



Financial Statements
June 30, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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 1, 2018 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 solely 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 effectiveness of Hillcrest Family Services, Inc.'s 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 1, 2018

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	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 273,596	\$ 583,025
Cash - custodial	46,082	61,391
Receivables		
Program service fees, net of allowances for uncollectibles of \$373,000 and \$252,000 in 2018 and 2017	3,682,363	3,064,348
Program grants	292,962	458,486
Estimated third-party payor settlements	2,376,219	2,046,528
Promises to give - Note 5	182,658	164,388
Prepaid and other expenses	127,149	227,777
Estimated insurance recoveries receivable - Note 14	<u>162,000</u>	<u>272,000</u>
Total current assets	<u>7,143,029</u>	<u>6,877,943</u>
Property and Equipment, Net - Note 6	<u>9,156,921</u>	<u>8,827,033</u>
Other Assets		
Promises to give - Note 5	7,167	79,663
Investments - Note 3	2,102,670	1,913,354
Rental property, net of accumulated depreciation of \$35,742 and \$28,927 in 2018 and 2017	204,142	210,957
Interest rate swap - Note 7	9,498	-
Beneficial interest in assets of community foundation	<u>13,371</u>	<u>13,148</u>
Total other assets	<u>2,336,848</u>	<u>2,217,122</u>
Total assets	<u>\$ 18,636,798</u>	<u>\$ 17,922,098</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 7	\$ 272,938	\$ 274,487
Refunds payable	9,770	12,504
Custodial funds	46,913	73,846
Accounts payable	340,436	486,431
Estimated health claims payable - Note 15	197,219	121,505
Accrued Expenses		
Salaries and wages, including related taxes	245,682	270,151
Vacation	576,569	566,737
Payroll taxes and other benefits	251,967	238,558
Other	57,905	40,169
Estimated insurance claims liability - Note 14	162,000	272,000
Deferred revenue and grants - Note 10	104,840	105,341
	2,266,239	2,461,729
Long-Term Debt, Less Current Maturities and Unamortized Debt Issuance Costs of \$22,264 and \$23,816 in 2018 and 2017 - Note 7	4,185,776	4,021,124
Interest Rate Swap - Note 7	-	34,297
Total liabilities	6,452,015	6,517,150
Net Assets		
Unrestricted		
Undesignated	9,876,430	9,193,661
Designated by Board - quasi-endowment - Note 11	1,577,734	1,483,750
	11,454,164	10,677,411
Temporarily restricted - Note 12	184,924	205,695
Permanently restricted - Note 12	545,695	521,842
	12,184,783	11,404,948
Total net assets	12,184,783	11,404,948
Total liabilities and net assets	\$ 18,636,798	\$ 17,922,098

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenue				
Public Support				
Direct:				
Contributions	\$ 251,045	\$ 12,838	\$ 23,853	\$ 287,736
Bequests	-	-	-	-
Bowl for Kids Sake	20,712	-	-	20,712
Special event - lights	260,945	-	-	260,945
Indirect:				
Grants - federal awards	1,298,621	-	-	1,298,621
Grants - other	69,449	-	-	69,449
United Way	14,625	103,125	-	117,750
Total public support	<u>1,915,397</u>	<u>115,963</u>	<u>23,853</u>	<u>2,055,213</u>
Revenue				
Program service fees and grants, net - Note 2	21,089,308	-	-	21,089,308
Net investment return - Note 4	46,805	22,477	-	69,282
Distributions from and change in value of beneficial interest in assets of community foundation	223	-	-	223
Miscellaneous	54,781	-	-	54,781
Net assets released from restrictions - Note 12	159,211	(159,211)	-	-
Total revenue	<u>21,350,328</u>	<u>(136,734)</u>	<u>-</u>	<u>21,213,594</u>
Total public support and revenue	<u>23,265,725</u>	<u>(20,771)</u>	<u>23,853</u>	<u>23,268,807</u>
Expenses				
Program services	20,012,613	-	-	20,012,613
Supporting services				
General and administrative	2,145,304	-	-	2,145,304
Fundraising	305,664	-	-	305,664
Special event - lights	105,353	-	-	105,353
Total expenses	<u>22,568,934</u>	<u>-</u>	<u>-</u>	<u>22,568,934</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.
 Statements of Activities
 Years Ended June 30, 2018 and 2017

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 242,530	\$ 10,000	\$ 290,842	\$ 543,372
110,747	-	-	110,747
27,085	-	-	27,085
231,989	-	-	231,989
1,291,455	-	-	1,291,455
50,206	-	-	50,206
13,268	93,958	-	107,226
1,967,280	103,958	290,842	2,362,080
19,867,445	-	-	19,867,445
619	27,953	-	28,572
(599)	-	-	(599)
47,542	-	-	47,542
127,359	(127,359)	-	-
20,042,366	(99,406)	-	19,942,960
22,009,646	4,552	290,842	22,305,040
18,896,472	-	-	18,896,472
2,260,579	-	-	2,260,579
293,715	-	-	293,715
101,930	-	-	101,930
21,552,696	-	-	21,552,696

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Public Support and Revenue in Excess of (Less Than) Expenses	\$ 696,791	\$ (20,771)	\$ 23,853	\$ 699,873
Other Changes in Net Assets				
Change in unrealized gains and losses on investments - Note 4	36,167	-	-	36,167
Change in fair value of interest rate swap	43,795	-	-	43,795
Change in Net Assets	776,753	(20,771)	23,853	779,835
Net Assets, Beginning of Year	10,677,411	205,695	521,842	11,404,948
Net Assets, End of Year	<u>\$ 11,454,164</u>	<u>\$ 184,924</u>	<u>\$ 545,695</u>	<u>\$ 12,184,783</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.
 Statements of Activities
 Years Ended June 30, 2018 and 2017

2017			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 456,950	\$ 4,552	\$ 290,842	\$ 752,344
111,453	-	-	111,453
74,267	-	-	74,267
642,670	4,552	290,842	938,064
10,034,741	201,143	231,000	10,466,884
\$ 10,677,411	\$ 205,695	\$ 521,842	\$ 11,404,948

Program Services

	Residential Education	CMI Group Homes	Health Services	Schools	Family Centered Services	Adoption
Salaries	\$ 1,440,662	\$ 2,812,816	\$ 771,881	\$ 1,878,393	\$ 176,497	\$ 39,373
Fringe Benefits	230,449	490,190	143,778	402,977	28,001	9,153
Payroll Taxes and Other	107,348	204,501	56,351	137,112	12,789	2,756
Total personnel expenses	1,778,459	3,507,507	972,010	2,418,482	217,287	51,282
Contracted Services	49,739	41,093	51,636	26,304	6,526	4,788
Supplies and Equipment						
Maintenance	102,690	324,134	115,855	109,847	7,514	303
Telephone	6,528	14,857	21,271	12,798	163	2,018
Postage and Shipping	530	711	3,598	215	2	609
Occupancy	117,984	247,642	92,502	144,249	11,482	5,505
Outside Printing	-	8	224	-	-	-
Professional Insurance	5,959	15,602	1,746	4,462	92	124
Travel	20,489	37,992	20,778	13,394	4,069	2,661
Conferences and Meetings	1,014	2,142	17,632	3,824	18	715
Subscriptions	-	441	60	-	-	-
Client Assistance	26,231	7,556	43,485	662	1,492	-
Dues	18,965	8,961	374	-	207	144
Miscellaneous	11,698	30,481	18,647	10,519	796	118
Interest and Amortization	14,296	75,103	-	51,348	-	-
Bad Debts (Recoveries)	42,042	45,503	29,413	-	5	500
Total Expenses Before Depreciation	2,196,624	4,359,733	1,389,231	2,796,104	249,653	68,767
Depreciation	111,850	241,230	9,291	117,389	10,846	831
Total Expenses Before Allocation	2,308,474	4,600,963	1,398,522	2,913,493	260,499	69,598
General and Administrative Allocation	242,892	484,096	147,149	306,570	27,408	7,323
Total Expenses	<u>\$ 2,551,366</u>	<u>\$ 5,085,059</u>	<u>\$ 1,545,671</u>	<u>\$ 3,220,063</u>	<u>\$ 287,907</u>	<u>\$ 76,921</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended June 30, 2018

Program Services					
Hillcrest Supported Living IPRS/Voc	Transitional Housing	SSVF/ PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
\$ 928,781	\$ 21,298	\$ 96,956	\$ 4,493,338	\$ 44,655	\$ 12,704,650
168,397	6,158	17,472	819,609	12,549	2,328,733
66,998	1,649	7,158	316,857	3,070	916,589
1,164,176	29,105	121,586	5,629,804	60,274	15,949,972
14,744	72	208	399,016	796	594,922
4,092	3,131	812	79,677	238	748,293
15,500	881	1,004	95,404	6	170,430
320	-	41	4,298	534	10,858
28,962	12,520	2,568	286,849	4,713	954,976
-	-	-	-	-	232
1,568	137	190	11,444	142	41,466
40,798	148	2,559	53,863	313	197,064
533	340	101	14,001	15	40,335
60	-	120	60	-	741
38	1,164	12,505	294	24	93,451
2,576	160	34	22,799	-	54,220
3,165	116	160	32,546	1,870	110,116
-	-	-	1,547	-	142,294
(6,078)	2,457	-	200,449	-	314,291
1,270,454	50,231	141,888	6,832,051	68,925	19,423,661
13,115	10,071	667	71,030	2,632	588,952
1,283,569	60,302	142,555	6,903,081	71,557	20,012,613
135,032	6,345	14,999	726,191	7,528	2,105,533
<u>\$ 1,418,601</u>	<u>\$ 66,647</u>	<u>\$ 157,554</u>	<u>\$ 7,629,272</u>	<u>\$ 79,085</u>	<u>\$ 22,118,146</u>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended June 30, 2018

	Supporting Services					Total Expenses
	Total Program Services	General and Administrative	Fundraising	Special Event - Lights	Total Supporting Services	
Salaries	\$ 12,704,650	\$ 1,171,041	\$ 101,914	\$ -	\$ 1,272,955	\$ 13,977,605
Fringe Benefits	2,328,733	295,203	15,913	-	311,116	2,639,849
Payroll Taxes and Other	916,589	87,744	7,624	-	95,368	1,011,957
Total personnel expenses	15,949,972	1,553,988	125,451	-	1,679,439	17,629,411
Contracted Services	594,922	150,477	43,022	-	193,499	788,421
Supplies and Equipment						
Maintenance	748,293	75,091	3,924	-	79,015	827,308
Telephone	170,430	41,011	719	-	41,730	212,160
Postage and Shipping	10,858	5,083	949	-	6,032	16,890
Occupancy	954,976	41,916	27,589	-	69,505	1,024,481
Outside Printing	232	-	11,585	-	11,585	11,817
Professional Insurance	41,466	19,347	539	-	19,886	61,352
Travel	197,064	23,541	1,611	-	25,152	222,216
Conferences and Meetings	40,335	15,838	5,622	-	21,460	61,795
Subscriptions	741	12	285	-	297	1,038
Client Assistance	93,451	-	-	-	-	93,451
Dues	54,220	1,394	9,765	-	11,159	65,379
Miscellaneous	110,116	50,352	10,387	105,353	166,092	276,208
Interest and Amortization	142,294	(3,767)	6,167	-	2,400	144,694
Bad Debts (Recoveries)	314,291	(1,545)	-	-	(1,545)	312,746
Total Expenses Before						
Depreciation	19,423,661	1,972,738	247,615	105,353	2,325,706	21,749,367
Depreciation	588,952	172,566	58,049	-	230,615	819,567
Total Expenses Before						
Allocation	20,012,613	2,145,304	305,664	105,353	2,556,321	22,568,934
General and Administrative						
Allocation	2,105,533	(2,145,304)	29,577	10,194	(2,105,533)	-
Total Expenses	\$ 22,118,146	\$ -	\$ 335,241	\$ 115,547	\$ 450,788	\$ 22,568,934

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	10,094	2,560	175	170
Interest and Amortization	21,664	47,515	13	58,504	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	<u>\$ 2,948,137</u>	<u>\$ 4,432,336</u>	<u>\$ 1,470,360</u>	<u>\$ 3,140,086</u>	<u>\$ 527,411</u>	<u>\$ 49,992</u>	<u>\$ 101,443</u>

See Notes to Financial Statements

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

Program Services					
Hillcrest Supported Living IPRS/Voc	Transitional Housing	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	121,501
7	10	7	4,475	4	133,002
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
Total personnel expenses	15,029,719	1,599,421	113,550	-	1,712,971	16,742,690
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	121,501	72,322	7,624	101,930	181,876	303,377
Interest and Amortization	133,002	3,431	6,285	-	9,716	142,718
Bad Debts (Recoveries)	166,942	(1,311)	-	-	(1,311)	165,631
Total Expenses Before 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
Total Expenses Before 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)	-
Total Expenses	\$ 21,113,883	\$ -	\$ 325,762	\$ 113,051	\$ 438,813	\$ 21,552,696

Hillcrest Family Services, Inc.
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 779,835	\$ 938,064
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	819,567	756,864
Interest expense attributable to amortization of debt issuance costs	1,552	1,552
Change in unrealized gains and losses on investments	(36,167)	(111,453)
Realized gain on sales of investments	(48,046)	(18,150)
Contributions restricted to endowment	(23,853)	(290,842)
Change in beneficial interest held by others	(223)	599
Bad debts	312,746	165,631
Change in value of interest rate swap	(43,795)	(74,267)
Changes in assets and liabilities		
Receivables	(1,099,549)	(133,991)
Prepaid and other expenses	100,628	(61,910)
Accounts/refunds payable	(73,015)	(52,156)
Accrued expenses	16,508	(362,047)
Deferred revenue and grants	(501)	112
Net Cash from Operating Activities	705,687	758,006
Cash Flows used for Investing Activities		
Purchase of property and equipment	(1,142,640)	(607,914)
Purchase of investments	(757,151)	(1,512,779)
Sale of investments	640,424	1,258,521
Net Cash used for Investing Activities	(1,259,367)	(862,172)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	460,000	492,058
Principal payments on long-term debt	(298,449)	(339,938)
Collections of contributions restricted to endowment	82,700	141,225
Net Cash from Financing Activities	244,251	293,345
Change in Cash and Cash Equivalents	(309,429)	189,179
Cash and Cash Equivalents, Beginning of Year	583,025	393,846
Cash and Cash Equivalents, End of Year	\$ 273,596	\$ 583,025
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 143,142	\$ 140,281

Note 1 - Organization and Significant Accounting Policies

Organization

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

Cash and Cash Equivalents

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

Receivables and Credit Policies

Accounts receivable consist primarily of uncollateralized individual and third-party payor obligations. Unpaid accounts receivable are not charged interest on amounts owed. Payments of client receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim. The carrying amount of client receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from clients and third-party payors. Management reviews client receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from clients due to bad debts. Accounts receivable are written off when deemed uncollectible.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the 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, 2018 and 2017, 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, 2018 and 2017.

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, 2018 and 2017. 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 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. 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 (Less Than) 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, 2018 and 2017.

Debt Issuance Costs

Debt issuance costs are amortized using the straight-line method over the life of the bonds. The 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 \$46,000 and \$48,000 for the years ended June 30, 2018 and 2017.

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 1, 2018, the date which the financial statements were available to be issued.

Note 2 - Net Program Service Fees

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

Medicaid

The Medicaid program reimburses the Organization for services as defined in various agreements. The basis for reimbursement under these agreements may include discounts from established charges and prospectively determined rates or may be based on a cost reimbursement methodology. Under this methodology, the Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports. The Organization's Medicaid cost reports for years 2018, 2017 and 2016 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 \$402,000 and \$133,700 for the years ended June 30, 2018 and 2017 due to prior-year retroactive adjustments greater than amounts previously estimated.

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

	2018	2017
Medicaid/Medicare	47%	53%
Grants	19	17
County Board of Supervisors	17	18
Commerical Insurance and Other Third-Party Payors and Clients	17	12
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. In addition, the ability to estimate the collectability of uninsured and other self-pay patients is contingent on the patient's ability or willingness to pay for the services provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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, 2018:

	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)	\$ 108,304	\$ -	\$ -	\$ -
Land (at cost)	1,050	-	-	-
Mutual funds	1,993,316	1,993,316	-	-
	<u>\$ 2,102,670</u>	<u>\$ 1,993,316</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Assets of Community Foundation	<u>\$ 13,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,371</u>
Interest Rate Swap	<u>\$ 9,498</u>	<u>\$ -</u>	<u>\$ 9,498</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, 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)
Assets				
Investments				
Money market (at cost)	\$ 183,492	\$ -	\$ -	\$ -
Land (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>
Liabilities				
Interest Rate Swap	<u>\$ 34,297</u>	<u>\$ -</u>	<u>\$ 34,297</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):

	2018	2017
Beginning Balance	\$ 13,148	\$ 13,747
Investment income	1,067	245
Grants approved	(660)	(670)
Administrative/investment fees	(184)	(174)
Ending Balance	\$ 13,371	\$ 13,148

Note 4 - Net Investment Return

Net Investment Return

Net investment return consists of the following:

	2018	2017
Revenue		
Investment Return		
Interest and dividends	\$ 35,282	\$ 26,516
Realized gain (loss) on investments	48,046	18,150
Less investment management fees	(14,046)	(16,094)
Total net investment income	\$ 69,282	\$ 28,572
Other Changes in Net Assets		
Changes in unrealized gains and losses on investments	\$ 36,167	\$ 111,453

Investments in an Unrealized Gain (Loss) Position

Investments in an unrealized gain (loss) position at June 30, 2018 are shown in the following table:

	Fair Value	Unrealized Loss	Fair Value	Unrealized Gain
Mutual Funds	\$ 755,196	\$ (12,815)	\$ 1,238,120	\$ 181,967

The duration of the investments in an unrealized loss position at June 30, 2018 is shown in the following table:

	Greater Than 12 Months		Less Than 12 Months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mutual Funds	\$ 375,265	\$ (8,037)	\$ 379,931	\$ (4,778)

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

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)

Note 5 - Promises to Give

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

	2018	2017
Less Than One Year	\$ 182,658	\$ 164,388
One to Five Years	7,167	84,090
	189,825	248,478
Less discount to net present value (5%)	-	(4,427)
	\$ 189,825	\$ 244,051

Included above is \$103,125 and \$93,958 of United Way promises to give for the years ended June 30, 2018 and 2017. At June 30, 2018 and June 30, 2017, one donor accounted for 58% and 63% of total promises to give, excluding United Way. At June 30, 2018 and 2017, promises to give from board members and key employees totaled \$63,500 and \$129,546. Total contributions from board members and key employees totaled \$208,813 for the year ended June 30, 2017. There were no significant contributions from board members and/or key employees during the year ended June 30, 2018.

Note 6 - Property and Equipment

Property and equipment consists of the following:

	2018		2017	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 307,342	\$ -	\$ 250,468	\$ -
Land Improvements	316,729	197,763	307,761	173,028
Buildings	13,707,291	5,794,971	12,886,608	5,382,643
Equipment	3,257,478	2,802,763	3,132,036	2,513,649
Vehicles	773,130	638,513	659,342	592,542
Furniture and Fixtures	483,325	317,904	462,227	288,260
Leasehold Improvements	190,807	140,927	190,807	129,971
Construction in Progress	13,660	-	17,877	-
	<u>\$ 19,049,762</u>	<u>\$ 9,892,841</u>	<u>\$ 17,907,126</u>	<u>\$ 9,080,093</u>
Net Property and Equipment		<u>\$ 9,156,921</u>		<u>\$ 8,827,033</u>

Note 7 - Long-Term Debt

Mortgage and notes payable consist of the following:

	2018	2017
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, net of unamortized debt issuance costs of \$12,540 and \$13,425 in 2018 and 2017	\$ 1,602,837	\$ 1,687,688
Community facility revenue bonds, series 2012, variable interest rate currently 3.77%, due in monthly installments of \$9,547, including interest, due in February 2033, secured by real estate, net of unamortized debt issuances costs of \$9,724 and \$10,391 in 2018 and 2017 (A)	1,272,856	1,336,521
Note payable to bank, accrues interest at 4.35%, due in monthly installments of \$4,749, including interest, due in May 2023 secured by real estate	456,158	-
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	390,002	418,231
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	279,936	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	231,473	247,494
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	156,681	162,683
Note payable to bank, accrues interest at 3.89%, due in monthly installments of \$574, including interest, due in August 2021, secured by real estate	68,771	72,712
Note payable to bank, accrues interest at 3.55%, due in monthly installments of \$11,854, including interest, secured by real estate, paid off in October 2017	-	46,886
	4,458,714	4,295,611
Less Current Maturities	(272,938)	(274,487)
Long-Term Debt, Less Current Maturities	\$ 4,185,776	\$ 4,021,124

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,		
2019	\$	272,938
2020		282,349
2021		292,088
2022		302,218
2023		312,965
Thereafter		3,018,420
Less unamortized debt issuance costs		(22,264)
Total	\$	4,458,714

(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 3.34% at June 30, 2018 and 2.79% at June 30, 2017). 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, 2018 and 2017, the fair value of the asset/liability under the Swap decreased (increased) \$43,795 and (\$74,267), which has been reflected in the accompanying statements of activities. At June 30, 2018, the fair value of the Swap asset was \$9,498. At June 30, 2017, the fair value of the Swap liability was \$34,297.

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% (5.71% at June 30, 2018). The line expires in January 2019, and is secured by substantially all assets of the Organization. The line of credit is secured by a mortgage on the primary property at 1995 Asbury Road. At June 30, 2018 and 2017, there was no balance outstanding on the line of credit. At November 1, 2018, there was \$451,570 outstanding on this line of credit.

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,	
2019	\$ 204,533
2020	28,202
2021	17,322
2022	5,774
Total	\$ 255,831

Total lease expense for the years ended June 30, 2018 and 2017 totaled \$348,852 and \$334,225.

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, 2018 and 2017. 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018				
Donor-Restricted				
Endowment Funds	\$ -	\$ 68,961	\$ 454,925	\$ 523,886
Board-Designated				
Endowment Funds	<u>1,577,734</u>	<u>-</u>	<u>-</u>	<u>1,577,734</u>
	<u>\$ 1,577,734</u>	<u>\$ 68,961</u>	<u>\$ 454,925</u>	<u>\$ 2,101,620</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>

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, 2018 and 2017.

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 2018 and 2017, 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, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 1,483,750	\$ 56,329	\$ 372,225	\$ 1,912,304
Investment Return:				
Investment income	16,447	5,030	-	21,477
Net realized and unrealized gain (loss)	66,554	17,447	-	84,001
Contributions	1,138	-	82,700	83,838
Appropriation of Endowment Assets Pursuant to Spending- Rate Policy	<u>9,845</u>	<u>(9,845)</u>	<u>-</u>	<u>-</u>
Endowment Net Assets, End of Year	<u>\$ 1,577,734</u>	<u>\$ 68,961</u>	<u>\$ 454,925</u>	<u>\$ 2,101,620</u>

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

Note 12 - Restricted Net Assets

Temporarily restricted net assets consist of:

	2018	2017
Time Restriction - United Way Contributions	\$ 103,125	\$ 93,958
Restricted By Donors For		
Cedar Rapids programming	10,000	-
Client assistance	2,838	-
Unspent Appreciation of Endowment Funds Which Must be Appropriated for Expenditure Before Use		
Restricted by donors for		
Educational programs	48,639	45,833
Family counseling	65	44
Available for general use	20,257	10,453
Time Restriction - Promises to Give	-	55,407
	\$ 184,924	\$ 205,695

Net assets were released from restrictions as follows:

	2018	2017
Expiration of Time Restrictions	\$ 93,958	\$ 112,296
Satisfaction of Purpose Restrictions Programming	55,407	-
Restricted Purpose Spending Rate Distributions and Appropriations		
Educational programs	4,233	6,477
Family counseling	37	57
General use	5,576	8,529
	\$ 159,211	\$ 127,359

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

	2018	2017
Unrestricted Support for Programs (includes net promises to give of \$86,700 and \$146,546 in 2018 and 2017)	\$ 464,695	\$ 440,842
Educational Programs	80,000	80,000
Family Counseling	1,000	1,000
	\$ 545,695	\$ 521,842

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:

	2018	2017
Medicaid/Medicare	64%	60%
Grants	13	19
Commerical Insurance and Other Third-Party Payors and Clients	13	13
County Regions	10	8
	100%	100%

Included in Medicaid receivables as of June 30, 2018 is approximately \$1,800,000 due from two Managed Care Organizations (MCOs) in which the Organization is currently pursuing litigation against these payors for payment of these claims which have previously been denied. In management's opinion, these claims are for approved services and have been properly submitted under the terms of the Organization's contracts with these MCOs.

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 \$8,000,000 per occurrence and an annual aggregate limit of \$8,000,000. 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 \$162,000 and \$272,000 at June 30, 2018 and 2017. In addition, receivables of \$162,000 and \$272,000 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, 2018 and 2017, the provision for estimated health claims outstanding is \$197,219 and \$121,505.

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, 2018 and 2017 was \$466,033 and \$445,832.



Supplementary Information
June 30, 2018 and 2017

Hillcrest Family Services, Inc.

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	Washington County MHC	Dubuque County MHC	Jackson County MHC	Asbury County MHC	Henry County MHC
Salaries	\$ 419,086	\$ 1,270,363	\$ 419,491	\$ 371,756	\$ 233,225
Fringe Benefits	58,416	226,872	73,686	78,221	24,447
Payroll Taxes and Other	29,692	87,077	30,542	26,332	17,424
Total personnel expenses	507,194	1,584,312	523,719	476,309	275,096
Contracted Services	33,651	40,623	59,582	114,957	84,538
Supplies and Equipment					
Maintenance	9,540	22,890	4,100	15,765	3,567
Telephone	15,352	24,632	10,515	3,196	3,798
Postage and Shipping	859	789	285	555	372
Occupancy	24,293	90,404	23,097	16,504	12,583
Professional Insurance	582	2,223	3,505	520	296
Travel	2,505	204	168	3,120	3,160
Conferences and Meetings	806	2,063	998	3,438	455
Subscriptions	-	-	-	-	-
Client Assistance	-	-	-	-	-
Dues	2,724	7,525	2,590	2,304	1,845
Miscellaneous	4,594	8,142	6,377	2,656	277
Interest and Amortization	103	315	545	105	34
Bad Debts (Recoveries)	13,629	53,042	6,911	9,244	4,286
Total Expenses Before Depreciation	615,832	1,837,164	642,392	648,673	390,307
Depreciation	6,368	14,002	8,552	3,959	2,903
Total Expenses Before Allocation	622,200	1,851,166	650,944	652,632	393,210
General and Administrative Allocation	65,466	194,772	68,529	68,667	41,372
Total Expenses	\$ 687,666	\$ 2,045,938	\$ 719,473	\$ 721,299	\$ 434,582

Hillcrest Family Services, Inc.
Schedule of Mental Health Center Expenses
Year Ended June 30, 2018

Louisa County MHC	Wellness Center MHC	MH Solutions MHC	Southeast Iowa Crisis	Integrated Health Homes	Total Program Services
\$ 223,012	\$ 168,265	\$ 235,448	\$ 101,991	\$ 1,050,701	\$ 4,493,338
32,899	40,795	41,395	19,917	222,961	819,609
16,199	10,873	15,097	7,363	76,258	316,857
272,110	219,933	291,940	129,271	1,349,920	5,629,804
29,209	2,589	7,080	8,885	17,902	399,016
5,144	2,588	3,153	1,417	11,513	79,677
2,874	4,498	3,476	660	26,403	95,404
501	1	16	126	794	4,298
10,238	35,016	19,462	3,173	52,079	286,849
544	375	399	168	2,832	11,444
2,041	4,430	249	1,792	36,194	53,863
987	130	60	3,832	1,232	14,001
-	60	-	-	-	60
-	-	-	-	294	294
1,824	463	499	143	2,882	22,799
1,312	1,556	2,066	123	5,443	32,546
49	-	-	-	396	1,547
4,765	(789)	8,440	1,163	99,758	200,449
331,598	270,850	336,840	150,753	1,607,642	6,832,051
3,403	11,159	6,468	-	14,216	71,030
335,001	282,009	343,308	150,753	1,621,858	6,903,081
35,247	29,672	36,121	15,863	170,482	726,191
<u>\$ 370,248</u>	<u>\$ 311,681</u>	<u>\$ 379,429</u>	<u>\$ 166,616</u>	<u>\$ 1,792,340</u>	<u>\$ 7,629,272</u>

	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 and Amortization	-	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>

Hillcrest Family Services, Inc.

Schedules of Revenues and Expenses

WIC – Contract #5887AO35

Maternal Health – Contract #5888MH13

Contract Period: October 1, 2016 Through September 30, 2017

	WIC	Maternal Health
	<u> </u>	<u> </u>
Revenues		
Iowa Department of Public Health	\$ 685,876	\$ 101,532
Medicaid	-	54,240
Miscellaneous	-	17
	<u> </u>	<u> </u>
Total revenues	<u>685,876</u>	<u>155,789</u>
Expenses		
Salaries	335,761	97,314
Fringe benefits	66,374	24,038
Payroll taxes, etc.	24,991	6,823
Contracted services	21,018	6,881
Supplies and equipment maintenance	38,072	140
Telephone	13,661	1,017
Postage and shipping	2,750	11
Occupancy	57,906	3,249
Travel	8,148	323
Conferences and meetings	1,487	8
Client assistance	24,500	-
Miscellaneous	17,581	3,982
Depreciation	6,064	1,341
	<u> </u>	<u> </u>
Total expenses	<u>618,313</u>	<u>145,127</u>
General and administrative allocation	<u>66,305</u>	<u>15,563</u>
Revenues in excess of (less than) expenses	<u>\$ 1,258</u>	<u>\$ (4,901)</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, 2018, 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 1, 2018.

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 2018-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 1, 2018



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 Compliance Supplement* that could have a direct and material effect on Hillcrest’s major federal program for the year ended June 30, 2018. 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, 2018.

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 1, 2018

Hillcrest Family Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

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	\$ 10,652
National School Lunch Program	10.555	18638000	16,054
Cluster total			<u>26,706</u>
Passed through Iowa Department of Public Health			
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	5885AO35	482,811
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	5884AO35	203,925
			<u>686,736</u>
			<u>713,442</u>
Total U.S. Department of Agriculture			
U.S. Department of Health and Human Services			
Passed through Iowa Department of Human Services			
Projects for Assistance in Transition			
from Homelessness (PATH)	93.150	MHDS 16-007	<u>49,376</u>
Passed through State Department of Health and			
Human Services and Family Planning Council of			
Iowa			
Family Planning - Services	93.217	638-FY2014	<u>127,127</u>
Passed through Iowa Department of Human Services			
477 Cluster			
Temporary Assistance for Needy Families	93.558	ACFS-14-185	<u>89,876</u>
Passed through Iowa Department of Human Services			
Block Grants for Community Mental			
Health Services	93.958	MHDS 11-068	<u>128,178</u>
Passed through Iowa Department of Public Health			
HIV/Hepatitis Testing			
	93.917	5888AP25	<u>107,230</u>
Passed through Iowa Department of Public Health			
Maternal and Child Health Services Block Grant to			
the States	93.994	5885MH13	31,883
Maternal and Child Health Services Block Grant to			
the States	93.994	5884MH13	16,000
			<u>47,883</u>
			<u>549,670</u>
Total U.S. Department of Health and Human Services			
			<u>\$ 1,263,112</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. (Hillcrest) under programs of the federal government for the year ended June 30, 2018. The information 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). Because the schedule presents only a selected portion of the operations of Hillcrest, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Hillcrest.

Note B – Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note C – Indirect Cost Rate

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 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 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

2018 - A Preparation of Financial Statements

Significant Deficiency

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements, including the schedule of expenditures of federal awards 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 – 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.

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. 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.

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.

Section III - Federal Award Findings and Questioned Costs

No Federal Award Findings