



Financial Statements  
June 30, 2020 and 2019

# Hillcrest Family Services, Inc.

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Hillcrest Family Services, Inc., which comprise the statements of financial position as of June 30, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 33 through 35 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 February 1, 2021 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  
February 1, 2021

Hillcrest Family Services, Inc.  
 Statements of Financial Position  
 June 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,094,415	\$ 72,039
Cash - custodial	63,961	42,512
Receivables		
Program service fees, net of allowances for uncollectibles of \$190,000 and \$626,000 in 2020 and 2019	2,118,497	3,165,873
Program grants	282,849	520,123
Estimated third-party payor settlements	3,725,439	3,267,838
Promises to give	61,446	110,251
Prepaid and other expenses	479,625	359,365
Estimated insurance recoveries receivable	-	130,000
Total current assets	8,826,232	7,668,001
Property and Equipment, Net	8,109,671	8,736,608
Other Assets		
Promises to give	100	300
Investments	2,499,548	2,438,249
Rental property, net of accumulated depreciation of \$478,026 and \$42,557 in 2020 and 2019	364,762	197,327
Beneficial interest in assets of community foundation	12,748	13,715
Total other assets	2,877,158	2,649,591
Total assets	\$ 19,813,061	\$ 19,054,200

Hillcrest Family Services, Inc.

Statements of Financial Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 391,550	\$ 265,101
Current maturities of capital lease	11,224	10,747
Refunds payable	71,183	11,603
Advance payable	270,000	-
Custodial funds	63,961	42,512
Paycheck Protection Program refundable advance	3,195,000	-
Accounts payable	202,415	367,335
Estimated health claims payable	200,114	251,078
Accrued Expenses		
Salaries and wages, including related taxes	260,672	257,267
Vacation	542,957	569,942
Payroll taxes and other benefits	46,288	264,945
Other	596,488	52,309
Estimated insurance claims liability	-	130,000
Deferred revenue and grants	130,649	93,142
	<u>5,982,501</u>	<u>2,315,981</u>
Long-Term Debt, Less Current Maturities and Unamortized		
Debt Issuance Costs of \$19,160 and \$20,712 in 2020 and 2019	4,034,885	4,061,068
Capital Leases, Less Current Maturities	30,289	41,513
Interest Rate Swap	114,097	45,738
	<u>10,161,772</u>	<u>6,464,300</u>
Total liabilities		
Net Assets		
Without donor restrictions		
Undesignated	7,072,167	10,029,192
Designated by Board - quasi-endowment	2,220,417	2,150,743
	<u>9,292,584</u>	<u>12,179,935</u>
With donor restrictions		
Perpetual in nature	231,000	231,000
Purpose restrictions	66,159	68,414
Time-restricted for future periods	61,546	110,551
	<u>358,705</u>	<u>409,965</u>
Total net assets	<u>9,651,289</u>	<u>12,589,900</u>
Total liabilities and net assets	<u>\$ 19,813,061</u>	<u>\$ 19,054,200</u>

Hillcrest Family Services, Inc.  
Statements of Activities  
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Public support						
Direct:						
Contributions	\$ 333,366	\$ 16,121	\$ 349,487	\$ 235,601	\$ 12,959	\$ 248,560
Bequests	8,089	-	8,089	373,314	-	373,314
Bowl for Kids Sake	11,240	-	11,240	22,706	-	22,706
Special event - adult group homes	2,141	-	2,141	-	-	-
Special event - lights	289,402	-	289,402	255,641	-	255,641
Indirect:						
Grants - federal awards	1,260,779	-	1,260,779	1,327,308	-	1,327,308
Grants - other	185,490	-	185,490	96,668	-	96,668
United Way	10,610	50,646	61,256	15,047	99,501	114,548
Total public support	<u>2,101,117</u>	<u>66,767</u>	<u>2,167,884</u>	<u>2,326,285</u>	<u>112,460</u>	<u>2,438,745</u>
Revenue						
Program service fees and grants, net	15,016,605	-	15,016,605	19,556,107	-	19,556,107
Other program charges	71,105	-	71,105	52,216	-	52,216
Net investment return	48,391	6,443	54,834	83,392	11,995	95,387
Distributions from and change in value of beneficial interest in assets of community foundation	(967)	-	(967)	344	-	344
Gain on sale of fixed assets	-	-	-	125,154	-	125,154
Rental income	54,198	-	54,198	699,168	-	699,168
Miscellaneous	19,936	-	19,936	70,640	-	70,640
Net assets reclassified per donor request	-	-	-	234,358	(234,358)	-
Net assets released from restrictions	124,470	(124,470)	-	210,751	(210,751)	-
Total revenue	<u>15,333,738</u>	<u>(118,027)</u>	<u>15,215,711</u>	<u>21,032,130</u>	<u>(433,114)</u>	<u>20,599,016</u>
Total public support and revenue	<u>17,434,855</u>	<u>(51,260)</u>	<u>17,383,595</u>	<u>23,358,415</u>	<u>(320,654)</u>	<u>23,037,761</u>
Expenses						
Program services	17,518,513	-	17,518,513	19,965,829	-	19,965,829
Supporting services General and administrative	2,367,196	-	2,367,196	2,220,477	-	2,220,477
Fundraising	368,138	-	368,138	391,102	-	391,102
Total expenses	<u>20,253,847</u>	<u>-</u>	<u>20,253,847</u>	<u>22,577,408</u>	<u>-</u>	<u>22,577,408</u>

Hillcrest Family Services, Inc.  
 Statements of Activities  
 Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue in Excess of (Less Than) Expenses	\$ (2,818,992)	\$ (51,260)	\$ (2,870,252)	\$ 781,007	\$ (320,654)	\$ 460,353
Other Changes in Net Assets Change in fair value of interest rate swap	<u>(68,359)</u>	<u>-</u>	<u>(68,359)</u>	<u>(55,236)</u>	<u>-</u>	<u>(55,236)</u>
Change in Net Assets	(2,887,351)	(51,260)	(2,938,611)	725,771	(320,654)	405,117
Net Assets, Beginning 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>
Net Assets, End of Year	<u>\$ 9,292,584</u>	<u>\$ 358,705</u>	<u>\$ 9,651,289</u>	<u>\$ 12,179,935</u>	<u>\$ 409,965</u>	<u>\$ 12,589,900</u>



Hillcrest Family Services, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2020

	Program Services									
	Residential Education	CMI Group Homes	Health Services	Schools	Family Centered Services	Hillcrest Supported Living IPRS/Voc	Transitional Housing	Mental Health Centers	Other Services	Total Program Services
Salaries	\$ 972,876	\$ 3,236,367	\$ 673,319	\$ 394,076	\$ 8,931	\$ 1,037,720	\$ -	\$ 4,232,677	\$ 139,835	\$ 10,695,801
Fringe Benefits	146,981	477,303	147,036	161,388	2,726	140,880	-	710,175	29,499	1,815,988
Payroll Taxes and Other	70,932	235,876	47,201	27,185	1,423	75,013	-	297,688	10,392	765,710
Total personnel expenses	1,190,789	3,949,546	867,556	582,649	13,080	1,253,613	-	5,240,540	179,726	13,277,499
Contracted Services	96,340	112,079	91,879	13,023	623	42,726	-	741,502	18,690	1,116,862
Supplies and Equipment										
Maintenance	89,685	316,915	113,107	16,926	9	4,409	-	41,955	12,932	595,938
Telephone	2,019	21,296	20,647	13,747	1	19,358	-	82,035	3,472	162,575
Postage and Shipping	162	414	2,851	74	18	148	-	2,693	660	7,020
Occupancy	66,688	237,901	105,515	49,264	-	17,867	-	240,024	44,622	761,881
Outside Printing	347	2,606	688	620	-	2	-	2,640	36	6,939
Professional Insurance	4,556	18,805	2,449	8,354	39	2,693	-	10,737	319	47,952
Travel	11,760	29,958	13,688	2,745	1,153	17,933	-	32,688	3,925	113,850
Conferences and Meetings	1,339	5,223	6,535	74	8	507	-	9,876	864	24,426
Subscriptions	-	269	-	-	-	-	-	-	-	269
Client Assistance	14,702	2,118	28,555	-	-	175	-	372	21,789	67,711
Dues	8,051	2,153	352	-	13	664	-	13,677	8,964	33,874
Miscellaneous	4,592	21,951	16,421	4,476	-	2,220	-	20,377	792	70,829
Interest and Amortization	9,264	81,471	618	65,910	36	1,622	-	65,939	8,111	232,971
Bad Debts (Recoveries)	90,713	361,548	(24,709)	21,913	-	(4,283)	45,846	85,015	8,475	584,518
Special Events	-	1,739	-	-	-	27	-	-	-	1,766
Total Expenses Before Depreciation and Amortization	1,591,007	5,165,992	1,246,152	779,775	14,980	1,359,681	45,846	6,590,070	313,377	17,106,880
Depreciation and Amortization	57,127	142,280	8,046	84,296	2	6,011	-	27,575	86,296	411,633
Total Expenses Before Allocation	1,648,134	5,308,272	1,254,198	864,071	14,982	1,365,692	45,846	6,617,645	399,673	17,518,513
General and Administrative Allocation	215,291	751,223	163,779	113,029	1,960	178,395	5,980	837,263	52,540	2,319,460
Total Expenses	<u>\$ 1,863,425</u>	<u>\$ 6,059,495</u>	<u>\$ 1,417,977</u>	<u>\$ 977,100</u>	<u>\$ 16,942</u>	<u>\$ 1,544,087</u>	<u>\$ 51,826</u>	<u>\$ 7,454,908</u>	<u>\$ 452,213</u>	<u>\$ 19,837,973</u>

Hillcrest Family Services, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2020

	Supporting Services				Total Expenses
	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Salaries	\$ 10,695,801	\$ 1,247,781	\$ 99,193	\$ 1,346,974	\$ 12,042,775
Fringe Benefits	1,815,988	221,039	16,397	237,436	2,053,424
Payroll Taxes and Other	765,710	79,957	7,429	87,386	853,096
 Total personnel expenses	 13,277,499	 1,548,777	 123,019	 1,671,796	 14,949,295
Contracted Services	1,116,862	313,896	8,407	322,303	1,439,165
Supplies and Equipment					
Maintenance	595,938	56,905	9,526	66,431	662,369
Telephone	162,575	57,522	1,587	59,109	221,684
Postage and Shipping	7,020	2,937	874	3,811	10,831
Occupancy	761,881	79,557	17,895	97,452	859,333
Outside Printing	6,939	1,069	14,056	15,125	22,064
Professional Insurance	47,952	25,941	550	26,491	74,443
Travel	113,850	16,834	372	17,206	131,056
Conferences and Meetings	24,426	17,847	1,189	19,036	43,462
Subscriptions	269	-	144	144	413
Client Assistance	67,711	-	-	-	67,711
Dues	33,874	912	255	1,167	35,041
Miscellaneous	70,829	74,287	7,630	81,917	152,746
Interest and Amortization	232,971	2,061	-	2,061	235,032
Bad Debts (Recoveries)	584,518	(1,878)	-	(1,878)	582,640
Special Events	1,766	-	139,080	139,080	140,846
 Total Expenses Before Depreciation and Amortization	 17,106,880	 2,196,667	 324,584	 2,521,251	 19,628,131
Depreciation and Amortization	411,633	170,529	43,554	214,083	625,716
Total Expenses Before Allocation	17,518,513	2,367,196	368,138	2,735,334	20,253,847
General and Administrative Allocation	2,319,460	(2,367,196)	47,736	(2,319,460)	-
Total Expenses	<u>\$ 19,837,973</u>	<u>\$ -</u>	<u>\$ 415,874</u>	<u>\$ 415,874</u>	<u>\$ 20,253,847</u>

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

	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	\$ 1,306,575	\$ 3,308,698	\$ 765,461	\$ 1,774,445	\$ 219,508	\$ 38,045	\$ 1,002,028	\$ 20,480	\$ 103,646	\$ 4,441,250	\$ 41,961	\$ 13,022,097
Fringe Benefits	185,726	540,295	126,462	341,140	31,675	6,367	169,189	4,527	16,530	759,521	8,264	2,189,696
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	5,512,135	53,282	16,151,502
Contracted Services	51,858	66,087	84,742	46,719	2,266	5,636	20,519	803	524	331,270	7,731	618,155
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	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	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	\$ 13,022,097	\$ 1,211,460	\$ 109,318	\$ 1,320,778	\$ 14,342,875
Fringe Benefits	2,189,696	259,599	10,960	270,559	2,460,255
Payroll Taxes and Other	939,709	88,859	7,963	96,822	1,036,531
<b>Total personnel expenses</b>	<b>16,151,502</b>	<b>1,559,918</b>	<b>128,241</b>	<b>1,688,159</b>	<b>17,839,661</b>
Contracted Services	618,155	155,232	27,662	182,894	801,049
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
<b>Total Expenses Before     Depreciation</b>	<b>19,469,023</b>	<b>2,024,358</b>	<b>335,542</b>	<b>2,359,900</b>	<b>21,828,923</b>
Depreciation	496,806	196,119	55,560	251,679	748,485
<b>Total Expenses Before     Allocation</b>	<b>19,965,829</b>	<b>2,220,477</b>	<b>391,102</b>	<b>2,611,579</b>	<b>22,577,408</b>
General and Administrative Allocation	2,178,066	(2,220,477)	42,411	(2,178,066)	-
<b>Total Expenses</b>	<b>\$ 22,143,895</b>	<b>\$ -</b>	<b>\$ 433,513</b>	<b>\$ 433,513</b>	<b>\$ 22,577,408</b>

Hillcrest Family Services, Inc.  
Statements of Cash Flows  
Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ (2,938,611)	\$ 405,117
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	625,716	748,485
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	(13,847)	(22,608)
Realized gain on sales of investments	(7,670)	(36,731)
Change in beneficial interest held by others	967	(344)
Bad debts	582,640	259,904
Change in value of interest rate swap	68,359	55,236
Changes in assets and liabilities		
Receivables	293,414	(782,920)
Prepaid and other expenses	(120,260)	(232,216)
Accounts, refunds and advance payable	113,696	82,591
Paycheck Protection Program refundable advance	3,195,000	-
Accrued expenses	301,942	12,340
Deferred revenue and grants	37,507	(11,698)
Net Cash from Operating Activities	2,140,405	353,554
Cash Flows used for Investing Activities		
Purchase of property and equipment	(166,214)	(277,646)
Proceeds on sale of property	-	138,774
Purchase of investments	(669,918)	(917,495)
Sale of investments	630,136	640,424
Net Cash used for Investing Activities	(205,996)	(415,943)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	466,800	145,000
Principal payments on long-term debt	(368,086)	(279,097)
Principal payments on capital leases	(10,747)	(5,071)
Net Cash from (used for) Financing Activities	87,967	(139,168)
Change in Cash and Cash Equivalents	2,022,376	(201,557)
Cash and Cash Equivalents, Beginning of Year	72,039	273,596
Cash and Cash Equivalents, End of Year	\$ 2,094,415	\$ 72,039
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 233,480	\$ 183,479
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, 2020 and 2019, 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, 2020 and 2019.

### **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, 2020 and 2019. 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**

The Organization recognizes revenue from program services, other program charges and rental income over time. Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred. The Organization believes that this method provides a reasonable depiction of the transfer of services over the time of the performance obligation based on the inputs needed to satisfy the obligation. 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.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received in advance of meeting the condition are deferred to the period in which the condition is met.

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, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they have been met. The Organization records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference.



**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, 2020 and 2019.

**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 \$57,000 and \$55,000 for the years ended June 30, 2020 and 2019.

**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 Policies**

As of July 1, 2019, the Organization adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (Topic 606), as amended.

This Standard supersedes or replaces nearly all Generally Accepted Accounting Principles (GAAP) revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expands disclosures about revenue. The Organization has implemented Topic 606 retrospectively to all periods presented, with no effect on net assets.

As of July 1, 2019, the Organization adopted the provisions of Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This standard assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

The Organization has adopted these standards as management believes the standards improves the usefulness and understandability of the Organization's financial reporting.

## Note 2 - Liquidity and Availability

The following reflects the Organization's financial assets at June 30, 2020 and 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 \$2,500,000 on its two revolving bank lines of credit.

Financial Assets at Year End	2020	2019
Cash and cash equivalents	\$ 2,094,415	\$ 72,039
Program service and grants receivables, net	2,401,346	3,685,996
Cost settlement	3,725,439	3,267,838
Promises to give	61,446	110,251
Investments	2,220,417	2,150,743
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 10,503,063</u>	<u>\$ 9,286,867</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 2016 through 2020 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 decreased approximately \$35,000 and \$26,000 for the years ended June 30, 2020 and 2019 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>2020</u>	<u>2019</u>
Medicaid/Medicare	52%	43%
County Board of Supervisors	20	19
Commerical insurance and other third-party payors and clients	16	17
Grants	<u>12</u>	<u>21</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.

Iowa Total Care advanced the Organization \$270,000 while the payor worked to resolve claims processing issues. These funds were paid back with no interest charged as of February 1, 2021.

#### **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, 2020:

	Fair Value Measurements at Report Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
<b>Investments</b>				
Money market (at cost)	\$ 158,216	\$ -	\$ -	\$ -
Land (at cost)	1,050	-	-	-
Mutual funds	2,340,282	2,340,282	-	-
	<u>\$ 2,499,548</u>	<u>\$ 2,340,282</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Assets of Community Foundation	<u>\$ 12,748</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,748</u>
<b>Liability</b>				
Interest Rate Swap	<u>\$ 114,097</u>	<u>\$ -</u>	<u>\$ 114,097</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, 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)
<b>Assets</b>				
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>
<b>Liability</b>				
Interest Rate Swap	<u>\$ 45,738</u>	<u>\$ -</u>	<u>\$ 45,738</u>	<u>\$ -</u>

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	2020	2019
Beginning Balance	\$ 13,715	\$ 13,371
Investment income	(207)	1,188
Grants approved	(580)	(660)
Administrative/investment fees	(180)	(184)
Ending Balance	<u>\$ 12,748</u>	<u>\$ 13,715</u>

#### Note 5 - Net Investment Return

Net investment return consists of the following:

	2020	2019
Interest and dividends	\$ 49,656	\$ 45,475
Net realized and unrealized gain (loss)	21,517	59,339
Less investment management fees	(16,339)	(9,427)
Total net investment return	<u>\$ 54,834</u>	<u>\$ 95,387</u>

**Note 6 - Promises to Give**

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

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 61,446	\$ 110,251
One to five years	<u>100</u>	<u>300</u>
	<u>\$ 61,546</u>	<u>\$ 110,551</u>

Included above is \$50,646 and \$99,501 of United Way promises to give for the years ended June 30, 2020 and 2019. At June 30, 2020 and 2019, one donor accounted for 92% and 90% of total promises to give, excluding United Way. There were no significant contributions from board members and/or key employees during the years ended June 30, 2020 and 2019.

**Note 7 - Property and Equipment**

Property and equipment consist of the following:

	<u>2020</u>		<u>2019</u>	
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization
Land	\$ 307,342	\$ -	\$ 307,342	\$ -
Land improvements	405,526	248,668	405,526	225,395
Buildings	13,055,664	6,081,364	13,653,048	6,112,906
Equipment	3,516,542	3,114,943	3,358,866	2,997,272
Vehicles	836,037	731,847	848,061	697,624
Furniture and fixtures	499,702	372,858	501,683	348,695
Leasehold improvements	<u>190,807</u>	<u>152,269</u>	<u>190,807</u>	<u>146,833</u>
	<u>\$ 18,811,620</u>	<u>\$ 10,701,949</u>	<u>\$ 19,265,333</u>	<u>\$ 10,528,725</u>
Property and equipment, net		<u>\$ 8,109,671</u>		<u>\$ 8,736,608</u>



**Note 8 - Long-Term Debt**

Mortgage and notes payable consist of the following:

	<u>2020</u>	<u>2019</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 \$10,769 and \$11,655 in 2020 and 2019	\$ 1,422,273	\$ 1,514,429
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 \$8,391 and \$9,057 in 2020 and 2019 (A)	1,138,044	1,206,688
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	375,801	144,866
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	362,596	408,121
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	330,488	360,725
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	242,560	261,013
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	197,695	214,855
Note payable to bank, accrues interest at 5.5%, due in monthly installments of \$1,743, including interest, due in November 2024, secured by real estate	152,163	-
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	144,036	150,450
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>60,779</u>	<u>65,022</u>
	4,426,435	4,326,169
Less current maturities	<u>(391,550)</u>	<u>(265,101)</u>
Long-term debt, less current maturities	<u>\$ 4,034,885</u>	<u>\$ 4,061,068</u>

Under the terms of certain mortgages and notes, the Organization is required to maintain certain measures of financial performance. At June 30, 2020, the Organization did not meet these requirements. As of February 1, 2021, the Organization has obtained waivers from the financial institutions relating to the measures of financial performance that were not met.

Future maturities of mortgage and notes payable are as follows:

<u>Years Ending June 30,</u>	
2021	\$ 391,550
2022	1,224,444
2023	537,817
2024	255,315
2025	270,642
Thereafter	1,765,827
Less unamortized debt issuance costs	<u>(19,160)</u>
Total	<u>\$ 4,426,435</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 2.13% at June 30, 2020 and 3.62% at June 30, 2019). 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, 2020 and 2019, the fair value of the asset/liability under the Swap increased \$68,359 and \$55,236, which has been reflected in the accompanying statements of activities. At June 30, 2020, the fair value of the Swap liability was \$114,097. At June 30, 2019, the fair value of the Swap liability was \$45,738.

#### **Note 9 - Paycheck Protection Program Refundable Advance**

Hillcrest Family Services, Inc. was granted a \$3,195,000 loan under the Paycheck Protection Program (PPP) Administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded a refundable advance and will recognize the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier with a right of return of the PPP loan. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus accrued interest at 1%, in monthly payments commencing upon notification of forgiveness or partial forgiveness.

**Note 10 - Line of Credit**

The Organization has two lines of credit available for up to \$1,000,000 and \$1,500,000 with a bank. Interest is paid monthly at a rate of 2.95% plus one-month LIBOR (3.55% at June 30, 2020). The lines expire in January 2021 and are secured by a mortgage on the primary property at 1995 Asbury Road and the quasi-endowment fund. At June 30, 2020 and 2019, there was no balance outstanding on the lines of credit. At February 1, 2021, there was \$0 outstanding on these lines of credit.

**Note 11 - 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>
2021	\$ 12,808	\$ 156,408
2022	12,808	29,029
2023	12,808	13,800
2024	<u>6,404</u>	<u>3,450</u>
Total minimum lease payments	44,828	<u>\$ 202,687</u>
Less amount representing interest	<u>(3,315)</u>	
Capital lease obligation	<u>\$ 41,513</u>	

Total lease expense for the years ended June 30, 2020 and 2019 totaled \$213,882 and \$286,097.

Leased property under capital leases at June 30, 2020 and 2019 includes the following:

	<u>2020</u>	<u>2019</u>
Equipment	\$ 57,331	\$ 57,331
Less accumulated amortization	<u>(19,110)</u>	<u>(7,644)</u>
	<u>\$ 38,221</u>	<u>\$ 49,687</u>

**Note 12 - Deferred Revenue and Grants**

Deferred revenue and grants include an advance from the Iowa Department of Public Health earmarked for future periods. The advance was \$43,666 at June 30, 2020 and 2019. Additional amounts are included in deferred revenue and grants for the Reflections in the Park event, the transitional housing program, and other activities.

### **Note 13 - 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, 2020 and 2019, 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, 2020			
Board-designated endowment funds	\$ 2,220,417	\$ -	\$ 2,220,417
Donor-restricted endowment funds	<u>-</u>	<u>278,079</u>	<u>278,079</u>
	<u>\$ -</u>	<u>\$ 278,079</u>	<u>\$ 2,498,496</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>\$ 2,150,743</u>	<u>\$ 286,455</u>	<u>\$ 2,437,198</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, 2020 and 2019.

#### *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 2020 and 2019, 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.

Hillcrest Family Services, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,150,743	\$ 286,455	\$ 2,437,198
Investment return, net			
Investment income, net	29,408	3,909	33,317
Net realized and unrealized gain (loss)	18,983	2,534	21,517
Contributions	6,464	-	6,464
Appropriation of endowment assets pursuant to spending - rate policy	<u>14,819</u>	<u>(14,819)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 2,220,417</u>	<u>\$ 278,079</u>	<u>\$ 2,498,496</u>

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>

**Note 14 - Net Assets with Donor Restrictions**

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

	<u>2020</u>	<u>2019</u>
Subject to Expenditure for Specified Purpose		
Cedar Rapids programming	\$ 8,465	\$ 10,000
Window replacement	5,050	-
Client assistance	5,565	2,959
	<u>19,080</u>	<u>12,959</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>61,546</u>	<u>110,551</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Restricted by donor for		
Available for general use	3,420	8,049
Educational programs	43,636	47,352
Family counseling	23	54
	<u>47,079</u>	<u>55,455</u>
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
General operations	150,000	150,000
Educational programs	80,000	80,000
Counseling	1,000	1,000
	<u>231,000</u>	<u>231,000</u>
	<u>278,079</u>	<u>286,455</u>
	<u>\$ 358,705</u>	<u>\$ 409,965</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>2020</u>	<u>2019</u>
Expiration of Time Restrictions	\$ 99,651	\$ 92,075
Satisfaction of Purpose Restrictions Programming	10,000	12,838
Promises to Give Collected and Removed from Perpetual Restriction per Donor Request	-	90,770
Restricted-Purpose Spending-Rate Distributions and Appropriations		
Educational programs	6,581	6,616
Family counseling	54	56
General use	8,184	8,396
	<u>14,819</u>	<u>15,068</u>
	<u>\$ 124,470</u>	<u>\$ 210,751</u>

#### Note 15 - 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>2020</u>	<u>2019</u>
Medicaid/Medicare	42%	44%
Grants	25	14
County regions	19	17
Commerical insurance and other third-party payors and clients	14	25
	<u>100%</u>	<u>100%</u>

#### Note 16 - 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 \$-0- and \$130,000 at June 30, 2020 and 2019. In addition, receivables of \$-0- and \$130,000 have been recorded for expected insurance recoveries related to the cost of the claims.

### **Litigations, Claims, and Disputes**

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from program services.

## **Note 17 - 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, 2020 and 2019, the provision for estimated health claims outstanding is \$200,114 and \$251,078.

### **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, 2020 and 2019 was \$416,619 and \$488,807.

**Note 18 - Subsequent Event**

Subsequent to year-end, the Organization received \$309,643 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS) and \$237,371 of CARES Act funds allocated from the State of Iowa for mental health and disability services. The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost operating margin that are attributable to the coronavirus pandemic. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has a deadline to incur eligible expenses as of June 30, 2021. The State of Iowa currently has a deadline to incur eligible expenses as of December 30, 2020. Unspent funds will be expected to be repaid. The Organization will recognize the CARES funds into income in future periods as it meets the imposed terms and conditions.

Subsequent events have been evaluated through February 1, 2021, the date the financial statements were available to be issued.



Supplementary Information  
June 30, 2020 and 2019

**Hillcrest Family Services, Inc.**

Hillcrest Family Services, Inc.  
Schedule of Mental Health Center Expenses  
Year Ended June 30, 2020

	Washington County MHC	Dubuque County MHC	Jackson County MHC	Asbury MHC	Henry County MHC	Louisa County MHC	Wellness Center MHC	MH Solutions MHC	Southeast Iowa Crisis	Integrated Health Homes	ACT Teams	Total Program Services
Salaries	\$ 359,267	\$ 1,120,370	\$ 389,913	\$ 336,668	\$ 237,861	\$ 163,520	\$ 157,351	\$ 148,238	\$ 76,591	\$ 1,100,492	\$ 142,406	\$ 4,232,677
Fringe Benefits	64,625	172,465	41,762	55,621	31,557	43,519	29,589	20,766	14,776	194,750	40,745	710,175
Payroll Taxes and Other	26,586	75,135	26,903	24,952	17,850	11,948	10,643	8,271	5,580	78,807	11,013	297,688
<b>Total personnel expenses</b>	<b>450,478</b>	<b>1,367,970</b>	<b>458,578</b>	<b>417,241</b>	<b>287,268</b>	<b>218,987</b>	<b>197,583</b>	<b>177,275</b>	<b>96,947</b>	<b>1,374,049</b>	<b>194,164</b>	<b>5,240,540</b>
Contracted Services	91,496	222,137	90,112	131,845	91,410	52,023	3,157	9,484	4,792	38,576	6,470	741,502
Supplies and Equipment												
Maintenance	1,963	6,850	2,348	10,577	3,326	2,051	476	399	4,782	7,197	1,986	41,955
Telephone	12,918	18,880	6,612	3,023	3,914	2,875	1,175	3,542	2,477	26,000	619	82,035
Postage and Shipping	685	395	209	110	264	267	5	10	26	718	4	2,693
Occupancy	21,930	80,969	10,813	15,489	278	9,813	25,591	19,791	3,713	51,637	-	240,024
Outside Printing	403	461	271	362	-	20	279	165	21	493	165	2,640
Professional Insurance	825	2,666	987	874	582	746	311	547	262	2,418	519	10,737
Travel	2,502	250	239	267	1,065	1,289	1,693	58	1,101	20,636	3,588	32,688
Conferences and Meetings	741	2,829	519	1,600	432	367	33	118	356	2,081	800	9,876
Client Assistance	-	-	-	-	-	-	(64)	-	-	436	-	372
Dues	1,809	2,940	1,350	1,835	704	655	61	191	87	3,872	173	13,677
Miscellaneous	1,451	4,337	1,869	3,182	127	1,877	1,886	1,327	58	3,139	1,124	20,377
Interest and Amortization	7,719	21,634	12,917	6,270	4,988	4,197	166	426	238	7,001	383	65,939
Bad Debts (Recoveries)	3,372	18,231	3,158	20,217	5,666	6,838	1,394	3,776	1,593	20,770	-	85,015
<b>Total Expenses Before Depreciation</b>	<b>598,292</b>	<b>1,750,549</b>	<b>589,982</b>	<b>612,892</b>	<b>400,024</b>	<b>302,005</b>	<b>233,746</b>	<b>217,109</b>	<b>116,453</b>	<b>1,559,023</b>	<b>209,995</b>	<b>6,590,070</b>
Depreciation	1,186	1,666	6,918	2,074	3,447	727	2,508	2,029	-	7,020	-	27,575
<b>Total Expenses Before Allocation</b>	<b>599,478</b>	<b>1,752,215</b>	<b>596,900</b>	<b>614,966</b>	<b>403,471</b>	<b>302,732</b>	<b>236,254</b>	<b>219,138</b>	<b>116,453</b>	<b>1,566,043</b>	<b>209,995</b>	<b>6,617,645</b>
General and Administrative Allocation	78,574	228,863	77,980	80,307	52,684	39,537	30,845	28,603	15,269	204,601	-	837,263
<b>Total Expenses</b>	<b>\$ 678,052</b>	<b>\$ 1,981,078</b>	<b>\$ 674,880</b>	<b>\$ 695,273</b>	<b>\$ 456,155</b>	<b>\$ 342,269</b>	<b>\$ 267,099</b>	<b>\$ 247,741</b>	<b>\$ 131,722</b>	<b>\$ 1,770,644</b>	<b>\$ 209,995</b>	<b>\$ 7,454,908</b>

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	\$ 212,843	\$ 197,437	\$ 176,644	\$ 261,006	\$ 132,095	\$ 1,047,864	\$ 4,441,250
Fringe Benefits	57,930	197,236	73,736	73,067	24,403	37,377	37,389	38,559	20,148	199,676	759,521
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
<b>Total personnel expenses</b>	<b>453,707</b>	<b>1,529,516</b>	<b>569,602</b>	<b>428,323</b>	<b>253,369</b>	<b>249,250</b>	<b>225,489</b>	<b>317,517</b>	<b>161,876</b>	<b>1,323,486</b>	<b>5,512,135</b>
Contracted Services	14,242	45,627	14,648	107,676	96,210	8,907	3,499	8,468	5,500	26,493	331,270
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
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
<b>Total Expenses Before</b>											
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
<b>Total Expenses Before</b>											
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
<b>Total Expenses</b>	<b>\$ 578,423</b>	<b>\$ 1,962,727</b>	<b>\$ 713,165</b>	<b>\$ 652,301</b>	<b>\$ 424,915</b>	<b>\$ 314,404</b>	<b>\$ 314,338</b>	<b>\$ 401,545</b>	<b>\$ 199,088</b>	<b>\$ 1,772,938</b>	<b>\$ 7,333,844</b>

Hillcrest Family Services, Inc.

Schedules of Revenues and Expenses

WIC – Contract #5889AO35

Maternal Health – Contract #5888MH09

Contract Period: October 1, 2019 Through September 30, 2020

	WIC	Maternal Health
<b>Revenues</b>		
Iowa Department of Public Health	\$ 676,707	\$ 35,807
IPHD - Breat pump reimbursement	6,457	-
<b>Total revenues</b>	<b>683,164</b>	<b>35,807</b>
<b>Expenses</b>		
Salaries	313,753	12,027
Fringe benefits	82,751	15,476
Payroll taxes, etc.	21,831	677
Contracted services	16,091	742
Supplies and equipment maintenance	62,340	43
Telephone	15,943	351
Postage and shipping	2,425	275
Occupancy	51,758	527
Outside printing	259	-
Travel	5,940	-
Conferences and meetings	383	-
Client assistance	6,583	-
Miscellaneous	15,339	15
Bad debts (recovery)	-	25,353
Depreciation	6,574	80
<b>Total expenses</b>	<b>601,970</b>	<b>55,566</b>
General and administrative allocation	81,194	3,635
<b>Revenues in excess of (less than) expenses</b>	<b>\$ -</b>	<b>\$ (23,394)</b>



**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, 2020, 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 February 1, 2021.

**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) as a basis for designing 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness and another that we consider to be a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-002 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-001 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 financial statements. 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 Responses to Findings**

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dubuque, Iowa  
February 1, 2021





## **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, 2020. 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 types of 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 types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2020.

### **Report on Internal Control over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of 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.



Dubuque, Iowa  
February 1, 2021

Hillcrest Family Services, Inc.  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2020

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	\$ 10,416
National School Lunch Program	10.555	18638000	<u>14,183</u>
Cluster total			<u>24,599</u>
Passed through Iowa Department of Public Health			
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	58880A035	471,958
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	5888A035	<u>234,704</u>
Total 10.557			<u>706,662</u>
Total Department of Agriculture			<u>731,261</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>48,538</u>
Passed through State Department of Health and			
Human Services and Family Planning Council of			
Iowa			
Family Planning - Services	93.217	638-FY2019	<u>219,153</u>
Passed through Iowa Department of Human Services			
477 Cluster			
Temporary Assistance for Needy Families	93.558	ACFS-14-185	<u>39,669</u>
Passed through Iowa Department of Human Services			
Block Grants for Community Mental			
Health Services	93.958	MHDS 17-025	<u>102,714</u>
Passed through Iowa Department of Public Health			
HIV Care Formula Grants	93.917	5889AP25	40,616
HIV Care Formula Grants	93.917	5888AP25	<u>73,289</u>
Total 93.917			<u>113,905</u>
Passed through Iowa Department of Public Health			
Maternal and Child Health Services Block Grant to			
the States	93.994	5888MH09	<u>641</u>
Total Department of Health and Human Services			<u>524,620</u>
Total Federal Financial Assistance			<u>\$ 1,255,881</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, 2020. 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**

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**Financial Statements**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
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

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### 2020 - 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.

2020 - 002 **Reconciliation of Accounts Receivable to the General Ledger**

**Material Weakness**

**Criteria** – A properly designed system of internal control over financial reporting includes timely and consistent reconciliation of general ledger accounts with supporting documentation, including subsidiary ledgers.

**Condition** – Hillcrest Family Services, Inc. implemented a new electronic health records (EHR) and accounts receivable system during the fiscal year. Account balances within the new system’s subsidiary ledger as well as deposit clearing accounts were not reconciled to the general ledger during the year resulting in significant year-end account balance adjustments.

**Cause** – An EHR and accounts receivable system should provide reports necessary to reconcile the detail to the general ledger. These reports should include an aged client account balance detail, and a report of charges, payments and adjustments by financial payors. Staff is continuing to develop the setup of the system with the software vendor. System reports were not generated to enable reconciliation of the accounts receivable balances.

**Effect** – Without a formal, consistent process to reconcile general ledger account balances, there is a reasonable possibility that interim financial statements may be misstated. It was necessary for accounting staff to manually reconcile the accounts receivable detail to the general ledger at year-end. Interim account balances were misstated resulting in material year-end account balance adjustments.

**Recommendation** – We recommend management and accounting staff continue to work with the software vendor to ensure proper set up of the new system so that the Organization can leverage all the benefits of the software program. Timely reporting and review of client account balances, as well as charges, payments, and adjustments by payor/program will also assist the Organization in monitoring its revenue cycle process and collection efforts.

**Views of Responsible Officials** – At June 30, 2020, we did not have a closing procedure in place in our new EHR and accounts receivable system, which created the need for manual reconciliation after year-end by our accounting staff. At that time, reports were sensitive to the date they were run, so the payment data was dependent upon the date the report was ran, not just a snapshot in time. Since year-end, our EHR and accounts receivable system has put a closing procedure in place so data is left intact when crossing months. We are no longer running into issues with reports being run too late – we can recreate historic reports.

We have continued our meetings twice a week to talk through other items of concern and to perfect the processes to get the most benefit from the system. One of the many topics of discussion is an aged receivable report. While we can get the balances owed from the closing reports mentioned above, we are working with the system representatives to create an actual aged report.

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

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There were no findings or questioned costs to report.