673,192)	(139,292)
Payment of deferred financing costs	-	(30,539)
Net Cash provided by (used for) Financing Activities	(248,192)	4,090,169
Change in Cash and Cash Equivalents	(465,749)	244,207
Cash and Cash Equivalents, Beginning of Year	806,643	562,436
Cash and Cash Equivalents, End of Year	\$ 340,894	\$ 806,643
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest (including amounts capitalized)	\$ 163,438	\$ 66,583
Supplemental Disclosure of Noncash Investing and Financing Activities		
Property and equipment financed through long-term debt	\$ 425,000	\$ 4,425,819

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.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded 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 uncollectable. At October 31, 2013 and 2012, no allowance was recorded as management estimates that all amounts are collectable.

Deferred Bond Offering Costs

Deferred bond offering 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 year ended October 31, 2013.

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 7). 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 Directors 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 Directors.

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.

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$34,000 and \$27,000 for the years ended October 31, 2013 and 2012.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements 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 foundations 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 has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

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.

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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported 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 2013 and 2012 net program service fees and grants revenue decreased approximately \$15,000 and \$76,000 due to prior-year retroactive adjustments less than amounts previously estimated.

A summary of revenue from the various payors for the years ended October 31, 2013 and 2012, is as follows:

	2013	2012
Medicaid/Medicare	38%	38%
Grants	24	27
County Board of Supervisors	20	16
Medicaid (MBC of Iowa)	10	11
Commerical Insurance and Other Third-Party Payors and Clients	8	8
	100%	100%

Note 3 - Fair Value Measurements

Certain assets 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 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 and common stock 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. At October 31, 2013, the fair value of the asset under the swap approximated zero.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at October 31, 2013:

	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)
Assets				
Investments				
Money market (at cost)	\$ 157,121	\$ -	\$ -	\$ -
Land - Arizona (at cost)	1,050	-	-	-
Mutual funds				
Balanced funds	118,480	118,480	-	-
Fixed income funds	465,111	465,111	-	-
Growth funds	445,777	445,777	-	-
Corporate bonds (maturing within one year)	20,419	-	20,419	-
Common stock				
Basic materials	8,203	8,203	-	-
Consumer goods	15,644	15,644	-	-
Financial	25,215	25,215	-	-
Healthcare	26,541	26,541	-	-
Industrial goods	7,799	7,799	-	-
Services	20,054	20,054	-	-
Technology	30,388	30,388	-	-
Utilities	7,619	7,619	-	-
	<u>\$ 1,349,421</u>	<u>\$ 1,170,831</u>	<u>\$ 20,419</u>	<u>\$ -</u>
Beneficial Interest in Assets of Community Foundation	<u>\$ 13,102</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,102</u>

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at October 31, 2012:

	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)
Assets				
Investments				
Money market (at cost)	\$ 53,723	\$ -	\$ -	\$ -
Land - Arizona (at cost)	1,050	-	-	-
Balanced funds	82,593	82,593	-	-
Fixed income funds	541,657	541,657	-	-
Growth funds	44,460	44,460	-	-
Common stock				
Basic materials	61,911	61,911	-	-
Consumer goods	24,291	24,291	-	-
Financial	131,266	131,266	-	-
Healthcare	47,481	47,481	-	-
Industrial goods	14,941	14,941	-	-
Services	44,292	44,292	-	-
Technology	83,453	83,453	-	-
Utilities	18,088	18,088	-	-
	<u>\$ 1,149,206</u>	<u>\$ 1,094,433</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Assets of Community Foundation	<u>\$ 11,258</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,258</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 year ended October 31, 2013 and 2012:

	2013	2012
Beginning Balance	\$ 11,258	\$ 11,490
Investment income	2,588	472
Grants approved	(580)	(550)
Administrative/investment fees	(164)	(154)
Ending Balance	<u>\$ 13,102</u>	<u>\$ 11,258</u>

Note 4 - Investment Income

Investment Income

Investment income is recorded net of investment fees of approximately \$7,900 and \$11,400 for the years ended October 31, 2013 and 2012. Investment income and changes in unrealized gains and losses on investments consist of the following:

Revenue	2013	2012
Investment Income		
Interest and dividend income	\$ 30,313	\$ 47,117
Realized gains (losses) on sale of investments	65,696	(2,124)
Total investment income	\$ 96,009	\$ 44,993
Other Changes in Net Assets		
Changes in unrealized gains and losses on investments	\$ 38,372	\$ 72,046

Investments in an Unrealized Gain (Loss) Position

Investments in an unrealized gain (loss) position at October 31, 2013 are shown in the following table:

	Fair Value	Unrealized Loss	Fair Value	Unrealized Gain
Mutual Funds	\$ 318,679	\$ (8,410)	\$ 710,690	\$ 45,568
Corporate Bonds	-	-	20,419	4,419
Common Stock	20,317	(5,565)	121,145	39,876
	\$ 338,996	\$ (13,975)	\$ 852,254	\$ 89,863

The duration of the investments in an unrealized loss position at October 31, 2013 is shown in the following table:

	Greater Than 12 months		Less Than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mutual Funds	\$ -	\$ -	\$ 318,679	\$ (8,410)
Common Stock	8,203	(2,922)	12,114	(2,643)
	\$ 8,203	\$ (2,922)	\$ 330,793	\$ (11,053)

Investments in an unrealized gain (loss) position at October 31, 2012 are shown in the following table:

	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Mutual Funds	\$ 87,201	\$ (3,204)	\$ 581,509	\$ 23,677
Corporate Bonds	-	-	-	-
Common Stock	<u>154,052</u>	<u>(30,620)</u>	<u>271,671</u>	<u>47,663</u>
	<u>\$ 241,253</u>	<u>\$ (33,824)</u>	<u>\$ 853,180</u>	<u>\$ 71,340</u>

The duration of the investments in an unrealized loss position at October 31, 2012 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>
Mutual Funds	\$ 39,468	\$ (2,231)	\$ 47,733	\$ (973)
Corporate Bonds	-	-	-	-
Common Stock	<u>75,736</u>	<u>(21,830)</u>	<u>78,316</u>	<u>(8,790)</u>
	<u>\$ 115,204</u>	<u>\$ (24,061)</u>	<u>\$ 126,049</u>	<u>\$ (9,763)</u>

Note 5 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at October 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Less Than One Year	\$ 206,247	\$ 280,323
One to Five Years	<u>188,250</u>	<u>356,480</u>
	394,497	636,803
Less discount to net present value (5% for both years)	<u>(23,884)</u>	<u>(56,587)</u>
	<u>\$ 370,613</u>	<u>\$ 580,216</u>

Note 6 - Property and Equipment

Property and equipment consists of the following at October 31, 2013 and 2012:

	2013		2012	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 69,909	\$ -	\$ 43,818	\$ -
Land Improvements	231,813	95,990	165,651	79,910
Buildings	11,960,234	4,043,387	9,059,227	3,732,001
Equipment	2,076,008	1,437,974	1,835,378	1,226,964
Vehicles	521,356	451,309	475,448	428,512
Furniture, Fixtures, and Equipment	345,716	199,479	270,618	182,311
Leasehold Improvements	186,958	75,330	172,845	58,243
Construction in Progress	532,753	-	2,914,623	-
	<u>\$ 15,924,747</u>	<u>\$ 6,303,469</u>	<u>\$ 14,937,608</u>	<u>\$ 5,707,941</u>
Net Property and Equipment		<u>\$ 9,621,278</u>		<u>\$ 9,229,667</u>

Construction in progress at October 31, 2013 consists of costs incurred for the implementation of Cerner, which is an electronic medical record system that will go live on November 15, 2013. The total anticipated cost of completion is \$545,810 and will be financed through a loan. The Hadley Chapel was completed on November 1, 2012 at a total cost of \$1,195,714 and the Seippel Road Facility was completed on November 1, 2012 at a total cost of \$1,449,166.

Note 7 - Long-Term Debt

Mortgage and notes payable consist of the following:

	2013	2012
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	\$ 1,990,229	\$ 2,080,000
Community Facility Revenue Bonds, Series 2012, Variable Interest Rate, Due in Monthly Installments of \$9,547, Including Interest, Due in February 2033, Secured by Real Estate (A)	1,563,764	1,175,000
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	518,744	650,000

Hillcrest Family Services, Inc.
Notes to Financial Statements
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	2013	2012
Note Payable to Bank, Accrues Interest at 3.25%, Due in Annual Installments of \$126,107, Including Interest, Due in October 2015, Secured by Real Estate, (Additional principal paid down in 2013)	\$ 147,280	\$ 355,000
Mortgage Payable to Bank, Accrues Interest at 4.50%, Due in Monthly Installments of \$8,310, Including Interest, Due in April 2015, Secured by Real Estate, (Additional principal paid down in 2013)	81,347	234,920
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	85,471	88,580
Note Payable to Bank, Accrues Interest at 6.00%, Due in Monthly Installments of \$1,865, Including Interest, Due in December 2013, Secured by Real Estate, (Paid off early in 2013)	-	23,379
Note Payable to Bank, Accrues Interest at 4.99%, Due in Monthly Installments of \$918 Including Interest, Due in March 2014, Secured by Vehicles, (Paid off early in 2013)	-	14,135
Note Payable to Bank, Accrues Interest at 6.49%, Due in Monthly Installments of \$720, Including Interest, Due in July 2014, Secured by Vehicles, (Paid off early in 2013)	-	9,570
Note Payable to Bank, Accrues Interest at 5.54%, Due in Monthly Installments of \$1,130, Including Interest, Due in February 2013, Secured by Vehicles	-	4,442
	4,386,835	4,635,026
Less Current Maturities	(268,145)	(489,358)
Long-Term Debt, Less Current Maturities	\$ 4,118,690	\$ 4,145,668

Under the terms of certain mortgages and notes, Hillcrest Family Services, Inc. is required to maintain certain measures of financial performance. At October 31, 2013 and 2012, Hillcrest Family Services, Inc. met these financial covenants.

The Organization is changing its fiscal year end to June 30, effective June 30, 2014. Future maturities of mortgage and notes payable based on the June 30 fiscal year end are as follows:

Year Ending June 30,	
2014	\$ 268,145
2015	400,314
2016	276,711
2017	359,758
2018	186,977
Thereafter	2,894,930
Total	\$ 4,386,835

A summary of interest cost on borrowed funds during the years ended October 31, 2013 and 2012, is as follows:

	2013	2012
Capitalized as Part of Construction Project	\$ -	\$ 32,512
Recognized as Interest Expense	163,438	34,071
Total	\$ 163,438	\$ 66,583

(A) Hillcrest Family Services, Inc. entered into an interest rate protection agreement with a financial institution related to the 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 2.13% at October 31, 2013.) 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 this floating-rate debt to fixed-rate debt. At October 31, 2013, the fair value of the asset under the Swap approximated zero.

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% (3.568% at October 31, 2013). The line expires in June 2014, and is secured by substantially all assets of the Organization. At October 31, 2013 and 2012, 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.

The Organization is changing its fiscal year end to June 30, effective June 30, 2014. Future minimum lease payments based on the June 30 fiscal year end as follows:

<u>Year Ending June 30,</u>	
2014	\$ 271,191
2015	346,943
2016	297,219
2017	226,187
2018	<u>10,804</u>
Total	<u><u>\$ 1,152,344</u></u>

Total lease expense for the years ended October 31, 2013 and 2012, totaled \$406,635 and \$395,154.

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 October 31, 2013 and 2012. 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 Directors. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Laws

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 October 31, 2013 and 2012, there were no such donor stipulations. As a result of this interpretation, Hillcrest Family Services, Inc. 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 Hillcrest Family Services, Inc. in a manner consistent with the standard of prudence prescribed by UPMIFA. Hillcrest Family Services, Inc. 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 October 31, 2013 and 2012, Hillcrest Family Services, Inc. had the following endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
October 31, 2013				
Donor-Restricted				
Endowment Funds	\$ -	\$ 64,890	\$ 231,000	\$ 295,890
Board-Designated				
Endowment Funds	1,052,481	-	-	1,052,481
	\$ 1,052,481	\$ 64,890	\$ 231,000	\$ 1,348,371
October 31, 2012				
Donor-Restricted				
Endowment Funds	\$ -	\$ -	\$ 231,000	\$ 231,000
Board-Designated				
Endowment Funds	877,700	-	-	877,700
	\$ 877,700	\$ -	\$ 231,000	\$ 1,108,700

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, 2013 and 2012.

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 at October 31 of each year to determine the spending amount for the upcoming year. During 2013 and 2012, 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 October 31, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
October 31, 2013				
Endowment Net Assets, Beginning of Year	\$ 877,700	\$ -	\$ 231,000	\$ 1,108,700
Investment Return:				
Investment income	19,615	6,072	-	25,687
Net realized and unrealized appreciation	81,450	64,639	-	146,089
Contributions	118,716	-	-	118,716
Appropriation of Endowment Assets for Expenditure	(45,000)	(5,821)	-	(50,821)
Endowment Net Assets, End of Year	\$ 1,052,481	\$ 64,890	\$ 231,000	\$ 1,348,371

Changes in endowment net assets for the year ended October 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
October 31, 2012				
Endowment Net Assets, Beginning of Year	\$ 732,287	\$ -	\$ 444,033	\$ 1,176,320
Investment Return:				
Investment income	25,388	10,686	-	36,074
Net realized and unrealized depreciation	51,769	21,703	-	73,472
Contributions	6,707	-	-	6,707
Released From Restriction By Donors	213,033	-	(213,033)	-
Appropriation of Endowment Assets for Expenditure	<u>(151,484)</u>	<u>(32,389)</u>	<u>-</u>	<u>(183,873)</u>
Endowment Net Assets, End of Year	<u>\$ 877,700</u>	<u>\$ -</u>	<u>\$ 231,000</u>	<u>\$ 1,108,700</u>

Note 13 - Restricted Net Assets

Temporarily restricted net assets at October 31, 2013 and 2012 consist of:

	<u>2013</u>	<u>2012</u>
Time Restriction - United Way Contributions	\$ 117,000	\$ 117,000
Time Restriction - Other Pledges	81,314	463,215
Unappropriated Endowment Earnings	64,890	-
Mission Advancement	<u>40,000</u>	<u>46,900</u>
	<u>\$ 303,204</u>	<u>\$ 627,115</u>

Net assets were released from restrictions as follows during the years ended October 31, 2013 and 2012:

	2013	2012
Satisfaction of Purpose Restrictions		
Construction of the Family Life Center	\$ 408,801	\$ 767,080
Expiration of Time Restrictions	117,000	117,000
	\$ 525,801	\$ 884,080

Permanently restricted net assets at October 31, 2013 and 2012 are held in perpetuity with the income to be used for:

	2013	2012
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 October 31, 2013 and 2012 was as follows:

	2013	2012
Medicaid/Medicare	43%	23%
Grants	33	51
Medicaid (MBC of Iowa)	14	16
Commerical Insurance and Other Third-Party Payors and Clients	7	6
County Board of Supervisors	3	4
	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 \$151,000 at October 31, 2013. In addition, receivables of \$151,000 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. 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 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 October 31, 2013 and 2012, the provision for estimated health claims outstanding is \$205,000 and \$150,000.

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, 2013 and 2012 approximated \$400,000 and \$378,000.

Note 17 - Subsequent Events

The Organization has adopted a new fiscal year end of June 30, effective June 30, 2014.

The Organization has evaluated subsequent events through March 12, 2014, the date which the financial statements were available to be issued.



Supplementary Information
October 31, 2013 and 2012

Hillcrest Family Services, Inc.

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2013

Program Service Fees and Grants, Net	Gross Fees	Contractual Allowance	Estimated Cost Settlement	Administrative Adjustment	Net Fees
Residential education	\$ 3,706,866	\$ (51,571)	\$ 152,557	\$ (60,805)	\$ 3,747,047
CMI group homes	4,918,010	(83,856)	-	(50,321)	4,783,833
Health services	981,304	(498,801)	-	(2,411)	480,092
Schools	4,406,357	-	-	-	4,406,357
Shelter	488,447	(3,915)	-	(1,352)	483,180
Family centered services	140,523	(58)	-	-	140,465
Adoption	147,854	-	-	-	147,854
Hillcrest supported living/IPRS/VOC	1,086,206	(67,793)	-	114	1,018,527
Transitional housing	31,161	-	-	(1,334)	29,827
Washington County Mental Health Center	818,164	(340,096)	158,774	3,488	640,330
Dubuque County Mental Health Center	2,880,964	(1,049,316)	352,059	14,302	2,198,009
Jackson County Mental Health Center	921,642	(379,390)	154,991	14,844	712,087
Asbury Mental Health Center	409,954	(203,456)	90,036	(3,473)	293,061
PATH Grant	6,248	-	-	-	6,248
WRAP/Recovery Grant	318,719	(50,974)	30,534	(35,210)	263,069
Total program service fees and grants, net	<u>\$ 21,262,419</u>	<u>\$ (2,729,226)</u>	<u>\$ 938,951</u>	<u>\$ (122,158)</u>	<u>\$ 19,349,986</u>

Hillcrest Family Services, Inc.
Schedules of Program Service Fees and Grants, Net
Years Ended October 31, 2013 and 2012

2012

Gross Fees	Contractual Allowance	Estimated Cost Settlement	Administrative Adjustment	Net Fees
\$ 3,566,709	\$ (41,269)	\$ 145,674	\$ (77,822)	\$ 3,593,292
2,645,358	(47,246)	-	(32,376)	2,565,736
1,184,464	(714,187)	-	(242)	470,035
3,813,751	-	-	(174)	3,813,577
443,200	(6,156)	-	(2,518)	434,526
171,206	(370)	-	(10,410)	160,426
74,459	-	-	-	74,459
1,152,115	(73,206)	-	(644)	1,078,265
32,589	-	-	(476)	32,113
893,759	(354,004)	144,663	(5,410)	679,008
2,627,675	(1,007,795)	320,851	(7,508)	1,933,223
884,275	(380,680)	156,133	546	660,274
323,010	(172,927)	77,260	(2,769)	224,574
4,310	-	-	(200)	4,110
88,933	669	-	(10,141)	79,461
<u>\$ 17,905,813</u>	<u>\$ (2,797,171)</u>	<u>\$ 844,581</u>	<u>\$ (150,144)</u>	<u>\$ 15,803,079</u>

	Washington County MHC	Dubuque County MHC	Jackson County MHC	Asbury MHC
Salaries	\$ 239,129	\$ 1,120,787	\$ 269,103	\$ 110,256
Fringe Benefits	42,412	203,184	53,271	21,321
Payroll Taxes and Other	17,473	81,734	19,545	8,146
Total personnel expenses	<u>299,014</u>	<u>1,405,705</u>	<u>341,919</u>	<u>139,723</u>
Contracted Services	104,405	111,045	79,260	2,243
Supplies and Equipment				
Maintenance	5,168	29,941	5,646	1,801
Telephone	5,388	12,981	8,864	572
Postage and Shipping	1,256	2,313	781	28
Occupancy	25,137	72,873	40,105	13,681
Outside Printing	-	15	-	-
Professional Insurance	543	2,122	568	186
Travel	4,428	914	1,308	162
Conferences and Meetings	1,658	2,233	835	7,633
Subscriptions	-	-	-	-
Dues	346	997	352	416
Miscellaneous	3,391	9,708	2,016	424
Interest	43	156	100	-
Bad Debts	1,968	3,695	(27)	-
Total Expenses Before Depreciation	452,745	1,654,698	481,727	166,869
Depreciation	<u>3,124</u>	<u>10,394</u>	<u>2,949</u>	<u>198</u>
Total Expenses Before Allocation	455,869	1,665,092	484,676	167,067
General and Administrative Allocation	<u>57,426</u>	<u>209,751</u>	<u>61,054</u>	<u>21,046</u>
Total Expenses	<u>\$ 513,295</u>	<u>\$ 1,874,843</u>	<u>\$ 545,730</u>	<u>\$ 188,113</u>

Hillcrest Family Services, Inc.
 Schedule of Mental Health Center Expenses
 Year Ended October 31, 2013

Wellness Center MHC	Integrated Health Homes	Total Program Services
\$ 247,095	\$ 17,571	\$ 2,003,941
53,852	1,404	375,444
17,252	1,303	145,453
<u>318,199</u>	<u>20,278</u>	<u>2,524,838</u>
3,183	233	300,369
4,393	6,802	53,751
5,563	-	33,368
32	-	4,410
49,175	-	200,971
-	-	15
476	-	3,895
7,200	243	14,255
175	166	12,700
45	-	45
132	-	2,243
732	2,147	18,418
-	-	299
-	-	5,636
<u>389,305</u>	<u>29,869</u>	<u>3,175,213</u>
4,532	-	21,197
393,837	29,869	3,196,410
<u>49,612</u>	<u>3,762</u>	<u>402,651</u>
<u>\$ 443,449</u>	<u>\$ 33,631</u>	<u>\$ 3,599,061</u>

	Washington County MHC	Dubuque County MHC	Jackson County MHC	Asbury MHC
Salaries	\$ 232,327	\$ 933,160	\$ 241,594	\$ 73,499
Fringe Benefits	41,777	164,772	42,489	12,617
Payroll Taxes and Other	16,836	68,434	17,850	5,455
Total personnel expenses	<u>290,940</u>	<u>1,166,366</u>	<u>301,933</u>	<u>91,571</u>
Contracted Services	118,276	295,493	108,677	1,233
Supplies and Equipment				
Maintenance	7,790	41,506	9,325	3,744
Telephone	5,107	12,469	6,997	231
Postage and Shipping	1,600	3,017	833	8
Occupancy	25,186	69,221	39,866	12,803
Outside Printing	128	-	-	-
Professional Insurance	658	2,821	586	60
Travel	3,867	1,453	1,083	278
Conferences and Meetings	2,280	2,448	1,111	9,675
Subscriptions	-	-	-	-
Client Assistance	-	-	-	-
Dues	370	1,381	449	651
Miscellaneous	818	4,005	673	171
Bad Debts	1,490	3,417	1,357	-
Total Expenses Before Depreciation	<u>458,510</u>	<u>1,603,597</u>	<u>472,890</u>	<u>120,425</u>
Depreciation	<u>2,836</u>	<u>8,516</u>	<u>2,923</u>	<u>199</u>
Total Expenses Before Allocation	461,346	1,612,113	475,813	120,624
General and Administrative Allocation	<u>60,304</u>	<u>210,726</u>	<u>62,196</u>	<u>15,767</u>
Total Expenses	<u>\$ 521,650</u>	<u>\$ 1,822,839</u>	<u>\$ 538,009</u>	<u>\$ 136,391</u>

Hillcrest Family Services, Inc.
Schedule of Mental Health Center Expenses
Year Ended October 31, 2012

Wellness Center MHC	Integrated Health Homes	Total Program Services
\$ 344,062	\$ -	\$ 1,824,642
68,264	-	329,919
24,504	-	133,079
<u>436,830</u>	<u>-</u>	<u>2,287,640</u>
9,191	-	532,870
9,961	-	72,326
7,165	-	31,969
109	-	5,567
47,552	-	194,628
-	-	128
596	-	4,721
8,779	-	15,460
5,726	-	21,240
300	-	300
1,035	-	1,035
258	-	3,109
1,163	-	6,830
<u>-</u>	<u>-</u>	<u>6,264</u>
528,665	-	3,184,087
<u>3,439</u>	<u>-</u>	<u>17,913</u>
532,104	-	3,202,000
<u>69,553</u>	<u>-</u>	<u>418,546</u>
<u>\$ 601,657</u>	<u>\$ -</u>	<u>\$ 3,620,546</u>

Hillcrest Family Services, Inc.

Schedules of Revenues and Expenses

WIC – Contract #5883AO35

Maternal Health – Contract #5888MH13

Contract Period: October 1, 2012 Through September 30, 2013

	WIC	Maternal Health
	<u> </u>	<u> </u>
Revenues		
Iowa Department of Public Health	\$ 652,458	\$ 38,522
Title XIX	-	103,070
United Way	-	160
Miscellaneous	-	1,000
	<u> </u>	<u> </u>
Total revenues	652,458	142,752
	<u> </u>	<u> </u>
Expenses		
Salaries	323,213	80,780
Fringe benefits	73,839	21,374
Payroll taxes, etc.	23,374	5,561
Contracted services	23,622	9,411
Supplies and equipment maintenance	17,833	2,730
Telephone	10,797	301
Postage and shipping	1,863	10
Occupancy	55,960	2,983
Outside printing	15	-
Travel	9,372	413
Conferences and meetings	1,621	596
Client assistance	19,134	30
Dues	50	-
Miscellaneous	2,115	267
Depreciation	9,235	263
	<u> </u>	<u> </u>
Total expenses	572,043	124,719
	<u> </u>	<u> </u>
General and administrative allocation	71,824	15,659
	<u> </u>	<u> </u>
Revenues less than expenses	\$ 8,591	\$ 2,374
	<u> </u>	<u> </u>

Hillcrest Family Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended October 31, 2013

Grantor/Program	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	N/A	\$ 41,929
National School Lunch Program	10.555	18638000	67,178
Cluster total			<u>109,107</u>
Passed through Iowa Department of Public Health			
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	5883AO35	601,216
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	5884AO35	42,562
			<u>643,778</u>
Total U.S. Department of Agriculture			<u>752,885</u>
U.S. Department of Housing and Urban Development			
Direct Program			
Supportive Housing Program	14.235		36,776
Supportive Housing Program	14.235		43,059
			<u>79,835</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	38,772
Passed through State Department of Health and			
Human Services and Family Planning Council of			
Iowa			
Family Planning - Services	93.217	613-FY2013	98,125
Family Planning - Services	93.217	638-FY2014	45,933
			<u>144,058</u>
Passed through Iowa Department of Human Services			
Temporary Assistance for Needy Families	93.558	ACFS-13-002	50,663
Temporary Assistance for Needy Families	93.558	ACFS-14-185	27,553
			<u>78,216</u>
Passed through Iowa Department of Human Services			
Block Grants for Community Mental			
Health Services	93.958	MHDS 11-068	87,903
Passed through Iowa Department of Public Health			
Maternal and Child Health Services Block Grant to			
the States	93.994	5883MH13	30,337
Maternal and Child Health Services Block Grant to			
the States	93.994	5884MH13	133
			<u>30,470</u>
Total U.S. Department of Health and Human Services			<u>379,419</u>
Total			<u>\$ 1,212,139</u>

Note A - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) 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*. 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 OMB Circular A-122, *Cost Principles for Non-profit Organizations*, 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.



**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 statement of financial position as of October 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 12, 2014.

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 over financial reporting 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 yet been identified. We did identify a certain deficiency in internal control, described in Part II of the accompanying schedule of findings and questioned costs as item 2013-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
March 12, 2014



**Independent Auditor’s Report on Compliance for Its Major Federal Program;
Report on Internal Control Over Compliance Required by OMB Circular A-133**

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 A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended October 31, 2013. 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 the requirements of laws, regulations, contracts and grants 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 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 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 compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended October 31, 2013.

Report on Internal Control over Compliance

Management of Hillcrest is responsible for establishing and maintaining effective internal control over compliance with the 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 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 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 item 2013-001, that we consider to be a significant deficiency.

Hillcrest's response to the internal control over compliance 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Dubuque, Iowa
March 12, 2014

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

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

 Material weakness identified No

 Significant deficiency not considered to be
 a material weakness Yes

Noncompliance material to financial statements noted No

Federal Awards

Internal control over major program:

 Material weakness identified No

 Significant deficiency not considered to be
 a material weakness Yes

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

Any audit findings disclosed that are required to be reported in
 accordance with Circular A-133, Section .510(a) Yes

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 Deficiency

2013 - 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 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 – 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.

Part III: Findings and Questioned Costs for Federal Awards

Significant Deficiency

2013-001 Allowable Costs/Cost Principles

CFDA #10.557 Special Supplemental Nutrition Program for Women, Infants, and Children

U.S. Department of Agriculture

Criteria – A properly designed system of internal control over compliance with the requirements of federal programs allows entities to meet those requirements set forth by the federal government in administering federal grants. OMB Circular A-122 establishes cost principles for determining costs of grants, contracts, and other agreements with non-profit organizations.

Condition – Hillcrest included an unallowable cost in their WIC program.

Context – One expenditure for \$71.69 out of sixty expenditures tested was deemed unallowable.

Cause – It appears the cause was due to miscommunication between the WIC Coordinator and a secretary.

Effect – Hillcrest's internal controls over allowable costs did not function properly.

Recommendation – Hillcrest should review established procedures to insure that they are following all requirements of federal grants related to the provisions of the Allowable Costs/Cost Principles.

Response – We will review the \$70 of unallowed spending with our funding agency (IDPH) and take necessary action as advised.

Instances of Non-Compliance:

No matters were noted.

There were no prior year federal findings.