



Financial Statements  
June 30, 2017 and 2016

# Hillcrest Family Services, Inc.

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Hillcrest Family Services, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillcrest Family Services, Inc. as of June 30, 2017 and 2016, 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 31 through 33 is presented for the purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2017 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 3, 2017

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	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 583,025	\$ 393,846
Cash - custodial	61,391	23,926
Receivables		
Program service fees, net of allowances for uncollectibles of \$252,000 and \$175,000 in 2017 and 2016	3,064,348	4,353,040
Program grants	458,486	418,697
Estimated third-party payor settlements	2,046,528	857,897
Promises to give - Note 5	164,388	65,802
Prepaid and other expenses	227,777	165,867
Estimated insurance recoveries receivable	<u>272,000</u>	<u>219,118</u>
Total current assets	<u>6,877,943</u>	<u>6,498,193</u>
Property and Equipment, Net - Note 6	<u>8,827,033</u>	<u>8,971,856</u>
Other Assets		
Promises to give - Note 5	79,663	-
Investments - Note 3	1,913,354	1,517,847
Rental property, net of accumulated depreciation of \$28,927 and \$22,220 in 2017 and 2016	210,957	215,084
Beneficial interest in assets of community foundation	<u>13,148</u>	<u>13,747</u>
Total other assets	<u>2,217,122</u>	<u>1,746,678</u>
Total assets	<u><u>\$ 17,922,098</u></u>	<u><u>\$ 17,216,727</u></u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.  
Statements of Financial Position  
June 30, 2017 and 2016

	2017	2016
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 7	\$ 274,487	\$ 330,707
Refunds payable - Note 10	12,504	23,684
Custodial funds	73,846	24,735
Accounts payable	486,431	453,748
Estimated health claims payable - Note 16	121,505	195,161
Accrued Expenses		
Salaries and wages, including related taxes	270,151	760,531
Vacation	566,737	578,012
Payroll taxes and other benefits	238,558	110,580
Other	40,169	28,542
Estimated insurance claims liability - Note 15	272,000	219,118
Deferred revenue and grants - Note 11	105,341	105,229
	<u>2,461,729</u>	<u>2,830,047</u>
Long-Term Debt, Less Current Maturities and Unamortized Debt Issuance Costs of \$23,816 and \$25,368 in 2017 and 2016 - Note 7	4,021,124	3,811,232
Interest Rate Swap - Note 7	34,297	108,564
	<u>6,517,150</u>	<u>6,749,843</u>
Net Assets		
Unrestricted		
Undesignated	9,193,661	8,792,383
Designated by Board - quasi-endowment - Note 12	1,483,750	1,242,358
	<u>10,677,411</u>	<u>10,034,741</u>
Temporarily restricted - Note 13	205,695	201,143
Permanently restricted - Note 13	521,842	231,000
	<u>11,404,948</u>	<u>10,466,884</u>
	<u>\$ 17,922,098</u>	<u>\$ 17,216,727</u>

	2017			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Support and Revenue				
Public Support				
Direct:				
Contributions	\$ 242,530	\$ 10,000	\$ 290,842	\$ 543,372
Bequests -				
trusts/estates	110,747	-	-	110,747
Bowl for Kids Sake	27,085	-	-	27,085
Special event - lights	231,989	-	-	231,989
Indirect:				
Grants - federal				
awards	1,291,455	-	-	1,291,455
Grants - other	50,206	-	-	50,206
United Way	13,268	93,958	-	107,226
Total public support	<u>1,967,280</u>	<u>103,958</u>	<u>290,842</u>	<u>2,362,080</u>
Revenue				
Program service fees				
and grants, net -				
Note 2	19,867,445	-	-	19,867,445
Investment Return -				
Note 4	619	27,953	-	28,572
Distributions from and				
change in value of				
beneficial interest in				
assets of community				
foundation	(599)	-	-	(599)
Miscellaneous	47,542	-	-	47,542
Net assets released from				
restrictions - Note 13	127,359	(127,359)	-	-
Total revenue	<u>20,042,366</u>	<u>(99,406)</u>	<u>-</u>	<u>19,942,960</u>
Total public support				
and revenue	<u>22,009,646</u>	<u>4,552</u>	<u>290,842</u>	<u>22,305,040</u>
Expenses				
Program services	18,896,472	-	-	18,896,472
Supporting services				
General and				
administrative	2,260,579	-	-	2,260,579
Fundraising	293,715	-	-	293,715
Special event - lights	101,930	-	-	101,930
Total expenses	<u>21,552,696</u>	<u>-</u>	<u>-</u>	<u>21,552,696</u>

See Notes to Financial Statements



Hillcrest Family Services, Inc.  
 Statements of Activities  
 Years Ended June 30, 2017 and 2016

2016			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 275,620	\$ 105,900	\$ -	\$ 381,520
25,132	-	-	25,132
24,438	-	-	24,438
241,961	-	-	241,961
1,312,492	-	-	1,312,492
74,155	-	-	74,155
9,716	51,804	-	61,520
1,963,514	157,704	-	2,121,218
21,367,083	-	-	21,367,083
983	(1,903)	-	(920)
-	-	-	-
40,972	-	-	40,972
134,238	(134,238)	-	-
21,543,276	(136,141)	-	21,407,135
23,506,790	21,563	-	23,528,353
19,569,178	-	-	19,569,178
2,608,277	-	-	2,608,277
339,509	-	-	339,509
110,702	-	-	110,702
22,627,666	-	-	22,627,666

	2017			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Public Support and Revenue In Excess of Expenses	\$ 456,950	\$ 4,552	\$ 290,842	\$ 752,344
Other Changes in Net Assets				
Change in unrealized gains and losses on investments - Note 4	111,453	-	-	111,453
Change in value of interest- rate swap	<u>74,267</u>	<u>-</u>	<u>-</u>	<u>74,267</u>
Change in Net Assets	642,670	4,552	290,842	938,064
Net Assets, Beginning of Year	<u>10,034,741</u>	<u>201,143</u>	<u>231,000</u>	<u>10,466,884</u>
Net Assets, End of Year	<u>\$ 10,677,411</u>	<u>\$ 205,695</u>	<u>\$ 521,842</u>	<u>\$ 11,404,948</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.  
 Statements of Activities  
 Years Ended June 30, 2017 and 2016

2016			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 879,124	\$ 21,563	\$ -	\$ 900,687
(8,918)	-	-	(8,918)
(78,018)	-	-	(78,018)
792,188	21,563	-	813,751
9,242,553	179,580	231,000	9,653,133
\$ 10,034,741	\$ 201,143	\$ 231,000	\$ 10,466,884

Program Services

	Residential Education	CMI Group Homes	Health Services	Schools	Shelter	Family Centered Services	Adoption
Salaries	\$ 1,607,267	\$ 2,447,708	\$ 781,018	\$ 1,846,181	\$ 274,834	\$ 39,138	\$ 49,680
Fringe Benefits	260,300	440,072	131,921	405,469	42,930	5,652	12,377
Payroll Taxes and Other	120,801	178,228	57,391	133,539	21,088	3,177	3,609
Total personnel expenses	1,988,368	3,066,008	970,330	2,385,189	338,852	47,967	65,666
Contracted Services	65,741	34,041	57,418	23,212	9,788	1,272	6,013
Supplies and Equipment							
Maintenance	195,962	308,773	107,107	43,259	38,553	214	902
Telephone	7,369	10,256	22,117	11,133	2,381	7	2,332
Postage and Shipping	604	705	1,284	239	139	75	379
Occupancy	141,153	208,525	92,676	136,899	28,687	397	4,474
Outside Printing	3,776	(248)	363	-	-	-	-
Professional Insurance	6,609	8,477	1,572	4,533	611	84	114
Travel	23,309	36,216	19,663	11,397	4,557	442	3,471
Conferences and Meetings	6,482	6,477	8,928	2,308	1,164	5	1,388
Subscriptions	-	826	160	-	-	-	-
Client Assistance	26,845	4,230	27,023	55	4,931	455	-
Dues	9,734	4,005	620	-	1,705	12	4,969
Miscellaneous	13,139	32,299	12,729	10,979	2,560	175	170
Interest and Amortization	21,664	47,515	13	57,619	800	-	3
Bad Debts (Recoveries)	(5,017)	48,022	(15,511)	67	9,227	(7,933)	(200)
Total Expenses Before Depreciation	2,505,738	3,816,127	1,306,492	2,686,889	443,955	43,172	89,681
Depreciation	131,259	151,413	7,387	119,334	28,697	853	795
Total Expenses Before Allocation	2,636,997	3,967,540	1,313,879	2,806,223	472,652	44,025	90,476
General and Administrative Allocation	311,140	464,796	156,481	333,863	54,759	5,967	10,967
Total Expenses	\$ 2,948,137	\$ 4,432,336	\$ 1,470,360	\$ 3,140,086	\$ 527,411	\$ 49,992	\$ 101,443

Hillcrest Family Services, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2017

Program Services					
Hillcrest Supported Living IPRS/Voc	Transitional Housing	SSVF/ PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
\$ 841,136	\$ 46,562	\$ 93,897	\$ 3,858,236	\$ 51,575	\$ 11,937,232
157,305	10,349	10,567	735,168	17,587	2,229,697
60,245	3,399	6,862	270,982	3,469	862,790
1,058,686	60,310	111,326	4,864,386	72,631	15,029,719
19,490	-	524	393,855	411	611,765
5,178	2,224	609	60,071	211	763,063
14,396	2,629	1,108	94,026	524	168,278
457	-	36	3,415	505	7,838
29,256	17,442	2,454	262,835	2,512	927,310
-	-	-	13,118	-	17,009
1,473	126	194	9,109	137	33,039
33,601	807	2,636	53,368	196	189,663
1,598	154	79	46,913	11	75,507
41	-	82	82	-	1,191
57	3,402	16,739	622	161	84,520
1,630	98	85	4,882	-	27,740
2,437	48	298	44,825	2,727	122,386
7	10	7	4,475	4	132,117
3,635	1,673	-	132,979	-	166,942
1,171,942	88,923	136,177	5,988,961	80,030	18,358,087
11,443	19,122	568	65,092	2,422	538,385
1,183,385	108,045	136,745	6,054,053	82,452	18,896,472
140,111	12,854	16,269	700,394	9,810	2,217,411
<u>\$ 1,323,496</u>	<u>\$ 120,899</u>	<u>\$ 153,014</u>	<u>\$ 6,754,447</u>	<u>\$ 92,262</u>	<u>\$ 21,113,883</u>

Hillcrest Family Services, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2017

	Supporting Services					Total Expenses
	Total Program Services	General and Administrative	Fundraising	Special Event - Lights	Total Supporting Services	
Salaries	\$ 11,937,232	\$ 1,214,104	\$ 91,749	\$ -	\$ 1,305,853	\$ 13,243,085
Fringe Benefits	2,229,697	296,445	15,513	-	311,958	2,541,655
Payroll Taxes and Other	862,790	88,872	6,288	-	95,160	957,950
<b>Total personnel expenses</b>	<b>15,029,719</b>	<b>1,599,421</b>	<b>113,550</b>	<b>-</b>	<b>1,712,971</b>	<b>16,742,690</b>
Contracted Services	611,765	170,883	39,678	-	210,561	822,326
Supplies and Equipment						
Maintenance	763,063	85,635	3,181	-	88,816	851,879
Telephone	168,278	51,480	1,071	-	52,551	220,829
Postage and Shipping	7,838	5,449	1,196	-	6,645	14,483
Occupancy	927,310	34,500	21,886	-	56,386	983,696
Outside Printing	17,009	406	15,051	-	15,457	32,466
Professional Insurance	33,039	23,933	568	-	24,501	57,540
Travel	189,663	25,047	2,513	-	27,560	217,223
Conferences and						
Meetings	75,507	31,966	5,100	-	37,066	112,573
Subscriptions	1,191	962	276	-	1,238	2,429
Client Assistance	84,520	-	2,000	-	2,000	86,520
Dues	27,740	1,947	9,765	-	11,712	39,452
Miscellaneous	122,386	72,322	7,624	101,930	181,876	304,262
Interest and Amortization	132,117	3,431	6,285	-	9,716	141,833
Bad Debts (Recoveries)	166,942	(1,311)	-	-	(1,311)	165,631
<b>Total Expenses Before</b>						
Depreciation	18,358,087	2,106,071	229,744	101,930	2,437,745	20,795,832
Depreciation	538,385	154,508	63,971	-	218,479	756,864
<b>Total Expenses Before</b>						
Allocation	18,896,472	2,260,579	293,715	101,930	2,656,224	21,552,696
General and						
Administrative						
Allocation	2,217,411	(2,260,579)	32,047	11,121	(2,217,411)	-
<b>Total Expenses</b>	<b>\$ 21,113,883</b>	<b>\$ -</b>	<b>\$ 325,762</b>	<b>\$ 113,051</b>	<b>\$ 438,813</b>	<b>\$ 21,552,696</b>

Program Services

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

See Notes to Financial Statements

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

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



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

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

Hillcrest Family Services, Inc.  
Statements of Cash Flows  
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 938,064	\$ 813,751
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	756,864	750,672
Interest expense attributable to amortization of debt issuance costs	1,552	1,552
Change in unrealized gains and losses on investments	(111,453)	8,918
Realized (gain) loss on sales of investments	(18,150)	16,569
Contributions restricted to endowment	(290,842)	-
Change in beneficial interest held by others	599	-
Bad debts	165,631	493,236
Change in value of interest rate swap	(74,267)	78,018
Changes in assets and liabilities		
Receivables	(133,991)	(1,563,448)
Prepaid and other expenses	(61,910)	13,244
Accounts/refunds payable	(52,153)	(81,522)
Accrued expenses	(362,050)	49,076
Deferred revenue and grants	112	(52,213)
Net Cash from (used for) Operating Activities	758,006	527,853
Cash Flows from Investing Activities		
Purchase of property and equipment	(607,914)	(311,694)
Purchase of investments	(1,512,779)	(554,835)
Sale of investments	1,258,521	542,162
Net Cash from (used for) Investing Activities	(862,172)	(324,367)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	492,058	-
Principal payments on long-term debt	(339,938)	(305,356)
Collections of contributions restricted to endowment	141,225	-
Net Cash from (used for) Financing Activities	293,345	(305,356)
Change in Cash and Cash Equivalents	189,179	(101,870)
Cash and Cash Equivalents, Beginning of Year	393,846	495,716
Cash and Cash Equivalents, End of Year	\$ 583,025	\$ 393,846
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 140,281	\$ 187,565

## **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, 2017 and 2016, the allowance for uncollectible accounts was \$252,000 and \$175,000, respectively.

### **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 statements of activities. The Organization determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. At June 30, 2017 and 2016, no allowance was recorded as management estimates that all amounts are collectible.

### **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 three to fifteen years for equipment, vehicles, and leasehold improvements, and up to forty 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 statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2017 and 2016.

### **Rental Property**

Rental property consists of certain property that is not used in operations and is available for rental to third parties. The allocable portion of the property in excess of the fair value of non-depreciable land is depreciated over an estimated life of 10 to 25 years. There were no indicators of asset impairment during the years ended June 30, 2017 and 2016. Rental income is recorded as miscellaneous income.

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

The Organization 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. The Organization 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 the Organization, and is reported at fair value in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities.

### **Investments**

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Investment return is reported in the statements 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.

### **Refunds Payable**

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

### **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 statements of financial position, and unrealized losses or gains are included in the statements 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 statements 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. 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. The Organization 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.

## **Public Support and Revenue in Excess of Expenses**

Public support and revenue in excess of expenses excludes unrealized gains and losses on investments and the change in value of interest-rate swap.

### **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. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended June 30, 2017 and 2016.

### **Debt Issuance Costs**

Debt issuance costs are amortized using the straight-line method over the life of the bonds. This straight-line method is a reasonable estimate of the effective interest method. Debt issuance costs are included within long-term debt on the statements of financial position.

### **Advertising Costs**

Advertising costs are expensed as incurred, and approximated \$45,000 and \$39,000 for the years ended June 30, 2017 and 2016.

### **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 an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). 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.

### **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**

Deposit concentration risk is managed 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 3, 2017, the date which the financial statements were available to be issued.

### **Note 2 - Net Program Service Fees**

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

#### **Medicaid**

The Medicaid program reimburses the Organization for services as defined in various agreements. The basis for reimbursement under these agreements may include discounts from established charges and prospectively determined rates, or may be based on a cost reimbursement methodology. Under this methodology, the Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports. The Organization has 2017 and 2016 Medicaid cost reports that are subject to final settlement.

**Grants**

The Organization 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.

**County Regions**

The Organization has also entered into payment agreements with several county regions. 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.

Net program service fees and grants revenue increased approximately \$133,700 and \$86,400 for the years ended June 30, 2017 and 2016 due to prior-year retroactive adjustments greater than amounts previously estimated.

A summary of revenue from the various payors is as follows:

	2017	2016
Grants	17%	24%
County Board of Supervisors	18	22
Medicaid/Medicare	53	43
Commerical Insurance and Other Third-Party Payors and Clients	12	11
	100%	100%



### Note 3 - Fair Value Measurements

The Organization reports certain assets and liabilities 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, 2017:

	Fair Value Measurements at Report Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
<b>Investments</b>				
Money market (at cost)	\$ 183,492	\$ -	\$ -	\$ -
Land - Arizona (at cost)	1,050	-	-	-
Mutual funds	1,728,812	1,728,812	-	-
	<u>\$ 1,913,354</u>	<u>\$ 1,728,812</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Assets of Community Foundation	<u>\$ 13,148</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,148</u>
<b>Liabilities</b>				
Interest Rate Swap	<u>\$ 34,297</u>	<u>\$ -</u>	<u>\$ 34,297</u>	<u>\$ -</u>

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

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

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):

	2017	2016
Beginning Balance	\$ 13,747	\$ 13,747
Investment income	245	-
Grants approved	(670)	-
Administrative/investment fees	(174)	-
Ending Balance	\$ 13,148	\$ 13,747

**Note 4 - Investment Return**

*Investment Return*

Investment return consists of the following:

	2017	2016
Revenue		
Investment Return		
Interest and dividends	\$ 26,516	\$ 26,563
Realized gain (loss)	18,150	(16,569)
Less investment management fees	(16,094)	(10,914)
Total investment income	\$ 28,572	\$ (920)
Other Changes in Net Assets		
Changes in unrealized gains and losses on investments	\$ 111,453	\$ (8,918)

*Investments in an Unrealized Gain (Loss) Position*

Investments in an unrealized gain (loss) position at June 30, 2017 are shown in the following table:

	Fair Value	Unrealized Loss	Fair Value	Unrealized Gain
Mutual Funds	\$ 451,364	\$ (2,500)	\$ 1,277,448	\$ 135,486

The duration of the investments in an unrealized loss position at June 30, 2017 is shown in the following table:

	Greater Than 12 Months		Less Than 12 Months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mutual Funds	\$ -	\$ -	\$ 451,364	\$ (2,500)

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

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

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

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

**Note 5 - Promises to Give**

Unconditional promises to give are estimated to be collected as follows:

	2017	2016
Less Than One Year	\$ 164,388	\$ 65,802
One to Five Years	84,090	-
	248,478	65,802
Less discount to net present value (5%)	(4,427)	-
	\$ 244,051	\$ 65,802

At June 30, 2017, one donor accounted for 63% of total promises to give. At June 30, 2017, promises to give from board members and key employees totaled \$129,546. Total contributions from board members and key employees totaled \$208,813 for the year ended June 30, 2017.

**Note 6 - Property and Equipment**

Property and equipment consists of the following:

	2017		2016	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 250,468	\$ -	\$ 204,363	\$ -
Land Improvements	307,761	173,028	279,027	151,471
Buildings	12,886,608	5,382,643	12,618,277	4,997,113
Equipment	3,132,036	2,513,649	2,891,226	2,252,532
Vehicles	659,342	592,542	659,341	552,387
Furniture and Fixtures	462,227	288,260	442,047	259,382
Leasehold Improvements	190,807	129,971	190,807	117,053
Construction in Progress	17,877	-	16,706	-
	<u>\$ 17,907,126</u>	<u>\$ 9,080,093</u>	<u>\$ 17,301,794</u>	<u>\$ 8,329,938</u>
Net Property and Equipment		<u>\$ 8,827,033</u>		<u>\$ 8,971,856</u>

As of June 30, 2017, the Organization was committed to a new roof construction project with an estimated total cost of \$296,000 which is anticipated to be completed during October 2017. Substantially all costs are remaining to be incurred. Costs related to this project are being financed.

**Note 7 - Long-Term Debt**

Mortgage and notes payable consist of the following:

	2017	2016
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	\$ 1,701,113	\$ 1,783,696
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 \$10,391 and \$11,058 in 2017 and 2016 (A)	1,336,521	1,402,893
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	418,231	445,476
Note Payable to Bank, Accrues Interest at 4.5%, Due in Monthly Installments of \$2,497, Including Interest, Due in June 2022, Secured by Real Estate	323,396	-
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	247,494	262,958
Note Payable to Bank, Accrues Interest at 3.5%, Due in Monthly Installments of \$973, Including Interest, Due in September 2021 Secured by Real Estate	162,683	-
Note Payable to Bank, Accrues Interest at 3.89%, Due in Monthly Installments of \$574, Including Interest, Due in June 2031, Secured by Real Estate	72,712	76,497
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 \$13,425 and \$14,310 in 2017 and 2016	33,461	170,419
	4,295,611	4,141,939
Less Current Maturities	(274,487)	(330,707)
Long-Term Debt, Less Current Maturities	\$ 4,021,124	\$ 3,811,232

Under the terms of certain mortgages and notes, the Organization is required to maintain certain measures of financial performance.

Future maturities of mortgage and notes payable are as follows:

Years Ending June 30,		
2018	\$	274,487
2019		235,081
2020		242,812
2021		306,857
2022		254,508
Thereafter		3,005,682
Less unamortized debt issuance costs		(23,816)
Total		\$ 4,295,611

(A) – The Organization entered into an interest rate protection agreement with a financial institution related to its Series 2012 Bonds pursuant to which the Organization 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 2.79% at June 30, 2017 and 2.31% at June 30, 2016). The interest payment dates, notional amounts and maturities of the Swap contract are consistent with the Series 2012 Bonds. The effect of the Swap is to convert the Organization’s floating-rate debt to fixed-rate debt. During the years ended June 30, 2017 and 2016, the fair value of the liability under the Swap decreased (increased) \$74,267 and (\$78,017), which has been reflected in the accompanying statements of activities. At June 30, 2017 and 2016, the fair value of the Swap liability was \$34,297 and \$108,564.

**Note 8 - Line of Credit**

The Organization has a line of credit available for up to \$1,000,000 with a bank. Interest is paid monthly at a rate of LIBOR plus 2.95% (4.68% at June 30, 2017). The line expires in January 2018, and is secured by substantially all assets of the Organization. At June 30, 2017 and 2016, there was no balance outstanding on the line of credit. The line of credit is secured by a mortgage on the primary property at 1995 Asbury Road.

**Note 9 - Operating Leases**

The Organization leases certain property and equipment under non-cancellable long-term operating lease agreements.

Future minimum operating lease payments are as follows:

Years Ending June 30,		
2018	\$	348,008
2019		171,308
2020		32,828
2021		17,322
2022		5,774
Total	\$	575,240

Total lease expense for the years ended June 30, 2017 and 2016 totaled \$329,868 and \$316,000.

**Note 10 - Deferred Revenue and Grants**

Deferred revenue and grants include an advance from the Iowa Department of Public Health earmarked for future periods. The advance was \$43,666 at June 30, 2017 and 2016. Additional amounts are included in deferred revenue and grants for the Reflections in the Park event, the transitional housing program, and other activities.

**Note 11 - Endowments**

The Organization'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.

The Organization'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, 2017 and 2016, 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, 2017 and 2016, the Organization had the following endowment net asset composition by type of fund:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2017				
Donor-Restricted				
Endowment Funds	\$ -	\$ 56,329	\$ 372,225	\$ 428,554
Board-Designated				
Endowment Funds	<u>1,483,750</u>	<u>-</u>	<u>-</u>	<u>1,483,750</u>
	<u>\$ 1,483,750</u>	<u>\$ 56,329</u>	<u>\$ 372,225</u>	<u>\$ 1,912,304</u>
June 30, 2016				
Donor-Restricted				
Endowment Funds	\$ -	\$ 43,439	\$ 231,000	\$ 274,439
Board-Designated				
Endowment Funds	<u>1,242,358</u>	<u>-</u>	<u>-</u>	<u>1,242,358</u>
	<u>\$ 1,242,358</u>	<u>\$ 43,439</u>	<u>\$ 231,000</u>	<u>\$ 1,516,797</u>

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, 2017 and 2016.

*Investment and Spending Policies*

The Organization 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.

The Organization 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 Trustees, 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 2017 and 2016, 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, the Organization 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, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 1,242,358	\$ 43,439	\$ 231,000	\$ 1,516,797
Investment Return:				
Investment income	12,130	2,843	-	14,973
Net realized and unrealized gain (loss)	99,967	25,110	-	125,077
Contributions	114,232	-	141,225	255,457
Appropriation of Endowment Assets Pursuant to Spending- Rate Policy	15,063	(15,063)	-	-
Endowment Net Assets, End of Year	\$ 1,483,750	\$ 56,329	\$ 372,225	\$ 1,912,304

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

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

**Note 12 - Restricted Net Assets**

Temporarily restricted net assets consist of:

	<u>2017</u>	<u>2016</u>
Time Restriction - United Way Contributions	\$ 93,958	\$ 51,804
Unspent Appreciation of Endowment Funds Which Must be Appropriated for Expenditure Before Use		
Restricted by donors for		
Educational programs	45,833	41,613
Family counseling	44	12
Available for general use	10,453	1,814
Time Restriction - Other Pledges	<u>55,407</u>	<u>105,900</u>
	<u>\$ 205,695</u>	<u>\$ 201,143</u>

Net assets were released from restrictions as follows:

	2017	2016
Expiration of Time Restrictions	\$ 112,296	\$ 107,250
Amounts Estimated to be Uncollectible	-	12,000
Restricted Purpose Spending Rate		
Distributions and Appropriations		
Educational programs	6,477	6,517
Family counseling	57	56
General use	8,529	8,415
	\$ 127,359	\$ 134,238

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

	2017	2016
Unrestricted Support for Programs	\$ 440,842	\$ 150,000
Educational Programs	80,000	80,000
Family Counseling	1,000	1,000
	\$ 521,842	\$ 231,000

### Note 13 - Concentrations of Credit Risk

The Organization 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 was as follows:

	2017	2016
Medicaid/Medicare	60%	59%
Grants	19	15
Commerical Insurance and Other Third-Party Payors and Clients	13	14
County Regions	8	12
	100%	100%

## **Note 14 - Contingencies**

### **Professional Liability**

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. The Organization is also insured under a claims-made excess umbrella insurance policy with a limit of \$4,000,000 per occurrence and an annual aggregate limit of \$4,000,000. Should the claims-made policies 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.

### **Claims Reserve**

The Organization has accrued estimated costs related to professional liability and worker's compensation claims of \$272,000 and \$219,000 at June 30, 2017 and 2016. In addition, receivables of \$272,000 and \$219,000 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.

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 15 - Employee Benefits**

### **Self-Insured Health Plan**

The Organization 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, 2017 and 2016, the provision for estimated health claims outstanding is \$121,505 and \$195,161.

#### **401(k) Retirement Plans**

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

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

The employer contributions for the 401(k) plans for the years ended June 30, 2017 and 2016 was \$445,832 and \$449,959.



Supplementary Information  
June 30, 2017 and 2016

**Hillcrest Family Services, Inc.**

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	Washington County MHC	Dubuque County MHC	Jackson County MHC	Asbury County MHC	Henry County MHC
Salaries	\$ 358,050	\$ 1,129,171	\$ 267,143	\$ 237,589	\$ 137,341
Fringe Benefits	55,087	200,280	58,593	47,424	23,327
Payroll Taxes and Other	26,596	77,427	18,933	17,334	10,117
Total personnel expenses	439,733	1,406,878	344,669	302,347	170,785
Contracted Services	13,790	37,758	150,211	82,695	32,356
Supplies and Equipment					
Maintenance	4,482	16,361	3,477	7,064	3,656
Telephone	14,876	23,433	10,469	190	3,286
Postage and Shipping	1,150	818	197	188	234
Occupancy	20,957	73,240	26,992	6,992	10,887
Outside Printing	-	-	-	-	-
Professional Insurance	612	2,090	720	406	293
Travel	7,604	269	251	586	971
Conferences and Meetings	3,415	1,955	2,279	23,011	1,509
Subscriptions	-	-	-	-	-
Client Assistance	50	-	-	-	-
Dues	515	1,696	541	290	184
Miscellaneous	6,729	15,769	5,503	2,725	115
Interest	-	111	-	-	1
Bad Debts (Recoveries)	(203)	(2,439)	(564)	110	363
Total Expenses Before Depreciation	513,710	1,577,939	544,745	426,604	224,640
Depreciation	5,454	12,376	6,434	1,989	1,809
Total Expenses Before Allocation	519,164	1,590,315	551,179	428,593	226,449
General and Administrative Allocation	61,183	187,554	64,975	50,508	26,520
Total Expenses	\$ 580,347	\$ 1,777,869	\$ 616,154	\$ 479,101	\$ 252,969

Hillcrest Family Services, Inc.  
Schedule of Mental Health Center Expenses  
Year Ended June 30, 2017

Louisa County MHC	Wellness Center MHC	MH Solutions MHC	Southeast Iowa Crisis	Integrated Health Homes	Total Program Services
\$ 151,612	\$ 269,979	\$ 198,247	\$ 120,584	\$ 988,520	\$ 3,858,236
25,342	54,181	33,650	15,863	221,421	735,168
10,840	18,157	11,905	8,202	71,471	270,982
187,794	342,317	243,802	144,649	1,281,412	4,864,386
43,013	2,539	10,619	2,868	18,006	393,855
2,457	5,786	1,331	667	14,790	60,071
2,525	8,973	2,821	793	26,660	94,026
335	2	-	-	491	3,415
7,237	40,437	19,016	1,775	55,302	262,835
-	-	13,118	-	-	13,118
447	1,365	256	108	2,812	9,109
779	5,623	179	1,429	35,677	53,368
2,382	1,668	223	5,848	4,623	46,913
-	41	-	-	41	82
(100)	57	-	-	615	622
176	430	203	-	847	4,882
2,709	3,455	1,160	49	6,611	44,825
-	4,333	10	-	20	4,475
(895)	5,849	385	1,973	128,400	132,979
248,859	422,875	293,123	160,159	1,576,307	5,988,961
2,713	14,659	5,682	-	13,976	65,092
251,572	437,534	298,805	160,159	1,590,283	6,054,053
29,425	51,862	35,550	18,820	173,997	700,394
<u>\$ 280,997</u>	<u>\$ 489,396</u>	<u>\$ 334,355</u>	<u>\$ 178,979</u>	<u>\$ 1,764,280</u>	<u>\$ 6,754,447</u>

	Washington County MHC	Dubuque County MHC	Jackson County MHC	Asbury County MHC	Henry County MHC
Salaries	\$ 388,781	\$ 1,217,928	\$ 271,895	\$ 219,236	\$ 161,004
Fringe Benefits	52,117	162,788	54,232	36,122	20,106
Payroll Taxes and Other	26,246	79,593	19,830	14,887	12,684
Total personnel expenses	467,144	1,460,309	345,957	270,245	193,794
Contracted Services	15,414	36,298	145,001	78,323	4,601
Supplies and Equipment					
Maintenance	3,717	11,779	6,778	6,846	3,366
Telephone	12,777	20,790	10,750	390	3,413
Postage and Shipping	1,150	903	288	187	282
Occupancy	24,136	71,837	33,540	9,245	10,125
Outside Printing	-	-	100	-	-
Professional Insurance	705	5,153	637	229	267
Travel	5,451	1,380	227	256	2,412
Conferences and Meetings	5,828	3,717	1,000	1,908	3,205
Subscriptions	-	-	-	-	-
Client Assistance	-	494	-	7	-
Dues	1,842	5,048	1,781	1,485	1,483
Miscellaneous	4,844	47,328	2,006	750	441
Interest	366	3,934	366	280	172
Bad Debts (Recoveries)	20,418	51,188	16,124	10,119	10,054
Total Expenses Before Depreciation	563,792	1,720,158	564,555	380,270	233,615
Depreciation	6,586	17,197	5,764	1,967	1,723
Total Expenses Before Allocation	570,378	1,737,355	570,319	382,237	235,338
General and Administrative Allocation	74,710	226,983	74,699	50,122	30,832
Total Expenses	\$ 645,088	\$ 1,964,338	\$ 645,018	\$ 432,359	\$ 266,170

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

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

Hillcrest Family Services, Inc.

Schedules of Revenues and Expenses

WIC – Contract #5887AO35

Maternal Health – Contract #5888MH13

Contract Period: October 1, 2015 Through September 30, 2016

	WIC	Maternal Health
Revenues		
Iowa Department of Public Health	\$ 649,940	\$ 66,104
Title XIX	-	92,023
Miscellaneous	-	37
	<u>649,940</u>	<u>158,164</u>
Total revenues		
Expenses		
Salaries	332,164	114,267
Fringe benefits	62,111	22,557
Payroll taxes, etc.	24,623	8,029
Contracted services	32,530	5,057
Supplies and equipment maintenance	15,060	976
Telephone	12,918	1,177
Postage and shipping	453	20
Occupancy	59,162	3,168
Travel	7,164	418
Conferences and meetings	1,281	119
Client assistance	8,645	-
Miscellaneous	19,536	(7,218)
Depreciation	3,997	1,216
	<u>579,644</u>	<u>149,786</u>
Total expenses		
General and administrative allocation	<u>69,125</u>	<u>17,863</u>
Revenues in excess of (less than) expenses	<u>\$ 1,171</u>	<u>\$ (9,485)</u>



**Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Hillcrest Family Services, Inc. (Hillcrest), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 3, 2017.

**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 2017-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 noncompliance 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 3, 2017



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

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

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

We have audited Hillcrest Family Services, Inc.'s (Hillcrest) compliance with the types of compliance requirements described in the *OMB Circular Supplement* that could have a direct and material effect on Hillcrest's major federal program for the year then ended June 30, 2017. Hillcrest's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the compliance for Hillcrest's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hillcrest's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of Hillcrest's compliance.

### **Opinion on Its Major Federal Program**

In our opinion, Hillcrest complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2017.



## 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hillcrest's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Dubuque, Iowa  
November 3, 2017

Hillcrest Family Services, Inc.  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. Department of Agriculture			
Passed through Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	18638000	\$ 14,965
National School Lunch Program	10.555	18638000	22,469
Cluster total			<u>37,434</u>
Passed through Iowa Department of Public Health			
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	5885AO35	453,878
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	5884AO35	238,649
			<u>692,527</u>
Total U.S. Department of Agriculture			<u>729,961</u>
U.S. Department of Housing and Urban Development			
Direct Program			
Supportive Housing Program	14.235		<u>49,217</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 16-007	<u>49,138</u>
Passed through State Department of Health and			
Human Services and Family Planning Council of			
Iowa			
Family Planning - Services	93.217	638-FY2014	<u>134,683</u>
Passed through Iowa Department of Human Services			
477 Cluster			
Temporary Assistance for Needy Families	93.558	ACFS-14-185	<u>87,475</u>
Passed through Iowa Department of Human Services			
Block Grants for Community Mental			
Health Services	93.958	MHDS 11-068	<u>130,666</u>
Passed through Iowa Department of Public Health			
Maternal and Child Health Services Block Grant to			
the States	93.994	5883MH13	39,019
Maternal and Child Health Services Block Grant to			
the States	93.994	5884MH13	21,582
			<u>60,601</u>
Total U.S. Department of Health and Human Services			<u>462,563</u>
Total			<u>\$ 1,241,741</u>

**Note A - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of Hillcrest Family Services, Inc., and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Hillcrest received federal awards both directly from federal agencies and indirectly through pass-through entities. No federal financial assistance has been provided to a subrecipient.

**Note B – Significant Accounting Policies**

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

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

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

**Financial Statements**

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

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None noted
Type of auditor's report issued on compliance for the major program	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	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:	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

**Section II - Financial Statement Findings**

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**Significant Deficiency:**

**2017 - 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 statements of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

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

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

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

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

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

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**No Federal Award Findings**