



Financial Statements
June 30, 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 statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. 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 June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Hillcrest Family Services, Inc. has changed its accounting policy for accounting for debt issuance costs by adopting the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. Our opinion is not modified with respect to this matter.

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 26 and 27 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 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 November 24, 2015 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
November 24, 2015

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Assets

Current Assets

Cash and cash equivalents	\$ 495,716
Cash - custodial	16,175
Receivables	
Program service fees, net of allowances for uncollectibles of \$66,000	1,951,035
Program grants	452,728
Estimated third-party payor settlements	2,093,211
Promises to give - Note 6	119,250
Prepaid expenses	179,111
Estimated insurance recoveries receivable	<u>249,985</u>

Total current assets 5,557,211

Property and Equipment, Net - Note 7 9,404,277

Other Assets

Promises to give - Note 6	9,000
Investments - Note 4	1,529,853
Rental property, net of accumulated depreciation of \$15,663	221,641
Beneficial interest in assets of community foundation	<u>13,747</u>

Total other assets 1,774,241

Total assets \$ 16,735,729

Hillcrest Family Services, Inc.
Statement of Financial Position
June 30, 2015

Liabilities and Net Assets

Current Liabilities

Current maturities of long-term debt - Note 8	\$ 318,506
Refunds payable - Note 11	28,571
Custodial funds	16,175
Accounts payable	
Trade	565,544
Estimated health claims payable - Note 17	159,997
Accrued Expenses	
Salaries and wages	602,178
Vacation	622,511
Payroll taxes and other benefits	131,855
Other	72,048
Estimated insurance claims liability - Note 16	249,985
Deferred revenue and grants - Note 12	157,442

Total current liabilities	2,924,812
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Long-Term Debt, Less Current Maturities and Unamortized

Debt Issuance Costs of \$26,920 - Note 8	4,127,237
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Interest Rate Swap - Note 8

30,547

Total liabilities	7,082,596
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Net Assets

Unrestricted

Undesignated	8,005,080
Designated by Board - quasi-endowment - Note 13	1,237,473

9,242,553

Temporarily restricted - Note 14	179,580
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Permanently restricted - Note 14	231,000
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231,000

Total net assets	9,653,133
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Total liabilities and net assets	\$ 16,735,729
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Hillcrest Family Services, Inc.
Statement of Activities
Year Ended June 30, 2015

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Support and Revenue				
Public Support				
Direct:				
Contributions	\$ 268,426	\$ -	\$ -	\$ 268,426
Bequests -				
trusts/estates	1,927	-	-	1,927
Bowl for Kids Sake	31,299	-	-	31,299
Special event - lights	238,382	-	-	238,382
Indirect:				
Grants - federal				
awards	1,256,451	-	-	1,256,451
Grants - other	56,872	-	-	56,872
United Way	7,000	68,250	-	75,250
Total public support	<u>1,860,357</u>	<u>68,250</u>	<u>-</u>	<u>1,928,607</u>
Revenue				
Program service fees				
and grants, net -				
Note 2	20,369,574	-	-	20,369,574
Investment income -				
Note 5	63,281	1,546	-	64,827
Distributions from and				
change in value of				
beneficial interest in				
assets of community				
foundation	(255)	-	-	(255)
Miscellaneous	48,601	-	-	48,601
Net assets released from				
restrictions - Note 14	218,390	(218,390)	-	-
Total revenue	<u>20,699,591</u>	<u>(216,844)</u>	<u>-</u>	<u>20,482,747</u>
Total public support				
and revenue	<u>22,559,948</u>	<u>(148,594)</u>	<u>-</u>	<u>22,411,354</u>
Expenses				
Program services	19,617,300	-	-	19,617,300
Supporting services				
General and				
administrative	2,574,995	-	-	2,574,995
Mission advancement	550,185	-	-	550,185
Special event - lights	107,465	-	-	107,465
Total expenses	<u>22,849,945</u>	<u>-</u>	<u>-</u>	<u>22,849,945</u>

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

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Public Support and Revenue				
Less Than Expenses	\$ (289,997)	\$ (148,594)	\$ -	\$ (438,591)
Other Changes in Net Assets				
Change in unrealized gains and losses on investments - Note 5	(56,665)	-	-	(56,665)
Loss on disposal of assets	(554)	-	-	(554)
Change in value of interest- rate swap	(30,547)	-	-	(30,547)
Change in Net Assets	(377,763)	(148,594)	-	(526,357)
Net Assets, Beginning of Year	9,620,316	328,174	231,000	10,179,490
Net Assets, End of Year	\$ 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	\$ 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	2,737,427	3,158,224	805,159	3,102,764	380,084	64,566	57,143
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	22,673	57,497	17	67,199	1,020	3,173	39
Bad Debts	33,146	36,987	14,791	-	2,636	390	1,250
Total Expenses Before Depreciation	3,441,569	3,998,914	1,174,441	3,567,866	472,617	86,505	83,463
Depreciation	132,969	128,117	11,159	133,058	29,047	5,510	719
Total Expenses Before Allocation	3,574,538	4,127,031	1,185,600	3,700,924	501,664	92,015	84,182
General and Administrative Allocation	454,521	525,374	150,742	470,957	63,793	11,692	10,703
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 Living IPRS/Voc	Transitional Housing	SSVF/ PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total 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
Total personnel expenses	15,570,529	1,882,626	233,850	-	2,116,476	17,687,005
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	154,006	2,941	12,805	-	15,746	169,752
Bad Debts (Recoveries)	111,269	(9,272)	75,209	-	65,937	177,206
Total Expenses Before Depreciation	19,084,472	2,420,868	473,541	107,465	3,001,874	22,086,346
Depreciation	532,828	154,127	76,644	-	230,771	763,599
Total Expenses Before Allocation	19,617,300	2,574,995	550,185	107,465	3,232,645	22,849,945
General and Administrative Allocation	2,495,629	(2,574,995)	66,397	12,969	(2,495,629)	-
Total Expenses	\$ 22,112,929	\$ -	\$ 616,582	\$ 120,434	\$ 737,016	\$ 22,849,945

Hillcrest Family Services, Inc.
Statement of Cash Flows
Year Ended June 30, 2015

Cash Flows from Operating Activities	
Change in net assets	\$ (526,357)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	763,599
Interest expense attributable to amortization of debt issuance costs	1,552
Loss on disposal of assets	554
Change in unrealized gains and losses on investments	56,665
Realized gain on sales of investments	(45,313)
Change in beneficial interest held by others	255
Bad debts	177,206
Change in value of interest rate swap	30,547
Changes in assets and liabilities	
Receivables	534,816
Prepaid expenses	(3,133)
Accounts/refunds payable	118,646
Accrued expenses	81,938
Deferred revenue and grants	26,593
Net Cash from Operating Activities	<u>1,217,568</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	(1,055,057)
Purchase of investments	(708,153)
Sale of investments	678,628
Net Cash used for Investing Activities	<u>(1,084,582)</u>
Cash Flows from Financing Activities	
Proceeds from issuance of long-term debt	780,500
Principal payments on long-term debt	(436,334)
Net Cash from Financing Activities	<u>344,166</u>
Change in Cash and Cash Equivalents	477,152
Cash and Cash Equivalents, Beginning of Year	<u>18,564</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 495,716</u></u>
Supplemental Disclosure of Cash Flow Information	
Cash paid during the year for interest	<u><u>\$ 168,200</u></u>

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, 2015, the allowance related to self-pay accounts was \$66,000.

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 uncollectable 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 June 30, 2015, no allowance was recorded as management estimates that all amounts are collectable.

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 year ended June 30, 2015.

Rental Property

Rental property consists of certain property that is not used in operating 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 year ended June 30, 2015.

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$63,000 for the year ended June 30, 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 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 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 November 24, 2015, the date which the financial statements were available to be issued.

Note 2 - Change in Accounting Policy

As of July 1, 2014, the Organization adopted the provisions of Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This update requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct reduction from the carrying amount of that debt liability.

The Organization has adopted this standard as management believes this presentation more accurately reflects the costs of borrowing for arrangements in which debt issuance costs are incurred.

Note 3 - 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, 2012.

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 period ended October 31, 2013, with the exception of the time period from July 1, 2012 through October 31, 2012.

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 \$156,000 due to prior-year retroactive adjustments greater than amounts previously estimated.

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

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

Note 4 - 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, 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)
Assets				
Investments				
Money market (at cost)	\$ 69,472	\$ -	\$ -	\$ -
Land - Arizona (at cost)	1,050	-	-	-
Mutual funds				
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>
Liabilities				
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 year ended June 30, 2015:

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

Note 5 - Investment Income

Investment Income

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

Revenue

Investment Income

Interest and dividend income	\$ 19,514
Realized gains (losses) on sale of investments	45,313
Total investment income	<u>\$ 64,827</u>

Other Changes in Net Assets

Changes in unrealized gains and losses on investments	<u>\$ (56,665)</u>
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Investments in an Unrealized Gain (Loss) Position

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	<u>\$ 722,353</u>	<u>\$ (26,709)</u>	<u>\$ 736,978</u>	<u>\$ 57,160</u>

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 6 - Promises to Give

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

Less Than One Year	\$ 119,250
One to Five Years	<u>9,000</u>
	<u>\$ 128,250</u>

Note 7 - Property and Equipment

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

	Cost	Accumulated Depreciation
Land	\$ 204,363	\$ -
Land Improvements	279,027	130,334
Buildings	12,488,122	4,624,847
Equipment	2,810,912	1,983,369
Vehicles	630,774	509,486
Furniture, Fixtures, and Equipment	369,189	233,944
Leasehold Improvements	190,807	103,846
Construction in Progress	16,909	-
	<u>\$ 16,990,103</u>	<u>\$ 7,585,826</u>
Net Property and Equipment		<u>\$ 9,404,277</u>

Note 8 - Long-Term Debt

Mortgage and notes payable consist of the following:

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	\$ 1,863,096
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 \$11,725 (A)	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	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 \$15,195	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	\$ 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	79,978
	4,445,743
Less Current Maturities	(318,506)
Long-Term Debt, Less Current Maturities	\$ 4,127,237

Under the terms of certain mortgages and notes, Hillcrest Family Services, Inc. is required to maintain certain measures of financial performance. At June 30, 2015, Hillcrest Family Services, Inc. did not meet certain financial covenants. As of November 24, 2015, Hillcrest Family Services, Inc. has obtained waivers from the financial institutions relating to the financial covenants that were not met.

Future maturities of mortgage and notes payable are as follows:

Years Ending June 30,	
2016	\$ 318,506
2017	330,406
2018	234,150
2019	206,718
2020	214,341
Thereafter	3,141,622
Total	\$ 4,445,743

(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 2.53% 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 year ended June 30, 2015, the fair value of the liability under the Swap decreased \$30,547, which has been reflected in the accompanying statement of activities. At June 30, 2015, the fair value of the Swap liability was \$30,547.

Note 9 - 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% (3.72% at June 30, 2015). The line expires in December 2015, and is secured by substantially all assets of the Organization. At June 30, 2015, 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 10 - 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:

Year Ending June 30,	
2016	\$ 269,626
2017	161,316
2018	36,730
2019	6,356
Total	\$ 474,028

Total lease expense for the year ended June 30, 2015 totaled \$325,511.

Note 11 - Refunds Payable

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

Note 12 - 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, 2015. Additional amounts are included for the Reflections in the Park event, the transitional housing program, and other activities.

Note 13 - 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, 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, 2015, Hillcrest Family Services, Inc. had the following endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted				
Endowment Funds	\$ -	\$ 60,330	\$ 231,000	\$ 291,330
Board-Designated				
Endowment Funds	1,237,473	-	-	1,237,473
	\$ 1,237,473	\$ 60,330	\$ 231,000	\$ 1,528,803

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, 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 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, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 gain (loss)	(9,057)	(2,294)	-	(11,351)
Contributions	16,431	-	-	16,431
Appropriation of Endowment Assets for Expenditure	-	(6,358)	-	(6,358)
Release from restriction	8,632	(8,632)	-	-
Endowment Net Assets, End of Year	\$ 1,237,473	\$ 60,330	\$ 231,000	\$ 1,528,803

Note 14 - Restricted Net Assets

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

Time Restriction - United Way Contributions	\$ 107,250
Unappropriated Endowment Earnings	60,330
Time Restriction - Other Pledges	<u>12,000</u>
	<u><u>\$ 179,580</u></u>

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

Satisfaction of Purpose Restrictions	
Gift for school art room	\$ 20,000
Expiration of Time Restrictions	134,990
Amounts estimated to be uncollectible	<u>63,400</u>
	<u><u>\$ 218,390</u></u>

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

Unrestricted Support for Programs	\$ 150,000
Educational Programs	80,000
Family Counseling	<u>1,000</u>
	<u><u>\$ 231,000</u></u>

Note 15 - 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, 2015 was as follows:

Grants	28%
County Board of Supervisors	26
Medicaid (MBC of Iowa)	21
Commerical Insurance and Other Third-Party Payors and Clients	16
Medicaid/Medicare	<u>9</u>
	<u><u>100%</u></u>

Note 16 - 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 \$250,000 at June 30, 2015. In addition, receivables of \$250,000 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. As of November 24, 2015 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 17 - 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, 2015, the provision for estimated health claims outstanding is \$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 year ended June 30, 2015 was \$440,138.



Supplementary Information
June 30, 2015

Hillcrest Family Services, Inc.

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	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 (Recoveries)	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	\$ 611,745	\$ 1,800,351	\$ 598,592	\$ 211,183

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

Henry County MHC	Louisa County MHC	Wellness Center 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>\$ 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, 2013 Through September 30, 2014

	WIC	Maternal Health
Revenues		
Iowa Department of Public Health	\$ 660,243	\$ 59,573
Title XIX	-	110,427
	<u>660,243</u>	<u>170,000</u>
Total revenues	660,243	170,000
Expenses		
Salaries	313,175	84,091
Fringe benefits	67,014	24,373
Payroll taxes, etc.	22,753	5,850
Contracted services	52,046	7,783
Supplies and equipment maintenance	19,669	905
Telephone	10,321	1,227
Postage and shipping	1,226	7
Occupancy	52,523	4,547
Travel	9,089	171
Conferences and meetings	1,742	369
Subscriptions	35	-
Client assistance	24,433	970
Dues	25	-
Miscellaneous	2,063	450
Depreciation	7,765	1,119
	<u>583,879</u>	<u>131,862</u>
Total expenses	583,879	131,862
General and administrative allocation	<u>74,573</u>	<u>16,841</u>
Revenues in excess of expenses	<u>\$ 1,791</u>	<u>\$ 21,297</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 statement of financial position as of June 30, 2015, 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 November 24, 2015.

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 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 2015-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
November 24, 2015

**Independent Auditor’s Report on Compliance for Its Major Federal Program and
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 then ended June 30, 2015. 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 June 30, 2015.

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, material weaknesses may exist that have not been identified.

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
November 24, 2015

Hillcrest Family Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/ Pass-through Grantor/ Program 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	N/A	\$ 35,725
National School Lunch Program	10.555	18638000	70,764
Cluster total			<u>106,489</u>
Passed through Iowa Department of Public Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	5883AO35	<u>662,711</u>
Total U.S. Department of Agriculture			<u>769,200</u>
U.S. Department of Housing and Urban Development			
Direct Program			
Supportive Housing Program	14.235		<u>63,421</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>39,250</u>
Passed through State Department of Health and Human Services and Family Planning Council of Iowa			
Family Planning - Services	93.217	638-FY2014	<u>135,862</u>
Passed through Iowa Department of Human Services			
Temporary Assistance for Needy Families	93.558	ACFS-13-002	<u>90,306</u>
Passed through Iowa Department of Human Services			
Block Grants for Community Mental Health Services	93.958	MHDS 11-068	<u>89,072</u>
Passed through Iowa Department of Public Health			
Maternal and Child Health Services Block Grant to the States	93.994	5883MH13	13,683
Maternal and Child Health Services Block Grant to the States	93.994	5883MH13-FFS	8,035
			<u>21,718</u>
Total U.S. Department of Health and Human Services			<u>376,208</u>
Total			<u>\$ 1,208,829</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 *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the 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 *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.

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	None reported
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 Circular A-133, Section .510(a)	No

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:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

Significant Deficiency:

2015 - 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.

Response – 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.

Section III - Federal Award Findings and Questioned Costs

There were no current year federal award findings and questioned costs.

No findings reported in the prior year.