



Financial Statements
June 30, 2019 and 2018

Hillcrest Family Services, Inc.

Independent Auditor’s Report	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities	5
Statement of Functional Expenses – Year Ended June 30, 2019	7
Statement of Functional Expenses – Year Ended June 30, 2018	9
Statements of Cash Flows	11
Notes to Financial Statements	12
Supplementary Information	
Schedule of Mental Health Center Expenses – Year Ended June 30, 2019	34
Schedule of Mental Health Center Expenses – Year Ended June 30, 2018	35
Schedules of Revenues and Expenses	
WIC – Contract #5889AO35	36
Maternal Health – Contract #5888MH09	36
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 <i>Government Auditing Standards</i>	37
Independent Auditor’s Report on Compliance for Its Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	39
Schedule of Expenditures of Federal Awards	41
Notes to the Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	43



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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Hillcrest Family Services, Inc. has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. Accordingly, the June 30, 2018 financial statements have been restated to adopt this standard. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 34 through 36 and 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 (Uniform Guidance)*, on page 41, are 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 25, 2019 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 25, 2019

Hillcrest Family Services, Inc.
 Statements of Financial Position
 June 30, 2019 and 2018

	2019	2018 (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 72,039	\$ 273,596
Cash - custodial	42,512	46,082
Receivables		
Program service fees, net of allowances for uncollectibles of \$626,000 and \$373,000 in 2019 and 2018	3,165,873	3,682,363
Program grants	520,123	292,962
Estimated third-party payor settlements	3,267,838	2,376,219
Promises to give	110,251	182,658
Prepaid and other expenses	359,365	127,149
Estimated insurance recoveries receivable	130,000	162,000
Total current assets	7,668,001	7,143,029
Property and Equipment, Net	8,736,608	9,156,921
Other Assets		
Promises to give	300	7,167
Investments	2,438,249	2,102,670
Rental property, net of accumulated depreciation of \$42,557 and \$35,742 in 2019 and 2018	197,327	204,142
Interest rate swap	-	9,498
Beneficial interest in assets of community foundation	13,715	13,371
Total other assets	2,649,591	2,336,848
Total assets	\$ 19,054,200	\$ 18,636,798

Hillcrest Family Services, Inc.
Statements of Financial Position
June 30, 2019 and 2018

	2019	2018 (Restated)
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 265,101	\$ 272,938
Current maturities of capital lease	10,747	-
Refunds payable	11,603	9,770
Custodial funds	42,512	46,913
Accounts payable	367,335	340,436
Estimated health claims payable	251,078	197,219
Accrued Expenses		
Salaries and wages, including related taxes	257,267	245,682
Vacation	569,942	576,569
Payroll taxes and other benefits	264,945	251,967
Other	52,309	57,905
Estimated insurance claims liability	130,000	162,000
Deferred revenue and grants	93,142	104,840
	2,315,981	2,266,239
Long-Term Debt, Less Current Maturities and Unamortized Debt Issuance Costs of \$20,712 and \$22,264 in 2019 and 2018	4,061,068	4,185,776
Capital Leases, Less Current Maturities	41,513	-
Interest Rate Swap	45,738	-
	6,464,300	6,452,015
Net Assets		
Without donor restrictions		
Undesignated	10,029,192	9,970,414
Designated by Board - quasi-endowment	2,150,743	1,483,750
	12,179,935	11,454,164
With donor restrictions		
Perpetual in nature	231,000	545,695
Purpose restrictions	68,414	81,799
Time-restricted for future periods	110,551	103,125
	409,965	730,619
	12,589,900	12,184,783
Total net assets	12,589,900	12,184,783
Total liabilities and net assets	\$ 19,054,200	\$ 18,636,798

Hillcrest Family Services, Inc.
Statements of Activities
Years Ended June 30, 2019 and 2018

	2019			2018 (Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Public support						
Direct:						
Contributions	\$ 235,601	\$ 12,959	\$ 248,560	\$ 251,045	\$ 36,691	\$ 287,736
Bequests	373,314	-	373,314	-	-	-
Bowl for Kids Sake	22,706	-	22,706	20,712	-	20,712
Special event - lights	255,641	-	255,641	260,945	-	260,945
Indirect:						
Grants - federal awards	1,327,308	-	1,327,308	1,298,621	-	1,298,621
Grants - other	74,199	-	74,199	69,449	-	69,449
United Way	15,047	99,501	114,548	14,625	103,125	117,750
Total public support	<u>2,303,816</u>	<u>112,460</u>	<u>2,416,276</u>	<u>1,915,397</u>	<u>139,816</u>	<u>2,055,213</u>
Revenue						
Program service fees and grants, net	20,323,381	-	20,323,381	21,089,308	-	21,089,308
Net investment return	83,392	11,995	95,387	82,972	22,477	105,449
Distributions from and change in value of beneficial interest in assets of community foundation	344	-	344	223	-	223
Gain on sale of fixed assets	125,154	-	125,154	-	-	-
Miscellaneous	77,219	-	77,219	54,781	-	54,781
Net assets reclassified per donor request	234,358	(234,358)	-	-	-	-
Net assets released from restrictions	210,751	(210,751)	-	159,211	(159,211)	-
Total revenue	<u>21,054,599</u>	<u>(433,114)</u>	<u>20,621,485</u>	<u>21,386,495</u>	<u>(136,734)</u>	<u>21,249,761</u>
Total public support and revenue	<u>23,358,415</u>	<u>(320,654)</u>	<u>23,037,761</u>	<u>23,301,892</u>	<u>3,082</u>	<u>23,304,974</u>
Expenses						
Program services	19,965,829	-	19,965,829	20,012,613	-	20,012,613
Supporting services						
General and administrative	2,220,477	-	2,220,477	2,145,304	-	2,145,304
Fundraising	391,102	-	391,102	411,017	-	411,017
Total expenses	<u>22,577,408</u>	<u>-</u>	<u>22,577,408</u>	<u>22,568,934</u>	<u>-</u>	<u>22,568,934</u>

Hillcrest Family Services, Inc.
 Statements of Activities
 Years Ended June 30, 2019 and 2018

	2019			2018 (Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue in Excess of (Less Than) Expenses	\$ 781,007	\$ (320,654)	\$ 460,353	\$ 732,958	\$ 3,082	\$ 736,040
Other Changes in Net Assets Change in fair value of interest rate swap	(55,236)	-	(55,236)	43,795	-	43,795
Change in Net Assets	725,771	(320,654)	405,117	776,753	3,082	779,835
Net Assets, Beginning of Year	<u>11,454,164</u>	<u>730,619</u>	<u>12,184,783</u>	<u>10,677,411</u>	<u>727,537</u>	<u>11,404,948</u>
Net Assets, End of Year	<u>\$ 12,179,935</u>	<u>\$ 409,965</u>	<u>\$ 12,589,900</u>	<u>\$ 11,454,164</u>	<u>\$ 730,619</u>	<u>\$ 12,184,783</u>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services											
	Residential Education	CMI Group Homes	Health Services	Schools	Family Centered Services	Adoption	Hillcrest Supported Living IPRS/Voc	Transitional Housing	SSVF/ PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
Salaries	\$ 1,306,575	\$ 3,308,698	\$ 765,461	\$ 1,774,445	\$ 219,508	\$ 38,045	\$ 1,002,028	\$ 20,480	\$ 103,646	\$ 4,439,083	\$ 41,961	\$ 13,019,930
Fringe Benefits	185,726	540,295	126,462	341,140	31,675	6,367	169,189	4,527	16,530	760,805	8,264	2,190,980
Payroll Taxes and Other	96,144	242,388	56,601	129,261	16,050	2,666	73,070	1,526	7,582	311,364	3,057	939,709
Total personnel expenses	1,588,445	4,091,381	948,524	2,244,846	267,233	47,078	1,244,287	26,533	127,758	5,511,252	53,282	16,150,619
Contracted Services	51,858	66,087	84,742	46,719	2,266	5,636	20,519	803	524	332,153	7,731	619,038
Supplies and Equipment												
Maintenance	80,103	297,381	107,558	109,845	1,082	425	6,510	1,180	813	64,432	236	669,565
Telephone	8,027	21,067	19,393	12,675	962	2,319	18,360	810	831	87,234	1	171,679
Postage and Shipping	363	712	1,539	213	6	230	310	-	112	4,011	543	8,039
Occupancy	108,768	230,588	100,826	122,313	15,026	5,908	29,807	13,571	2,754	257,253	7,072	893,886
Outside Printing	220	2,209	706	1,637	27	6	342	3	11	2,234	1	7,396
Professional Insurance	5,041	18,420	1,784	3,924	407	94	2,106	71	190	10,025	101	42,163
Travel	17,841	35,885	20,699	13,940	4,178	2,450	42,302	114	2,375	53,516	184	193,484
Conferences and Meetings	6,050	5,413	18,725	636	51	819	733	36	115	17,331	57	49,966
Subscriptions	-	269	54	-	-	-	54	-	108	54	-	539
Client Assistance	22,956	5,650	25,468	653	837	-	265	-	25,497	732	103	82,161
Dues	12,157	6,302	85	-	177	591	1,620	-	34	17,154	-	38,120
Miscellaneous	9,018	24,676	27,676	6,498	1,011	92	3,867	47	353	29,743	465	103,446
Interest and Amortization	11,935	73,228	-	64,333	-	-	-	-	-	24,282	-	173,778
Bad Debts (Recoveries)	(6,168)	110,548	7,206	-	189	7,650	(8,420)	1,266	-	152,873	-	265,144
Special Events	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses Before Depreciation and Amortization	1,916,614	4,989,816	1,364,985	2,628,232	293,452	73,298	1,362,662	44,434	161,475	6,564,279	69,776	19,469,023
Depreciation and Amortization	86,187	209,859	9,840	109,415	13,346	224	7,631	9,886	159	48,523	1,736	496,806
Total Expenses Before Allocation	2,002,801	5,199,675	1,374,825	2,737,647	306,798	73,522	1,370,293	54,320	161,634	6,612,802	71,512	19,965,829
General and Administrative Allocation	218,690	567,260	149,976	298,676	33,462	8,021	149,473	5,924	17,486	721,042	8,056	2,178,066
Total Expenses	\$ 2,221,491	\$ 5,766,935	\$ 1,524,801	\$ 3,036,323	\$ 340,260	\$ 81,543	\$ 1,519,766	\$ 60,244	\$ 179,120	\$ 7,333,844	\$ 79,568	\$ 22,143,895

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended June 30, 2019

	<u>Supporting Services</u>			Total Supporting Services	Total Expenses
	Total Program Services	General and Administrative	Fundraising		
Salaries	\$ 13,019,930	\$ 1,211,460	\$ 109,318	\$ 1,320,778	\$ 14,340,708
Fringe Benefits	2,190,980	259,599	10,960	270,559	2,461,539
Payroll Taxes and Other	939,709	88,859	7,963	96,822	1,036,531
Total personnel expenses	16,150,619	1,559,918	128,241	1,688,159	17,838,778
Contracted Services	619,038	155,232	27,662	182,894	801,932
Supplies and Equipment					
Maintenance	669,565	64,015	3,303	67,318	736,883
Telephone	171,679	53,840	1,110	54,950	226,629
Postage and Shipping	8,039	4,881	829	5,710	13,749
Occupancy	893,886	61,857	30,459	92,316	986,202
Outside Printing	7,396	2,942	9,890	12,832	20,228
Professional Insurance	42,163	27,126	459	27,585	69,748
Travel	193,484	19,814	1,552	21,366	214,850
Conferences and Meetings	49,966	14,658	2,484	17,142	67,108
Subscriptions	539	1,183	492	1,675	2,214
Client Assistance	82,161	-	-	-	82,161
Dues	38,120	1,525	911	2,436	40,556
Miscellaneous	103,446	57,467	9,631	67,098	170,544
Interest and Amortization	173,778	5,140	6,113	11,253	185,031
Bad Debts (Recoveries)	265,144	(5,240)	-	(5,240)	259,904
Special Events	-	-	112,406	112,406	112,406
Total Expenses Before Depreciation and Amortization	19,469,023	2,024,358	335,542	2,359,900	21,828,923
Depreciation and Amortization	496,806	196,119	55,560	251,679	748,485
Total Expenses Before Allocation	19,965,829	2,220,477	391,102	2,611,579	22,577,408
General and Administrative Allocation	2,178,066	(2,220,477)	42,411	(2,178,066)	-
Total Expenses	\$ 22,143,895	\$ -	\$ 433,513	\$ 433,513	\$ 22,577,408

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

	Program Services											Total Program Services
	Residential Education	CMI Group Homes	Health Services	Schools	Family Centered Services	Adoption	Hillcrest Supported Living IPRS/Voc	Transitional Housing	PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	
Salaries	\$ 1,440,662	\$ 2,812,816	\$ 771,881	\$ 1,878,393	\$ 176,497	\$ 39,373	\$ 928,781	\$ 21,298	\$ 96,956	\$ 4,493,338	\$ 44,655	\$ 12,704,650
Fringe Benefits	230,449	490,190	143,778	402,977	28,001	9,153	168,397	6,158	17,472	819,609	12,549	2,328,733
Payroll Taxes and Other	107,348	204,501	56,351	137,112	12,789	2,756	66,998	1,649	7,158	316,857	3,070	916,589
Total personnel expenses	1,778,459	3,507,507	972,010	2,418,482	217,287	51,282	1,164,176	29,105	121,586	5,629,804	60,274	15,949,972
Contracted Services	49,739	41,093	51,636	26,304	6,526	4,788	14,744	72	208	399,016	796	594,922
Supplies and Equipment												
Maintenance	102,690	324,134	115,855	109,847	7,514	303	4,092	3,131	812	79,677	238	748,293
Telephone	6,528	14,857	21,271	12,798	163	2,018	15,500	881	1,004	95,404	6	170,430
Postage and Shipping	530	711	3,598	215	2	609	320	-	41	4,298	534	10,858
Occupancy	117,984	241,519	92,502	144,249	11,482	5,505	28,962	12,520	2,568	286,849	4,713	948,853
Outside Printing	-	8	224	-	-	-	-	-	-	-	-	232
Professional Insurance	5,959	15,602	1,746	4,462	92	124	1,568	137	190	11,444	142	41,466
Travel	20,489	37,992	20,778	13,394	4,069	2,661	40,798	148	2,559	53,863	313	197,064
Conferences and Meetings	1,014	2,142	17,632	3,824	18	715	533	340	101	14,001	15	40,335
Subscriptions	-	441	60	-	-	-	60	-	120	60	-	741
Client Assistance	26,231	7,556	43,485	662	1,492	-	38	1,164	12,505	294	24	93,451
Dues	18,965	8,961	374	-	207	144	2,576	160	34	22,799	-	54,220
Miscellaneous	11,698	30,481	18,647	10,519	796	118	3,165	116	160	32,546	287	108,533
Interest and Amortization	14,296	81,226	-	51,348	-	-	-	-	-	1,547	-	148,417
Bad Debts (Recoveries)	42,042	45,503	29,413	-	5	500	(6,078)	2,457	-	200,449	-	314,291
Special Events	-	-	-	-	-	-	-	-	-	-	1,583	1,583
Total Expenses Before Depreciation	2,196,624	4,359,733	1,389,231	2,796,104	249,653	68,767	1,270,454	50,231	141,888	6,832,051	68,925	19,423,661
Depreciation	111,850	241,230	9,291	117,389	10,846	831	12,495	10,071	667	71,650	2,632	588,952
Total Expenses Before Allocation	2,308,474	4,600,963	1,398,522	2,913,493	260,499	69,598	1,282,949	60,302	142,555	6,903,701	71,557	20,012,613
General and Administrative Allocation	242,892	484,096	147,149	306,570	27,408	7,323	135,032	6,345	14,999	726,191	7,528	2,105,533
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>	<u>\$ 1,417,981</u>	<u>\$ 66,647</u>	<u>\$ 157,554</u>	<u>\$ 7,629,892</u>	<u>\$ 79,085</u>	<u>\$ 22,118,146</u>

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

	<u>Supporting Services</u>			Total Supporting Services	Total Expenses
	Total Program Services	General and Administrative	Fundraising		
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	948,853	41,916	27,589	69,505	1,018,358
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	108,533	50,272	10,387	60,659	169,192
Interest and Amortization	148,417	(3,767)	6,167	2,400	150,817
Bad Debts (Recoveries)	314,291	(1,545)	-	(1,545)	312,746
Special Events	1,583	80	105,353	105,433	107,016
Total Expenses Before					
Depreciation	19,423,661	1,972,738	352,968	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	411,017	2,556,321	22,568,934
General and Administrative					
Allocation	2,105,533	(2,145,304)	39,771	(2,105,533)	-
Total Expenses	\$ 22,118,146	\$ -	\$ 450,788	\$ 450,788	\$ 22,568,934

Hillcrest Family Services, Inc.
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 405,117	\$ 779,835
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	748,485	819,567
Interest expense attributable to amortization of debt issuance costs	1,552	1,552
Gain on sale of property and equipment	(125,154)	-
Change in unrealized gains and losses on investments	(22,608)	(36,167)
Realized gain on sales of investments	(36,731)	(48,046)
Contributions restricted to endowment	-	(23,853)
Change in beneficial interest held by others	(344)	(223)
Bad debts	259,904	312,746
Change in value of interest rate swap	55,236	(43,795)
Changes in assets and liabilities		
Receivables	(782,920)	(1,099,549)
Prepaid and other expenses	(232,216)	100,628
Accounts/refunds payable	82,591	(73,015)
Accrued expenses	12,340	16,508
Deferred revenue and grants	(11,698)	(501)
Net Cash from Operating Activities	353,554	705,687
Cash Flows used for Investing Activities		
Purchase of property and equipment	(277,646)	(1,142,640)
Proceeds on sale of property	138,774	-
Purchase of investments	(463,605)	(757,151)
Sale of investments	186,534	640,424
Net Cash used for Investing Activities	(415,943)	(1,259,367)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	145,000	460,000
Principal payments on long-term debt	(279,097)	(298,449)
Collections of contributions restricted to endowment	-	82,700
Principal payments on capital leases	(5,071)	-
Net Cash from (used for) Financing Activities	(139,168)	244,251
Change in Cash and Cash Equivalents	(201,557)	(309,429)
Cash and Cash Equivalents, Beginning of Year	273,596	583,025
Cash and Cash Equivalents, End of Year	\$ 72,039	\$ 273,596
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 183,479	\$ 143,142
Supplemental Disclosure of Noncash Investing and Financing Activities		
Equipment financed through capital lease arrangement	\$ 57,331	\$ -

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, endowments that are perpetual in nature, 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, 2019 and 2018, 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, 2019 and 2018.

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, 2019 and 2018. 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.

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 the change in fair value is included in the statements of activities as other change in net assets.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions 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 net assets with donor restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. These restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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.

Performance Indicator

Public support and revenue in excess of (less than) expenses excludes 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, 2019 and 2018.

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 \$55,000 and \$46,000 for the years ended June 30, 2019 and 2018.

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. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, insurance, rent, utilities, and other occupancy expenses, which are allocated on a square footage basis, as well as payroll and benefits that are allocated based on time studies. Any other expenses that benefit the entire Organization are allocated based on the size of the program (percentage of program's expenses compared to the total Organization expenses).

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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Change in Accounting Policy

As of July 1, 2018, the Organization adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Organization's donor restricted endowment funds. The ASU introduces new disclosures to improve a financial statement user's ability to assess the Organization's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the disclosure about liquidity and availability of resources. The Organization has elected to not present comparative liquidity information. The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

Subsequent Events

The Organization has evaluated subsequent events through November 25, 2019, the date which the financial statements were available to be issued.

Note 2 - Liquidity and Availability

The following reflects the Organization's financial assets at June 30, 2019 reduced by amounts not available for general use within one year of the date of the statement of financial position because of contractual or donor-imposed restrictions or internal designations. Amounts available include the Board-approved allocations from the quasi endowment for the following year as well as donor-restricted amounts that are available for general expenditure in the following year. The net assets of the Hillcrest Endowment consist of unrestricted and donor restricted funds. Amounts approximating 5% of the average market value for the last three years are available for appropriation to Hillcrest Family Services from the endowment account's net assets with donor restrictions. In the event of additional liquidity needs, the Organization could draw up to \$2,000,000 on its two revolving bank lines of credit.

Financial Assets at Year End	
Cash and cash equivalents	\$ 72,039
Program service and grants receivables , net	3,918,328
Cost settlement	3,267,839
Promises to give	10,750
Investments	<u>2,150,743</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u><u>\$ 9,419,699</u></u>

Note 3 - Net Program Service Fees

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

Medicaid

The Medicaid program reimburses the Organization for services as defined in various agreements. The basis for reimbursement under these agreements may include discounts from established charges and prospectively determined rates or may be based on a cost reimbursement methodology. Under this methodology, the Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports. The Organization's Medicaid cost reports for years 2019, 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 (decreased) approximately \$(26,000) and \$402,000 for the years ended June 30, 2019 and 2018 due to prior-year retroactive adjustments greater (less than) than amounts previously estimated.

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

	<u>2019</u>	<u>2018</u>
Medicaid/Medicare	43%	47%
Grants	21	19
County Board of Supervisors	19	17
Commerical insurance and other third-party payors and clients	<u>17</u>	<u>17</u>
	<u><u>100%</u></u>	<u><u>100%</u></u>

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 4 - 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, 2019:

	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)	\$ 364,611	\$ -	\$ -	\$ -
Land (at cost)	1,050	-	-	-
Mutual funds	2,072,588	2,072,588	-	-
	<u>\$ 2,438,249</u>	<u>\$ 2,072,588</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Assets of Community Foundation	<u>\$ 13,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,715</u>
Liability				
Interest Rate Swap	<u>\$ 45,738</u>	<u>\$ -</u>	<u>\$ 45,738</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, 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>

Hillcrest Family Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

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):

	<u>2019</u>	<u>2018</u>
Beginning Balance	\$ 13,371	\$ 13,148
Investment income	1,188	1,067
Grants approved	(660)	(660)
Administrative/investment fees	<u>(184)</u>	<u>(184)</u>
Ending Balance	<u>\$ 13,715</u>	<u>\$ 13,371</u>

Note 5 - Net Investment Return

Net investment return consists of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 45,475	\$ 35,282
Net realized and unrealized gain (loss)	59,339	84,213
Less investment management fees	<u>(9,427)</u>	<u>(14,046)</u>
Total net investment return	<u>\$ 95,387</u>	<u>\$ 105,449</u>

Note 6 - Promises to Give

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

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 110,251	\$ 182,658
One to five years	<u>300</u>	<u>7,167</u>
	<u>\$ 110,551</u>	<u>\$ 189,825</u>

Included above is \$99,501 and \$103,125 of United Way promises to give for the years ended June 30, 2019 and 2018. At June 30, 2019 and 2018, one donor accounted for 90% and 58% of total promises to give, excluding United Way. At June 30, 2019 and 2018, promises to give from board members and key employees totaled \$0 and \$63,500. There were no significant contributions from board members and/or key employees during the years ended June 30, 2019 and 2018.

Note 7 - Property and Equipment

Property and equipment consist of the following:

	2019		2018	
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization
Land	\$ 307,342	\$ -	\$ 307,342	\$ -
Land improvements	405,526	225,395	316,729	197,763
Buildings	13,653,048	6,112,906	13,707,291	5,794,971
Equipment	3,358,866	2,997,272	3,257,478	2,802,763
Vehicles	848,061	697,624	773,130	638,513
Furniture and fixtures	501,683	348,695	483,325	317,904
Leasehold improvements	190,807	146,833	190,807	140,927
Construction in progress	-	-	13,660	-
	<u>\$ 19,265,333</u>	<u>\$ 10,528,725</u>	<u>\$ 19,049,762</u>	<u>\$ 9,892,841</u>
Property and equipment, net		<u>\$ 8,736,608</u>		<u>\$ 9,156,921</u>

Note 8 - Long-Term Debt

Mortgage and notes payable consist of the following:

	<u>2019</u>	<u>2018</u>
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 \$11,655 and \$12,540 in 2019 and 2018	\$ 1,514,429	\$ 1,602,837
Community facility revenue bonds, series 2012, variable interest rate currently 3.65%, due in monthly installments of \$9,547, including interest, due in February 2033, secured by real estate, net of unamortized debt issuances costs of \$9,057 and \$9,724 in 2019 and 2018 (A)	1,206,688	1,272,856
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	408,121	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	360,725	390,002
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	261,013	279,936
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	214,855	231,473
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	150,450	156,681
Note payable to bank, accrues interest at 4.95%, due in monthly installments of \$758, including interest, due in March 2024, secured by real estate (B)	144,866	-
Note payable to bank, accrues interest at 4.28%, due in monthly installments of \$574, including interest, due in August 2021, secured by real estate	<u>65,022</u>	<u>68,771</u>
	4,326,169	4,458,714
Less current maturities	<u>(265,101)</u>	<u>(272,938)</u>
Long-term debt, less current maturities	<u>\$ 4,061,068</u>	<u>\$ 4,185,776</u>

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:

<u>Years Ending June 30,</u>	
2020	\$ 265,101
2021	274,545
2022	336,094
2023	289,706
2024	433,945
Thereafter	2,747,490
Less unamortized debt issuance costs	<u>(20,712)</u>
Total	<u>\$ 4,326,169</u>

(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 3.62% at June 30, 2019 and 3.34% at June 30, 2018). 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, 2019 and 2018, the fair value of the asset/liability under the Swap decreased (increased) \$(55,236) and (\$43,795), which has been reflected in the accompanying statements of activities. At June 30, 2019, the fair value of the Swap liability was \$(45,738). At June 30, 2018, the fair value of the Swap asset was \$9,498.

(B) – The Organization secured financing for an electronic health records system with a maximum draw of \$451,800. These funds have been fully drawn as of November 25, 2019.

Note 9 - Line of Credit

The Organization has two lines of credit available for up to \$1,000,000 each with a bank. Interest is paid monthly at a rate of LIBOR plus 2.95% (5.23% at June 30, 2019). The lines expire in January 2020 and are secured by a mortgage on the primary property at 1995 Asbury Road and the quasi-endowment fund. At June 30, 2019 and 2018, there was no balance outstanding on the lines of credit. At November 25, 2019, there was \$1,190,000 outstanding on one of the lines of credit.

Note 10 - Leases

The Organization leases certain property and equipment under various operating leases and equipment under various capital leases expiring at varying dates through 2024.

Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2020	\$ 12,808	\$ 189,552
2021	12,808	82,000
2022	12,808	11,274
2023	12,808	-
2024	6,404	-
	<u>57,636</u>	<u>\$ 282,826</u>
Total minimum lease payments	57,636	<u>\$ 282,826</u>
Less amount representing interest	<u>(5,376)</u>	
Capital lease obligation	<u>\$ 52,260</u>	

Total lease expense for the years ended June 30, 2019 and 2018 totaled \$286,097 and \$348,852.

Leased property under capital leases at June 30, 2019 includes the following:

	<u>2019</u>
Equipment	\$ 57,331
Less accumulated amortization	<u>(7,644)</u>
	<u>\$ 49,687</u>

Note 11 - Deferred Revenue and Grants

Deferred revenue and grants include an advance from the Iowa Department of Public Health earmarked for future periods. The advance was \$43,666 at June 30, 2019 and 2018. Additional amounts are included in deferred revenue and grants for the Reflections in the Park event, the transitional housing program, and other activities.

Note 12 - 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 net assets without donor restrictions that are 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, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (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. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure 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

The Organization had the following endowment net asset composition by type of fund:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2019			
Board-designated endowment funds	\$ 2,150,743	\$ -	\$ 2,150,743
Donor-restricted endowment funds	<u>-</u>	<u>286,455</u>	<u>286,455</u>
	<u>\$ -</u>	<u>\$ 286,455</u>	<u>\$ 2,437,198</u>
June 30, 2018			
Board-designated endowment funds	\$ 1,577,734	\$ -	\$ 1,577,734
Donor-restricted endowment funds	<u>-</u>	<u>523,886</u>	<u>523,886</u>
	<u>\$ 1,577,734</u>	<u>\$ 523,886</u>	<u>\$ 2,101,620</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, 2019 and 2018.

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 2019 and 2018, 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 (underwater funds). 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, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,577,734	\$ 523,886	\$ 2,101,620
Investment return, net			
Investment income, net	26,777	4,214	30,991
Net realized and unrealized gain (loss)	51,557	7,781	59,338
Contributions	245,249	-	245,249
Reclassification per donor request	234,358	(234,358)	-
Appropriation of endowment assets pursuant to spending - rate policy	<u>15,068</u>	<u>(15,068)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 2,150,743</u>	<u>\$ 286,455</u>	<u>\$ 2,437,198</u>

Hillcrest Family Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,483,750	\$ 428,554	\$ 1,912,304
Investment return, net			
Investment income, net	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>
Endowment net assets, end of year	<u>\$ 1,577,734</u>	<u>\$ 523,886</u>	<u>\$ 2,101,620</u>

Note 13 - Net Assets with Donor Restrictions

Net asset with donor restrictions are restricted for the following purposes or periods.

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose		
Cedar Rapids programming	\$ 10,000	\$ 10,000
Client assistance	2,959	2,838
	<u>12,959</u>	<u>12,838</u>
Subject to the Passage of Time		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	<u>110,551</u>	<u>103,125</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Restricted by donor for		
Available for general use	8,049	20,257
Educational programs	47,352	48,639
Family counseling	54	65
	<u>55,455</u>	<u>68,961</u>
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
General operations	150,000	373,925
Educational programs	80,000	80,000
Counseling	1,000	1,000
	<u>231,000</u>	<u>454,925</u>
	286,455	523,886
Not Subject to Spending Policy or Appropriation Until Collected		
Unconditional promise to give, net - permanently restricted to general endowment	<u>-</u>	<u>90,770</u>
	<u>286,455</u>	<u>614,656</u>
	<u>\$ 409,965</u>	<u>\$ 730,619</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

	<u>2019</u>	<u>2018</u>
Expiration of Time Restrictions	\$ 92,075	\$ 93,958
Satisfaction of Purpose Restrictions Programming	12,838	55,408
Promises to Give Collected and Removed from Perpetual Restriction per Donor Request	90,770	-
Restricted-Purpose Spending-Rate Distributions and Appropriations		
Educational programs	6,616	4,233
Family counseling	56	37
General use	8,396	5,575
	<u>15,068</u>	<u>9,845</u>
	<u>\$ 210,751</u>	<u>\$ 159,211</u>

Note 14 - 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:

	<u>2019</u>	<u>2018</u>
Medicaid/Medicare	44%	64%
Commerical insurance and other third-party payors and clients	25	13
Grants	14	13
County regions	17	10
	<u>100%</u>	<u>100%</u>

Included in Medicaid receivables as of June 30, 2019 is approximately \$700,000 due from a Managed Care Organization (MCO) in which the Organization is currently pursuing litigation against this payor 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 this MCO.

Note 15 - Commitments and 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 \$130,000 and \$162,000 at June 30, 2019 and 2018. In addition, receivables of \$130,000 and \$162,000 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.

Licensing Agreement

The Organization is in the process of implementing a new electronic health records and billing system (EHR). The Organization capitalized costs incurred related to the acquisition of the EHR system in conformity with Accounting Standards Codification (ASC) 350-40, *Internal-Use Software*. As of June 30, 2019, the Organization has recognized approximately \$265,000 of costs in prepaid assets. Costs of related services provided are capitalized or expensed in accordance with ASC 350-40. The new system will be placed into service in the year ended June 30, 2020.

Note 16 - 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, 2019 and 2018, the provision for estimated health claims outstanding is \$251,078 and \$197,219.

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, 2019 and 2018 was \$488,807 and \$466,033.

Note 17 - Restatement Resulting from Change in Accounting Policy

As disclosed in Note 1, the Organization adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*, as of July 1, 2018. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets.

The effect on the Organization's statement of financial position as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Restated
Unrestricted net assets	\$ 11,454,164	\$ (11,454,164)	\$ -
Temporarily restricted net assets	184,924	(184,924)	-
Permanently restricted net assets	545,695	(545,695)	-
Net assets without donor restrictions	-	11,454,164	11,454,164
Net assets with donor restrictions	-	730,619	730,619

Hillcrest Family Services, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

The effect on the Organization's statement of activities during the year ended June 30, 2018 is as follows:

	<u>As Previously Reported</u>	<u>Adoption of ASU 2016-14</u>	<u>As Restated</u>
Net Assets, Beginning of Year			
Unrestricted	\$ 10,677,411	\$ (10,677,411)	\$ -
Temporarily restricted	205,695	(205,695)	-
Permanently restricted	521,842	(521,842)	-
Net assets without donor restrictions	-	10,677,411	10,677,411
Net assets with donor restrictions	-	727,537	727,537
Net Assets, End of Year			
Unrestricted	\$ 11,454,164	\$ (11,454,164)	\$ -
Temporarily restricted	184,924	(184,924)	-
Permanently restricted	545,695	(545,695)	-
Net assets without donor restrictions	-	11,454,164	11,454,164
Net assets with donor restrictions	-	730,619	730,619



Supplementary Information
June 30, 2019 and 2018

Hillcrest Family Services, Inc.

Hillcrest Family Services, Inc.
Schedule of Mental Health Center Expenses
Year Ended June 30, 2019

	Washington County MHC	Dubuque County MHC	Jackson County MHC	Asbury County MHC	Henry County MHC	Louisa County MHC	Wellness Center MHC	MH Solutions MHC	Southeast Iowa Crisis	Integrated Health Homes	Total Program Services
Salaries	\$ 368,728	\$ 1,248,451	\$ 464,479	\$ 331,703	\$ 211,559	\$ 197,437	\$ 176,644	\$ 261,006	\$ 132,095	\$ 1,046,981	\$ 4,439,083
Fringe Benefits	57,930	197,236	73,736	73,067	25,687	37,377	37,389	38,559	20,148	199,676	760,805
Payroll Taxes and Other	27,049	83,829	31,387	23,553	16,123	14,436	11,456	17,952	9,633	75,946	311,364
Total personnel expenses	453,707	1,529,516	569,602	428,323	253,369	249,250	225,489	317,517	161,876	1,322,603	5,511,252
Contracted Services	14,242	45,627	14,648	107,676	96,210	8,907	3,499	8,468	5,500	27,376	332,153
Supplies and Equipment											
Maintenance	4,988	14,868	6,154	11,618	6,551	2,855	3,627	2,538	2,637	8,596	64,432
Telephone	11,822	21,333	8,127	3,879	3,151	2,847	4,075	3,290	2,304	26,406	87,234
Postage and Shipping	964	723	210	327	344	385	4	30	-	1,024	4,011
Occupancy	24,885	97,674	10,728	15,905	9,271	10,073	28,374	20,355	4,226	35,762	257,253
Outside Printing	207	674	147	351	-	-	322	-	5	528	2,234
Professional Insurance	782	2,274	876	927	465	761	415	455	300	2,770	10,025
Travel	2,679	659	843	1,162	1,691	1,587	4,214	258	1,207	39,216	53,516
Conferences and Meetings	681	2,664	930	6,946	1,360	1,317	21	40	1,502	1,870	17,331
Subscriptions	-	-	-	-	-	-	54	-	-	-	54
Client Assistance	-	-	-	-	-	-	-	-	-	732	732
Dues	2,137	5,905	2,138	2,228	1,780	1,775	256	442	126	367	17,154
Miscellaneous	2,464	8,733	7,255	953	132	2,150	1,616	2,503	89	3,848	29,743
Interest and Amortization	1,464	4,701	8,410	296	2,817	2,283	-	-	-	4,311	24,282
Bad Debts (Recoveries)	(2,528)	27,464	3,079	3,757	1,554	(2,784)	7,615	3,113	(765)	112,368	152,873
Total Expenses Before											
Depreciation	518,494	1,762,815	633,147	584,348	378,695	281,406	279,581	359,009	179,007	1,587,777	6,564,279
Depreciation	3,034	6,855	9,870	3,785	4,425	2,100	3,968	3,227	499	10,760	48,523
Total Expenses Before											
Allocation	521,528	1,769,670	643,017	588,133	383,120	283,506	283,549	362,236	179,506	1,598,537	6,612,802
General and Administrative											
Allocation	56,895	193,057	70,148	64,168	41,795	30,898	30,789	39,309	19,582	174,401	721,042
Total Expenses	\$ 578,423	\$ 1,962,727	\$ 713,165	\$ 652,301	\$ 424,915	\$ 314,404	\$ 314,338	\$ 401,545	\$ 199,088	\$ 1,772,938	\$ 7,333,844

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

	Washington County MHC	Dubuque County MHC	Jackson County MHC	Asbury County MHC	Henry County MHC	Louisa County MHC	Wellness Center MHC	MH Solutions MHC	Southeast Iowa Crisis	Integrated Health Homes	Total Program Services
Salaries	\$ 419,086	\$ 1,270,363	\$ 419,491	\$ 371,756	\$ 233,225	\$ 223,012	\$ 168,265	\$ 235,448	\$ 101,991	\$ 1,050,701	\$ 4,493,338
Fringe Benefits	58,416	226,872	73,686	78,221	24,447	32,899	40,795	41,395	19,917	222,961	819,609
Payroll Taxes and Other	29,692	87,077	30,542	26,332	17,424	16,199	10,873	15,097	7,363	76,258	316,857
Total personnel expenses	507,194	1,584,312	523,719	476,309	275,096	272,110	219,933	291,940	129,271	1,349,920	5,629,804
Contracted Services	33,651	40,623	59,582	114,957	84,538	29,209	2,589	7,080	8,885	17,902	399,016
Supplies and Equipment											
Maintenance	9,540	22,890	4,100	15,765	3,567	5,144	2,588	3,153	1,417	11,513	79,677
Telephone	15,352	24,632	10,515	3,196	3,798	2,874	4,498	3,476	660	26,403	95,404
Postage and Shipping	859	789	285	555	372	501	1	16	126	794	4,298
Occupancy	24,293	90,404	23,097	16,504	12,583	10,238	35,016	19,462	3,173	52,079	286,849
Professional Insurance	582	2,223	3,505	520	296	544	375	399	168	2,832	11,444
Travel	2,505	204	168	3,120	3,160	2,041	4,430	249	1,792	36,194	53,863
Conferences and Meetings	806	2,063	998	3,438	455	987	130	60	3,832	1,232	14,001
Subscriptions	-	-	-	-	-	-	60	-	-	-	60
Client Assistance	-	-	-	-	-	-	-	-	-	294	294
Dues	2,724	7,525	2,590	2,304	1,845	1,824	463	499	143	2,882	22,799
Miscellaneous	4,594	8,142	6,377	2,656	277	1,312	1,556	2,066	123	5,443	32,546
Interest and Amortization	103	315	545	105	34	49	-	-	-	396	1,547
Bad Debts (Recoveries)	13,629	53,042	6,911	9,244	4,286	4,765	(789)	8,440	1,163	99,758	200,449
Total Expenses Before Depreciation	615,832	1,837,164	642,392	648,673	390,307	331,598	270,850	336,840	150,753	1,607,642	6,832,051
Depreciation	6,368	14,002	8,552	3,959	2,903	3,403	11,159	6,468	-	14,836	71,650
Total Expenses Before Allocation	622,200	1,851,166	650,944	652,632	393,210	335,001	282,009	343,308	150,753	1,622,478	6,903,701
General and Administrative Allocation	65,466	194,772	68,529	68,667	41,372	35,247	29,672	36,121	15,863	170,482	726,191
Total Expenses	\$ 687,666	\$ 2,045,938	\$ 719,473	\$ 721,299	\$ 434,582	\$ 370,248	\$ 311,681	\$ 379,429	\$ 166,616	\$ 1,792,960	\$ 7,629,892

Hillcrest Family Services, Inc.

Schedules of Revenues and Expenses

WIC – Contract #5889AO35

Maternal Health – Contract #5888MH09

Contract Period: October 1, 2018 Through September 30, 2019

	WIC	Maternal Health
Revenues		
Iowa Department of Public Health	\$ 634,317	\$ 84,004
Medicaid	-	33,871
IPHD - Breat pump reimbursement	9,158	-
Total revenues	643,475	117,875
Expenses		
Salaries	339,987	88,277
Fringe benefits	62,435	20,209
Payroll taxes, etc.	24,733	6,237
Contracted services	17,068	8,577
Supplies and equipment maintenance	24,006	379
Telephone	12,353	956
Postage and shipping	370	13
Occupancy	52,453	6,352
Outside printing	258	58
Travel	8,010	298
Conferences and meetings	1,249	72
Client assistance	15,897	-
Miscellaneous	10,172	323
Bad debts (recovery)	-	(3,195)
Depreciation	7,041	496
Total expenses	576,032	129,052
General and administrative allocation	64,464	14,442
Revenues in excess of (less than) expenses	\$ 2,979	\$ (25,619)



**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. (Organization), which comprise the statement of financial position as of June 30, 2019, 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 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’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 the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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*.

Organization's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization'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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Dubuque, Iowa
November 25, 2019



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 (Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization’s major federal program for the year ended June 30, 2019. The Organization’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 the Organization’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 the Organization’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 the Organization’s compliance.

Opinion on Its Major Federal Program

In our opinion, the Organization 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, 2019.

Report on Internal Control over Compliance

Management of the Organization 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 the Organization'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 Organization'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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
November 25, 2019

Hillcrest Family Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Department of Agriculture			
Passed through Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	18638000	\$ 8,180
National School Lunch Program	10.555	18638000	<u>15,406</u>
Cluster total			<u>23,586</u>
Passed through Iowa Department of Public Health			
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	58880A035	448,445
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	5888A035	<u>194,931</u>
Total 10.557			<u>643,376</u>
Total Department of Agriculture			<u>666,962</u>
Department of Housing and Urban Development			
Direct			
Supportive Housing Program	14.235		<u>34,528</u>
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>48,903</u>
Passed through State Department of Health and			
Human Services and Family Planning Council of			
Iowa			
Family Planning - Services	93.217	638-FY2019	<u>149,772</u>
Passed through Iowa Department of Human Services			
477 Cluster			
Temporary Assistance for Needy Families	93.558	ACFS-14-185	<u>81,270</u>
Passed through Iowa Department of Human Services			
Block Grants for Community Mental			
Health Services	93.958	MHDS 17-025	<u>146,599</u>
Passed through Iowa Department of Public Health			
HIV Care Formula Grants			
	93.917	5888AP25	<u>165,369</u>
Passed through Iowa Department of Public Health			
Maternal and Child Health Services Block Grant to			
the States	93.994	5889MH09	30,040
Maternal and Child Health Services Block Grant to			
the States	93.994	5888MH09	<u>1,126</u>
Total 93.994			<u>31,166</u>
Total Department of Health and Human Services			<u>623,079</u>
Total Federal Financial Assistance			<u>\$ 1,324,569</u>

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal award activity of Hillcrest Family Services, Inc. (Organization) under programs of the federal government for the year ended June 30, 2019. 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 2 – Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting, when applicable. 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 3 – 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
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

2019 - 001 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. Significant journal entries were proposed as a result of our audit procedures.

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 and account reconciliation in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally and minimize account balance discrepancies. 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

There were no findings or questioned costs to report.