

**HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA**

**FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005**

**HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hillcrest Family Services, Inc.
Dubuque, Iowa

We have audited the accompanying statements of financial position of Hillcrest Family Services, Inc., (a nonprofit organization) as of October 31, 2006 and 2005, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 Auditing 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hillcrest Family Services, Inc. as of October 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2007, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Hillcrest Family Services, Inc. taken as a whole. The supplemental information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. The accompanying Schedule of Expenditures of Federal Awards (Schedule 3) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa
May 16, 2007

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

STATEMENTS OF FINANCIAL POSITION
OCTOBER 31, 2006 AND 2005

ASSETS

| | Current Funds | Development Fund | Special Event- Lights Fund | Total All Funds 2006 | 2005 |
|---|---------------------|---------------------|-------------------------------------|-------------------------------|----------------------|
| Cash | \$ 64,594 | \$ 2,836,060 | \$ 60,258 | \$ 2,960,912 | \$ 2,925,219 |
| Investments | - | 2,874,492 | - | 2,874,492 | 2,421,648 |
| Beneficial interest in assets held by others | - | 12,377 | - | 12,377 | 10,900 |
| Accounts/contracts receivable | 2,442,285 | 4,924 | - | 2,447,209 | 1,536,519 |
| Allowance for uncollectibles | (73,392) | - | - | (73,392) | - |
| Inventory | 10,120 | - | - | 10,120 | 9,520 |
| Unconditional promises to give: | | | | | |
| United Way Services | 92,000 | - | - | 92,000 | 90,000 |
| Pledges receivable | - | 88,066 | - | 88,066 | 208,394 |
| Prepaid expenses | 25,938 | 419 | - | 26,357 | 32,484 |
| Land, buildings, and equipment (net) | 4,481,348 | 5,113 | - | 4,486,461 | 4,594,430 |
| Total Assets | \$ 7,042,893 | \$ 5,821,451 | \$ 60,258 | \$ 12,924,602 | \$ 11,829,114 |

LIABILITIES AND NET ASSETS

| | | | | | |
|---|---------------------|---------------------|------------------|----------------------|----------------------|
| Bank overdraft | \$ 2,748,028 | \$ - | \$ - | \$ 2,748,028 | \$ 2,307,561 |
| Accounts payable | 279,328 | 14,948 | - | 294,276 | 207,982 |
| Accrued payroll and payroll withholdings | 144,782 | 811 | - | 145,593 | 89,178 |
| Accrued vacation payable | 329,662 | 5,598 | - | 335,260 | 280,281 |
| Accrued advance - WIC | 43,666 | - | - | 43,666 | 43,666 |
| Notes/other long-term payables | 677,887 | - | - | 677,887 | 457,702 |
| Total Liabilities | \$ 4,223,353 | \$ 21,357 | \$ - | \$ 4,244,710 | \$ 3,386,370 |
| Net Assets: | | | | | |
| Unrestricted: | | | | | |
| Undesignated | \$ 2,665,466 | \$ 2,598,592 | \$ 60,258 | \$ 5,324,316 | \$ 5,494,687 |
| Board designated | 62,074 | 2,935,265 | - | 2,997,339 | 2,613,957 |
| Temporarily restricted | 92,000 | 106,027 | - | 198,027 | 203,180 |
| Permanently restricted | - | 160,210 | - | 160,210 | 130,920 |
| Total Net Assets | \$ 2,819,540 | \$ 5,800,094 | \$ 60,258 | \$ 8,679,892 | \$ 8,442,744 |
| Total Liabilities and Net Assets | \$ 7,042,893 | \$ 5,821,451 | \$ 60,258 | \$ 12,924,602 | \$ 11,829,114 |

See accompanying notes to financial statements.

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

| | Current Funds | Development Fund | Special Event- Lights Fund | Total All Funds 2006 | 2005 |
|--|----------------------|---------------------|-------------------------------------|-------------------------------|----------------------|
| Unrestricted Net Funds: | | | | | |
| Public Support: | | | | | |
| Direct Support: | | | | | |
| Contributions | \$ 42,605 | \$ 262,626 | \$ - | \$ 305,231 | \$ 370,704 |
| Bequests - Trusts/Estates | - | 15,645 | - | 15,645 | 35,760 |
| Bowl for Kids Sake | 26,728 | 4,331 | - | 31,059 | 29,346 |
| The Big Event | 14,633 | - | - | 14,633 | 16,972 |
| Special Events - Lights | - | - | 184,823 | 184,823 | 177,053 |
| Indirect Support: | | | | | |
| Grants - Federal Awards | 1,204,703 | - | - | 1,204,703 | 1,174,041 |
| Grants - Other | 176,301 | 10,000 | - | 186,301 | 289,623 |
| United Way | 16,307 | - | - | 16,307 | 16,100 |
| Total Public Support | \$ 1,481,277 | \$ 292,602 | \$ 184,823 | \$ 1,958,702 | \$ 2,109,599 |
| Revenues: | | | | | |
| Program Service Fees: | | | | | |
| See Schedule 1 | \$ 12,181,814 | \$ - | \$ - | \$ 12,181,814 | \$ 10,714,990 |
| Other Revenues: | | | | | |
| Investment income | \$ 6,333 | \$ 78,096 | \$ 1,068 | \$ 85,497 | \$ 79,295 |
| Realized gain (loss) on investments | - | 171,353 | - | 171,353 | 100,633 |
| Unrealized gain (loss) on investments | - | 115,024 | - | 115,024 | 47,614 |
| Miscellaneous | 108,653 | 1,074 | - | 109,727 | 104,645 |
| Total Other Revenues | \$ 114,986 | \$ 365,547 | \$ 1,068 | \$ 481,601 | \$ 332,187 |
| Total Revenues | \$ 12,296,800 | \$ 365,547 | \$ 1,068 | \$ 12,663,415 | \$ 11,047,177 |
| Net Assets Released From Restrictions: | | | | | |
| Time/purpose restrictions | \$ 90,000 | \$ - | \$ - | \$ 90,000 | \$ 188,226 |
| Total Public Support and Revenue | \$ 13,868,077 | \$ 658,149 | \$ 185,891 | \$ 14,712,117 | \$ 13,345,002 |

See accompanying notes to financial statements.

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

| | Current Funds | Development Fund | Special Event- Lights Fund | Total All Funds 2006 | 2005 |
|---|------------------|---------------------|-------------------------------------|-------------------------------|--------------------|
| Expenses: | | | | | |
| Program Services | \$ 14,098,892 | \$ - | \$ - | \$ 14,098,892 | \$ 12,432,828 |
| Supporting Services: | | | | | |
| Development | \$ - | \$ 301,019 | \$ - | \$ 301,019 | \$ 278,706 |
| Special event - lights | - | - | 99,195 | 99,195 | 103,372 |
| Total Supporting Services | \$ - | \$ 301,019 | \$ 99,195 | \$ 400,214 | \$ 382,078 |
| Total Expenses | \$ 14,098,892 | \$ 301,019 | \$ 99,195 | \$ 14,499,106 | \$ 12,814,906 |
| Increase (Decrease) in Unrestricted Net Assets | \$ (230,815) | \$ 357,130 | \$ 86,696 | \$ 213,011 | \$ 530,096 |
| Temporarily Restricted Net Assets: | | | | | |
| Unrealized gain (loss) on investments United Way Services funding for the next year | \$ - 92,000 | \$ 12,847 - | \$ - - | \$ 12,847 92,000 | \$ 6,443 90,000 |
| Pledge forgiveness | - | (20,000) | - | (20,000) | - |
| Net Assets Released From Restrictions: Time/purpose restrictions | (90,000) | - | - | (90,000) | (188,226) |
| Increase (Decrease) in Temporarily Restricted Net Assets | \$ 2,000 | \$ (7,153) | \$ - | \$ (5,153) | \$ (91,783) |
| Permanently Restricted Net Assets: | | | | | |
| Unrealized gain (loss) on investments Contributions | \$ - - | \$ 19,290 10,000 | \$ - - | \$ 19,290 10,000 | \$ 9,714 11,000 |
| Increase (Decrease) in Permanently Restricted Net Assets | \$ - | \$ 29,290 | \$ - | \$ 29,290 | \$ 20,714 |
| Increase (Decrease) in Total Net Assets | \$ (228,815) | \$ 379,267 | \$ 86,696 | \$ 237,148 | \$ 459,027 |
| Other Changes in Net Assets: | | | | | |
| Inter-fund transfers | \$ 76,921 | \$ (76,921) | \$ - | \$ - | \$ - |
| Special event allocation | - | 85,000 | (85,000) | - | - |
| Total Other Changes in Net Assets | \$ 76,921 | \$ 8,079 | \$ (85,000) | \$ - | \$ - |
| Net Assets, Beginning of Year | \$ 2,971,434 | \$ 5,412,748 | \$ 58,562 | \$ 8,442,744 | \$ 7,983,717 |
| Net Assets, End of Year | \$ 2,819,540 | \$ 5,800,094 | \$ 60,258 | \$ 8,679,892 | \$ 8,442,744 |

See accompanying notes to financial statements.

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2006

| | Residential Treatment | CMI Group Homes | Health Services | Schools | Shelter | Family Centered Services |
|-------------------------------------|--------------------------|-----------------------|---------------------|---------------------|-------------------|--------------------------------|
| Employee Compensation: | | | | | | |
| Payroll expense | \$ 1,863,589 | \$ 1,271,022 | \$ 732,060 | \$ 1,630,093 | \$ 267,198 | \$ 538,495 |
| Fringe benefits | 320,088 | 221,455 | 117,419 | 345,875 | 47,654 | 52,549 |
| Payroll expense | 133,752 | 93,960 | 53,196 | 118,775 | 20,075 | 40,010 |
| Total Employee Compensation | \$ 2,317,429 | \$ 1,586,437 | \$ 902,675 | \$ 2,094,743 | \$ 334,927 | \$ 631,054 |
| Other Expenses: | | | | | | |
| Contracted services | 90,623 | 43,551 | 95,229 | 35,007 | 3,424 | 13,734 |
| Supplies & equipment maintenance | 253,598 | 167,103 | 89,120 | 103,802 | 56,956 | 9,012 |
| Telephone | 11,067 | 16,923 | 14,928 | 13,185 | 4,654 | 6,254 |
| Postage | 5,710 | 5,288 | 3,205 | 4,635 | 908 | 1,486 |
| Occupancy | 119,088 | 252,066 | 117,706 | 159,083 | 63,857 | 22,196 |
| Outside printing | 851 | 355 | 1,477 | 69 | 15 | 19 |
| Travel | 24,485 | 37,821 | 27,200 | 27,527 | 5,943 | 12,898 |
| Conferences & meetings | 9,386 | 8,772 | 13,140 | 11,833 | 1,045 | 1,106 |
| Subscriptions | 673 | 721 | 1,138 | 207 | 103 | 555 |
| Client assistance | 44,220 | 45,504 | 2,928 | 4,544 | 7,155 | 29 |
| Dues | 3,567 | 4,177 | 443 | 998 | 520 | 675 |
| Other expenses | 45,781 | 36,497 | 19,787 | 39,301 | 8,409 | 11,839 |
| Depreciation - bldg/equipment | 151,171 | 67,453 | 20,836 | 50,118 | 15,817 | 19,966 |
| Bad debts | 7,156 | 29,224 | 10 | - | 34,661 | 91,662 |
| Total Functional Expenses | \$ 3,084,805 | \$ 2,301,892 | \$ 1,309,822 | \$ 2,545,052 | \$ 538,394 | \$ 822,485 |

See accompanying notes to financial statements.

PROGRAM SERVICES

| Counseling | Adoption | Hillcrest Supported Living IPRS/Voc | Family Empowerment Center | Transitional Housing | Washington County MHC | Dubuque County MHC | Jackson County MHC | Big Brothers/ Big Sisters |
|-------------------|-------------------|--|---------------------------------|-------------------------|-----------------------------|--------------------------|--------------------------|------------------------------|
| \$ 170,926 | \$ 111,209 | \$ 808,543 | \$ 57,553 | \$ 33,496 | \$ 172,789 | \$ 417,985 | \$ 58,510 | \$ 126,573 |
| 22,067 | 14,805 | 97,801 | 8,666 | 6,311 | 21,986 | 29,474 | 2,303 | 26,809 |
| 12,477 | 8,316 | 58,234 | 4,205 | 2,209 | 12,805 | 29,507 | 4,670 | 9,072 |
| \$ 205,470 | \$ 134,330 | \$ 964,578 | \$ 70,424 | \$ 42,016 | \$ 207,580 | \$ 476,966 | \$ 65,483 | \$ 162,454 |
| 8,703 | 9,739 | 7,721 | 395 | 1,594 | 105,378 | 255,330 | 33,576 | 84,618 |
| 5,214 | 3,867 | 19,743 | 2,276 | 6,211 | 9,560 | 21,547 | 1,591 | 3,984 |
| 843 | 1,703 | 14,811 | 3,893 | 3,316 | 4,255 | 10,377 | 1,360 | 622 |
| 541 | 904 | 3,208 | 229 | 322 | 1,593 | 16 | 191 | 592 |
| 4,423 | 13,016 | 72,490 | 15,413 | 15,656 | 476 | 50,740 | 7,913 | 8,148 |
| 315 | 9 | 34 | 4 | 4 | 8 | 1,401 | - | 1,195 |
| 949 | 10,585 | 37,718 | 429 | 1,408 | 5,114 | 3,747 | 1,067 | 4,450 |
| 6,156 | 2,037 | 4,710 | 305 | 442 | 2,310 | 4,722 | 710 | 3,187 |
| 449 | 28 | 381 | 8 | 6 | 206 | 23 | 23 | 214 |
| - | 131 | 2,389 | 20 | 2,711 | - | 226 | - | 4,399 |
| 1,220 | 183 | 2,672 | 94 | 31 | 463 | 3,920 | - | 2,986 |
| 4,382 | 2,600 | 21,058 | 1,642 | 1,376 | 5,100 | 52,008 | 1,084 | 4,579 |
| 2,963 | 2,604 | 26,611 | 8,288 | 27,427 | 6,804 | 4,516 | 3,619 | 5,126 |
| 4,477 | - | 15,006 | 2,548 | - | 1,857 | 631 | 26,938 | - |
| <u>\$ 246,105</u> | <u>\$ 181,736</u> | <u>\$ 1,193,130</u> | <u>\$ 105,968</u> | <u>\$ 102,520</u> | <u>\$ 350,704</u> | <u>\$ 886,170</u> | <u>\$ 143,555</u> | <u>\$ 286,554</u> |

SUPPORT SERVICES

| Program Services Total | Development Fund | Event- Lights Fund | Support Services Total | Total All Funds |
|------------------------------|---------------------|--------------------------|------------------------------|-----------------------|
| \$ 8,260,041 | \$ 124,661 | \$ - | \$ 124,661 | \$ 8,384,702 |
| 1,335,262 | 19,365 | - | 19,365 | 1,354,627 |
| 601,263 | 9,408 | - | 9,408 | 610,671 |
| \$ 10,196,566 | \$ 153,434 | \$ - | \$ 153,434 | \$ 10,350,000 |
| 788,622 | 59,926 | - | 59,926 | 848,548 |
| 753,584 | 9,929 | - | 9,929 | 763,513 |
| 108,191 | 1,486 | - | 1,486 | 109,677 |
| 28,828 | 2,250 | - | 2,250 | 31,078 |
| 922,271 | 1,091 | - | 1,091 | 923,362 |
| 5,756 | 40,863 | - | 40,863 | 46,619 |
| 201,341 | 5,337 | - | 5,337 | 206,678 |
| 69,861 | 1,787 | - | 1,787 | 71,648 |
| 4,735 | 744 | - | 744 | 5,479 |
| 114,256 | - | - | - | 114,256 |
| 21,949 | 861 | - | 861 | 22,810 |
| 255,443 | 16,446 | 99,195 | 115,641 | 371,084 |
| 413,319 | 6,865 | - | 6,865 | 420,184 |
| 214,170 | - | - | - | 214,170 |
| <u>\$ 14,098,892</u> | <u>\$ 301,019</u> | <u>\$ 99,195</u> | <u>\$ 400,214</u> | <u>\$ 14,499,106</u> |

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2005

| | Residential Treatment | CMI Group Homes | Health Services | Schools | Shelter | Family Centered Services |
|-------------------------------------|--------------------------|-----------------------|---------------------|---------------------|-------------------|--------------------------------|
| Employee Compensation: | | | | | | |
| Payroll expense | \$ 1,859,142 | \$ 1,202,739 | \$ 736,568 | \$ 1,519,468 | \$ 203,732 | \$ 661,867 |
| Fringe benefits | 330,142 | 228,262 | 118,796 | 327,442 | 35,708 | 67,970 |
| Payroll expense | 137,008 | 87,433 | 53,749 | 110,356 | 14,840 | 49,890 |
| Total Employee Compensation | \$ 2,326,292 | \$ 1,518,434 | \$ 909,113 | \$ 1,957,266 | \$ 254,280 | \$ 779,727 |
| Other Expenses: | | | | | | |
| Contracted services | 58,273 | 66,091 | 98,527 | 15,476 | 4,357 | 67,837 |
| Supplies & equipment maintenance | 259,005 | 172,504 | 112,362 | 89,836 | 47,257 | 28,269 |
| Telephone | 12,935 | 17,128 | 13,781 | 10,774 | 4,062 | 10,022 |
| Postage | 4,829 | 4,766 | 3,640 | 4,495 | 803 | 2,618 |
| Occupancy | 116,973 | 258,256 | 83,031 | 130,566 | 44,695 | 36,705 |
| Outside printing | 830 | 796 | 3,064 | 694 | 100 | 356 |
| Travel | 30,981 | 35,402 | 25,064 | 23,537 | 6,772 | 15,405 |
| Conferences & meetings | 13,760 | 4,241 | 9,738 | 13,153 | 526 | 1,357 |
| Subscriptions | 1,627 | 561 | 1,025 | 268 | 166 | 359 |
| Client assistance | 47,727 | 43,324 | 16,033 | 2,934 | 5,909 | 21 |
| Dues | 14,545 | 10,187 | 289 | 1,918 | 1,350 | 4,670 |
| Other expenses | 26,640 | 27,441 | 19,839 | 27,892 | 3,135 | 9,002 |
| Depreciation - bldg/equipment | 149,377 | 52,295 | 24,423 | 66,722 | 6,527 | 20,635 |
| Bad debts | - | - | 15,204 | - | - | - |
| Total Functional Expenses | \$ 3,063,794 | \$ 2,211,426 | \$ 1,335,133 | \$ 2,345,531 | \$ 379,939 | \$ 976,983 |

See accompanying notes to financial statements.

PROGRAM SERVICES

| Counseling | Adoption | Hillcrest Supported Living IPRS/Voc | Family Empowerment Center | Transitional Housing | Washington County MHC | Big Brothers/ Big Sisters | Other | Program Services Total |
|-------------------|-------------------|--|---------------------------------|-------------------------|-----------------------------|------------------------------|------------------|------------------------------|
| \$ 188,436 | \$ 72,611 | \$ 614,317 | \$ 44,600 | \$ 34,804 | \$ 163,286 | \$ 116,412 | \$ 34,734 | \$ 7,452,716 |
| 19,102 | 7,039 | 78,407 | 7,628 | 6,853 | 17,899 | 21,316 | 13,101 | 1,279,665 |
| 12,621 | 4,934 | 45,185 | 3,811 | 2,329 | 12,059 | 8,186 | 4,431 | 546,832 |
| \$ 220,159 | \$ 84,584 | \$ 737,909 | \$ 56,039 | \$ 43,986 | \$ 193,244 | \$ 145,914 | \$ 52,266 | \$ 9,279,213 |
| 6,961 | 9,392 | 7,958 | 415 | 1,319 | 83,983 | 77,887 | 1,713 | 500,189 |
| 3,255 | 1,855 | 11,747 | 2,814 | 5,412 | 9,440 | 16,326 | 3,113 | 763,195 |
| 533 | 1,364 | 10,832 | 3,972 | 2,799 | 4,215 | 252 | 1,574 | 94,243 |
| 192 | 498 | 2,198 | 201 | - | 1,676 | 295 | 2,453 | 28,664 |
| 12,608 | 14,438 | 34,201 | 16,272 | 17,380 | 211 | 7,851 | 16,005 | 789,192 |
| 47 | 23 | 280 | 37 | - | 210 | 477 | 182 | 7,196 |
| 2,075 | 5,622 | 30,058 | 295 | 860 | 3,901 | 3,222 | 4,706 | 187,900 |
| 3,135 | 826 | 2,879 | 87 | 884 | 891 | 6,507 | 1,160 | 59,144 |
| 79 | 194 | 272 | 8 | - | 175 | 10 | 339 | 5,083 |
| - | - | 1,289 | 79 | - | - | 96 | 3 | 117,415 |
| 1,088 | 319 | 4,630 | 264 | - | 1,270 | 2,022 | 256 | 42,808 |
| 6,484 | 593 | 9,311 | 1,001 | 789 | 8,413 | 2,780 | 4,946 | 148,266 |
| 4,451 | 1,726 | 22,107 | 6,905 | 29,686 | 6,152 | 4,110 | - | 395,116 |
| - | - | - | - | - | - | - | - | 15,204 |
| <u>\$ 261,067</u> | <u>\$ 121,434</u> | <u>\$ 875,671</u> | <u>\$ 88,389</u> | <u>\$ 103,115</u> | <u>\$ 313,881</u> | <u>\$ 267,749</u> | <u>\$ 88,716</u> | <u>\$ 12,432,828</u> |

SUPPORT SERVICES

| Development Fund | Event- Lights Fund | Support Services Total | Total All Funds |
|---------------------|--------------------------|------------------------------|-----------------------|
| \$ 130,852 | \$ - | \$ 130,852 | \$ 7,583,568 |
| 19,031 | - | 19,031 | 1,298,696 |
| <u>9,751</u> | <u>-</u> | <u>9,751</u> | <u>556,583</u> |
| \$ 159,634 | \$ - | \$ 159,634 | \$ 9,438,847 |
| 48,390 | - | 48,390 | 548,579 |
| 8,201 | - | 8,201 | 771,396 |
| 1,514 | - | 1,514 | 95,757 |
| 5,185 | - | 5,185 | 33,849 |
| 6,637 | - | 6,637 | 795,829 |
| 19,651 | - | 19,651 | 26,847 |
| 3,641 | - | 3,641 | 191,541 |
| 1,837 | - | 1,837 | 60,981 |
| 18 | - | 18 | 5,101 |
| 1 | - | 1 | 117,416 |
| 952 | - | 952 | 43,760 |
| 15,685 | 103,372 | 119,057 | 267,323 |
| 7,360 | - | 7,360 | 402,476 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>15,204</u> |
| <u>\$ 278,706</u> | <u>\$ 103,372</u> | <u>\$ 382,078</u> | <u>\$ 12,814,906</u> |

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

| | Current Funds | Development Fund | Special Event- Lights Fund | Total All Funds 2006 | 2005 |
|---|------------------|---------------------|-------------------------------------|-------------------------------|------------------|
| Cash Flows From Operations: | | | | | |
| Increase (Decrease) in total net assets | \$ (228,815) | \$ 379,267 | \$ 86,696 | \$ 237,148 | \$ 459,027 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | | | |
| Receipt of land investment (donation) | - | (1,050) | - | (1,050) | - |
| Investment income reinvested | - | (67,535) | - | (67,535) | (45,561) |
| Depreciation | 413,319 | 6,865 | - | 420,184 | 402,476 |
| Transfers | 76,921 | 8,079 | (85,000) | - | - |
| Realized (gain) loss on investments | - | (171,353) | - | (171,353) | (100,633) |
| Unrealized (gain) loss on investments | - | (147,161) | - | (147,161) | (63,771) |
| Bad debt expense | 214,170 | - | - | 214,170 | 15,204 |
| Gain on sale of assets | (8,978) | - | - | (8,978) | (1,902) |
| (Increase) Decrease in operating assets | | | | | |
| Accounts receivable | (1,046,923) | (4,545) | - | (1,051,468) | 7,506 |
| Inventory | (600) | - | - | (600) | (2,178) |
| Unconditional promises to give | (2,000) | 120,328 | - | 118,328 | 164,515 |
| Prepaid expenses | 5,910 | 217 | - | 6,127 | 14,824 |
| Increase (Decrease) in Operating Liabilities: | | | | | |
| Accounts payable | 74,218 | 12,076 | - | 86,294 | 26,969 |
| Accrued payroll & withholdings | 56,128 | 287 | - | 56,415 | 36,815 |
| Accrued vacation payable | 56,372 | (1,393) | - | 54,979 | 23,336 |
| Net Cash Provided (Used) by Operating Activities | \$ (390,278) | \$ 134,082 | \$ 1,696 | \$ (254,500) | \$ 936,627 |
| Cash Flows From Investing Activities: | | | | | |
| Purchase of buildings/equipment | \$ (312,737) | \$ (4,500) | \$ - | \$ (317,237) | \$ (247,891) |
| Purchase of investments | - | (986,461) | - | (986,461) | (1,097,632) |
| Proceeds from sale of investments | - | 919,239 | - | 919,239 | |
| Proceeds from sale of equipment | 14,000 | - | - | 14,000 | 813,731 |
| Net Cash Provided (Used) by Investing Activities | \$ (298,737) | \$ (71,722) | \$ - | \$ (370,459) | \$ (531,792) |

See accompanying notes to financial statements.

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005

| | Current Funds | Development Fund | Special Event- Lights Fund | Total All Funds 2006 | 2005 |
|---|-------------------------|----------------------------|-------------------------------------|-------------------------------|----------------------------|
| Cash Flows From Financing Activities: | | | | | |
| Increase (Decrease) in cash overdraft | \$ 440,467 | \$ - | \$ - | \$ 440,467 | \$ (183,651) |
| Borrowings under line of credit | 4,319,092 | - | - | 4,319,092 | 3,192,502 |
| Payments on line of credit | (3,964,643) | - | - | (3,964,643) | (3,382,502) |
| Long-term debt borrowings | - | - | - | - | 83,416 |
| Payments on long-term debt | <u>(132,221)</u> | <u>(2,043)</u> | - | <u>(134,264)</u> | <u>(144,285)</u> |
| Net Cash Provided (Used) by Financing Activities | <u>\$ 662,695</u> | <u>\$ (2,043)</u> | <u>\$ -</u> | <u>\$ 660,652</u> | <u>\$ (434,520)</u> |
| Net Increase (Decrease) in Cash | \$ (26,320) | \$ 60,317 | \$ 1,696 | \$ 35,693 | \$ (29,685) |
| Cash - Beginning of Year | <u>90,914</u> | <u>2,775,743</u> | <u>58,562</u> | <u>2,925,219</u> | <u>2,954,904</u> |
| Cash - End of Year | <u><u>\$ 64,594</u></u> | <u><u>\$ 2,836,060</u></u> | <u><u>\$ 60,258</u></u> | <u><u>\$ 2,960,912</u></u> | <u><u>\$ 2,925,219</u></u> |
| | | | | | |
| Cash Paid for Interest | <u><u>\$ 31,404</u></u> | <u><u>\$ 314</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 31,718</u></u> | <u><u>\$ 28,364</u></u> |
| | | | | | |
| Non-Cash Investing and Financing Activities: | | | | | |
| Net unrealized gain (loss) on investments | \$ - | \$ 147,161 | \$ - | \$ 147,161 | \$ 63,771 |
| Investment income reinvested | - | 67,535 | - | 67,535 | 45,561 |
| Receipt of land investment (donation) | - | 1,050 | - | 1,050 | - |

See accompanying notes to financial statements.

**HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA**

**NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005**

Note 1 - Nature of Activities and Significant Accounting Policies:

Hillcrest Family Services, Inc. provides a range of educational, counseling, and health services to individuals and families in an effort to improve the welfare of the clients. The Organization's clientele is based in eastern Iowa and is therefore dependent upon the economic well-being of this area. Also, the Organization receives significant amounts of funding through their purchase of service agreements with the State of Iowa.

Basis of Accounting: The financial statements of Hillcrest Family Services, Inc. have been prepared on the accrual basis of accounting.

The accounts of the Organization are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and net assets of the Organization are reported in three self-balancing fund groups as follows:

- Current Funds represent the portion of expendable funds which are available for support of the Organization's operations/programs.
- Development Fund represents the portion of expendable funds which are available for the Organization's fund-raising and development activities.
- Special Event - Lights Fund represents the activities of the annual "Reflections in the Park" fund raising effort located in Dubuque, Iowa. On an annual basis, amounts from this event are allocated to the Development and Current Funds to support the Organization's capital and operating expenditure needs.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable: The Organization uses the allowance method of accounting for bad debts and uncollectible billings.

**HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA**

**NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005**

Note 1 - Nature of Activities and Significant Accounting Policies: (Continued)

Inventory Valuation: Inventory, consisting of contraceptive supplies, is valued at the lower of cost or market determined on the first-in, first-out (FIFO) basis.

Land, Buildings and Equipment: Fixed assets acquired prior to October 31, 1974, have been recorded at their appraised value at October 31, 1975. All assets acquired after October 31, 1974, have been recorded at cost, if purchased, or market value at date of gift, if donated. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Major repairs and betterments are capitalized and ordinary and necessary repairs are expensed. When an asset is sold or disposed of the related cost and accumulated depreciation are removed and any gain or loss is recorded as revenue or expense.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Promises to Give: Contributions are recognized when the donor makes a promise to give the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Goods and Services: Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Note 2 - Tax-Exempt Status:

Hillcrest Family Services, Inc. is a nonprofit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. The Organization, however, would not be exempt from income taxes on any unrelated business income it may receive.

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005

Note 3 - Investments:

| | 2006 | | 2005 | |
|---------------------|--------------|--------------|--------------|--------------|
| | Market Value | Cost | Market Value | Cost |
| Money market | \$ 77,659 | \$ 77,659 | \$ 198,167 | \$ 198,167 |
| Government agencies | 769,061 | 790,225 | 558,907 | 584,599 |
| Common stocks | 1,784,810 | 1,450,829 | 1,099,564 | 1,001,543 |
| Mutual/bond funds | 241,912 | 243,847 | 565,010 | 473,618 |
| Land - Arizona | 1,050 | 1,050 | - | - |
| | \$ 2,874,492 | \$ 2,563,610 | \$ 2,421,648 | \$ 2,257,927 |

Market values obtained from quoted sources and property tax assessments.

Note 4 - Beneficial Interest in Assets Held by Others:

In 2004, the Organization transferred \$10,000 from its investment portfolio to the Community Foundation of Greater Dubuque to establish an endowment fund. Under the terms of the agreement, each year the Organization may elect to receive a distribution equal to the investment return generated by the transferred assets during the prior year. The Organization can withdraw all or a portion of the original amount transferred, any accumulated earnings on those transferred assets, or both, provided that a majority of the governing boards of the Organization and the Foundation approve of the withdrawal. At the time of the transfer, the Organization granted variance power to the Foundation. That power gives the Foundation the right to distribute the investment income to another not-for-profit organization of its choice if the Organization ceases to exist. This power also permits the Foundation Board to amend, modify, or vary any of the purposes, directions, restrictions, or conditions of the agreement if such restrictions or conditions become in effect unnecessary, and/or incapable of fulfillment. However, the Foundation is under the obligation to respect the purposes for which this fund was established and the programs of the Organization for which it is designed to support. At October 31, 2006 and 2005, the endowment fund had a value of \$12,377 and \$10,900, respectively, which is reported in the statement of financial position as beneficial interest in assets held by others.

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005

Note 5 - Land, Buildings, Equipment and Depreciation:

A summary of land, buildings and equipment used in operations is as follows:

| | 2006 | 2005 | Useful Life in Year |
|--------------------------------|--------------|--------------|---------------------------|
| Land | \$ 40,000 | \$ 40,000 | 0 |
| Parking Lots | 140,480 | 136,386 | 10 |
| Leasehold Improvements | 30,130 | 30,130 | 15 |
| Buildings | 6,267,036 | 6,265,652 | 10-33 |
| Furniture & Fixtures | 1,593,395 | 1,367,407 | 5-10 |
| Vehicles | 512,007 | 550,560 | 5 |
| | \$ 8,583,048 | \$ 8,390,135 | |
| Less: Accumulated Depreciation | (4,096,587) | (3,795,705) | |
| | \$ 4,486,461 | \$ 4,594,430 | |

Note 6 - Promises to Give:

Unconditional promises to give are as follows:

| | 2006 | 2005 |
|--|------------|------------|
| United Way Services: | | |
| Estimated receivable in less than one year | \$ 92,000 | \$ 90,000 |
| Estimated receivable in one to five years | - | - |
| | \$ 92,000 | \$ 90,000 |
| Pledges Receivable: | | |
| Estimated receivable in less than one year | \$ 76,611 | \$ 95,763 |
| Estimated receivable in one to five years | 11,455 | 112,631 |
| | \$ 88,066 | \$ 208,394 |
| Total | \$ 180,066 | \$ 298,394 |

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005

Note 7 - Notes and Other Long-Term Payables:

| | 2006 | 2005 |
|---|------------|------------|
| <i>Notes Payable</i> | | |
| American Trust & Savings Bank, installment loan secured by two vehicles, monthly payments including interest at 5.24%, due 4/8/10 | \$ 27,723 | \$ 34,798 |
| U.S. Bank, installment loans secured by three vehicles, monthly payments including interest at 6.23%, due 5/16/06 | - | 7,196 |
| U.S. Bank, Real Estate Mortgages: | | |
| Marywood, \$706 per month, 7.25%, due 3/20/07 | 2,654 | 10,613 |
| Vizaleea, \$630 per month, 7.25%, due 3/20/07 | 2,076 | 9,199 |
| Dana, \$937 per month, 7.61%, due 5/20/11 | 42,730 | 48,578 |
| New Pathways, \$740 per month, 7.61%, due 5/20/11 | 32,677 | 40,969 |
| American Trust & Savings Bank, construction loan monthly payments of \$1,850 at 5.33%, due 12/01/08 | 129,680 | 144,445 |
| East Dubuque Savings Bank, installment loans secured by nine vehicles, interest at 4.65-5.49%, due 9/20/07 to 9/20/10 | 76,563 | 109,737 |
| Iowa Finance Authority, monthly payments of \$1,333 at 0.00%, due 8/01/08 | 9,334 | 14,667 |
| U.S. Bank - Operating Line of Credit - variable rate, currently at 8.07%, due 6/1/07 | 354,450 | - |
| Total Notes Payable | \$ 677,887 | \$ 420,202 |
| <i>Other Long-Term Payables</i> | | |
| Due former employee, 0% interest, annual payments of \$37,500 until 7/01/06 | \$ - | \$ 37,500 |

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005

Note 7 - Notes and Other Long-Term Payables: (Continued)

Aggregate maturities of notes and other long-term payables are as follows:

| Year Ended October 31, | |
|---------------------------|------------|
| 2007 | \$ 435,877 |
| 2008 | 68,021 |
| 2009 | 132,837 |
| 2010 | 32,243 |
| 2011 and thereafter | 8,909 |
| | \$ 677,887 |

Note 8 - Accrued Advance - WIC:

The Iowa Department of Public Health has paid an advance in 2006 and 2005 totaling \$43,666 for the following fiscal year under the Women, Infants and Children contract.

Note 9 - Pension Plans:

A defined-benefit pension plan is provided for substantially all of Hillcrest Family Services, Inc. nonbargaining employees. The retirement plan was administered through Mutual of America in fiscal year 2005 and by Heartland Financial USA, Inc. in fiscal year 2006. Plan benefits are based primarily on years of service and employee's compensation near retirement. Plan assets consist primarily of a fixed income account and a pooled common stock separate account.

The actuarially computed pension cost for the years ended October 31, 2006 and 2005, included the following components:

| | 2006 | 2005 |
|--|--------------|--------------|
| Actuarial present value of benefit obligations: | | |
| Accumulated benefit obligations | \$ 3,597,013 | \$ 3,001,632 |
| Plan assets at fair value | 3,685,579 | 3,284,827 |
| Plan assets in excess of accumulated benefit obligation | \$ 88,566 | \$ 283,195 |

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005

Note 9 - Pension Plans: (Continued)

Net periodic pension costs for the years ended October 31, 2006 and 2005, included the following components:

| | 2006 | 2005 |
|---|------------|------------|
| Service cost | \$ 350,332 | \$ 364,771 |
| Interest cost | 232,588 | 254,130 |
| Expected return on plan assets | (264,793) | (270,560) |
| Amortization - Unrecognized net transition obligation | 74,171 | 74,171 |
| | \$ 392,298 | \$ 422,512 |

The weighted-average assumptions used to determine the projected benefit obligation was as follows:

| | 2006 | 2005 |
|--------------------------------|-------|-------|
| Discount rate | 5.75% | 5.75% |
| Rate of compensation increases | 4.50% | 4.50% |
| Expected return on plan assets | 8.00% | 8.00% |

Additional Information Necessary to Comply with Revised FAS No. 132 Requirements

a) Expected Future Benefit Payments:

The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:

| Fiscal Year Ending | | | |
|--------------------|--|----|-----------|
| 2007 | | \$ | 250,000 |
| 2008 | | | 193,000 |
| 2009 | | | 265,000 |
| 2010 | | | 193,000 |
| 2011 | | | 401,000 |
| 2012-2016 | | | 2,562,000 |

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005

Note 9 - Pension Plans: (Continued)

b) Plan Assets by Category:

| | 2006 | 2005 |
|-------------------|------|------|
| Equity Securities | 64% | 54% |
| Debt Securities | 34% | 46% |
| Other | 2% | 0% |
| Total | 100% | 100% |

c) Expected Long-Term Rate of Return on Plan Assets Assumption:

The Expected Long-Term Rate of Return on Plan Assets assumption of 8.00% was selected by Hillcrest Family Services, Inc. management. A detailed explanation of the selection of this assumption was not available at this time.

d) Estimate of Contributions Expected to be Paid for the Plan During the Next Fiscal Year:

\$ 288,000

e) Description of Investment Policies and Strategies:

Management expects a rate of return on plan assets sufficient to meet plan obligations. Current market conditions dictate a mixture of equity and debt securities be utilized as noted in b.

Hillcrest Family Services, Inc. also maintains a defined contribution plan covering its bargaining employees. The Company contributed 6% of the employee's annual salary to the plan until August 31, 2006. The defined contribution plan expense for the years ended October 31, 2006 and 2005, was \$33,408 and \$32,767, respectively.

Effective September 1, 2006, the Organization initiated a 401-K retirement plan for its eligible maintenance employees. Length of service and age requirements are twenty-one (21) years of age and two (2) years of service. Vesting is full and immediate upon completion of the service requirements. The Organization will make a three percent (3%) contribution based on the wage of the employee. Also, the Organization will make a 50% match up to 2% of the employee's contribution. Effective November 1, 2008, the Organization will make a 50% match-up to 4% of the employee's contribution.

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005

Note 9 - Pension Plans: (Continued)

Effective October 1, 2006, the Organization initiated a 401-K retirement plan for its eligible teacher associate employees. Eligibility requirements are the same as discussed above. The Organization will contribute three percent (3%) based on the wage of the employee. The Organization will make a 50% match up to 2% of the employee's contribution. Effective August 17, 2008, the Organization will make a 50% match up to 4% of the employee's contribution

Note 10 - Functional Allocation of Expenses:

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various percentages.

Note 11 - Restrictions on Assets:

Unrestricted - Board designated net assets are available for the following purposes:

| | 2006 | 2005 |
|---|--------------|--------------|
| Regular Endowment - to supplement operations as needed | \$ 2,612,531 | \$ 2,207,019 |
| Emergency Reserve - available to supplement operations | 322,734 | 318,244 |
| Liability self insurance/ insurance | 62,074 | 88,694 |
| | \$ 2,997,339 | \$ 2,613,957 |

Temporarily restricted net assets are available for the following purposes or periods:

| | | |
|---|------------|------------|
| For subsequent period - United Way Education | \$ 92,000 | \$ 90,000 |
| | 106,027 | 113,180 |
| | \$ 198,027 | \$ 203,180 |

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005

Note 11 - Restrictions on Assets: (Continued)

Permanently restricted net assets consists of endowment investments to be held indefinitely, the income from which is expendable for current operational needs.

| | | |
|------------|-------------------|-------------------|
| Operations | <u>\$ 160,210</u> | <u>\$ 130,920</u> |
|------------|-------------------|-------------------|

Note 12 - Net Assets Released From Restrictions:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors or the related time restrictions expired during the year.

| | <u>2006</u> | <u>2005</u> |
|----------------------------|------------------|-------------------|
| United Way Funding | \$ 90,000 | \$ 84,027 |
| Construction/capital needs | <u>-</u> | <u>104,199</u> |
| | <u>\$ 90,000</u> | <u>\$ 188,226</u> |

Note 13 - Concentration of Credit Risk - Cash:

The Organization maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 14 - Temporarily Restricted Net Assets - Pledge Forgiveness:

The Organization released a donor from his \$20,000 pledge commitment. In lieu of this pledge, the donor made a \$20,000 donation to the Organization's endowment fund under the Community Foundation of Greater Dubuque.

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005

Note 15 - Operating Leases:

The Organization has entered into various operating leases for a vehicle and space for its programs. Future minimum rental payments at October 31, 2006 are as follows:

| | |
|------|--------------------------|
| 2007 | \$ 250,863 |
| 2008 | 162,206 |
| 2009 | 82,406 |
| 2010 | 78,061 |
| 2011 | <u>10,911</u> |
| | <u><u>\$ 584,447</u></u> |

Total rental expenses under these leases for the years ended October 31, 2006 and 2005 were \$310,383 and \$311,672, respectively.

Note 16 - Property Lien and Grant Agreement:

In 2002, the Organization received funding from the U.S. Department of Housing and Urban Development (HUD) for the acquisition and rehabilitation of a property to be used as housing for homeless persons. HUD requires that for a period of twenty (20) years from the date of initial occupancy, the project be operated in accordance with the requirements of the Grant Agreement.

Also, the Organization is required to execute and file for record a deed restriction, covenant running with the land or similar arrangement that will assure to HUD's satisfaction, compliance with the twenty-year term of commitment and a lien against the property, in a form to be approved by HUD, to secure HUD's interest in the repayment of the grant.

If the Organization wishes to sell or otherwise dispose of the assisted real property, they must request and receive written approval from the Department to dispose of the real property, advertise that disposition conditions apply to the assisted property, and abide by any other terms or conditions prescribed by HUD.

Note 17 - Related Party Transactions:

During the years ended October 31, 2006 and 2005, the Organization had transactions with a company which was owned by a Board of Trustees member.

| | | |
|--|------------------|------------------|
| | <u>2006</u> | <u>2005</u> |
| Bird Chevrolet - automobile purchase and repairs | <u>\$ 15,281</u> | <u>\$ 38,125</u> |

**HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA**

**NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006 AND 2005**

Note 18 - Bequest - Income Beneficiary:

The Organization has been named as the income beneficiary of the Augusta Eighmey Clapp Endowment Fund. This endowment fund is held and maintained by the General Board of Global Ministries of the United Methodist Church. In October 2005, the Organization received \$89,580 which represented accumulated gains since inception of the Fund. The \$25,000 principal of the Fund remains with the General Board of Global Ministries and 76.4845% of the income is to be distributed annually to the Organization.

Note 19 - Pending Litigation/Contingencies:

- A. A civil lawsuit has been filed on behalf of the estate of a former client. No specific amount of monetary damages is being sought. A trial is set to begin on January 8, 2008. At this point, the case is in its early stages and is being vigorously contested by the Organization's insurer. Management feels any damages sought should be covered by their insurance policy. Available policy limits are \$1 million.

- B. The Iowa Department of Human Services (DHS) has performed billing audits of the Organization with respect to billings for certain youth treatment services the Organization has provided and has asserted that DHS has overpaid the Organization. These three (3) audits are pending and in various stages. Two (2) of the audits have been appealed to an administrative hearing officer but are in the preliminary stages of appeal, and no discovery has yet been conducted. The DHS has issued a final report with respect to the third audit, but this report is not yet appealable. This audit should become appealable in the near future and the Organization intends to appeal at that time. The Organization intends to vigorously contest these claims and believes it has a high likelihood of success on the merits. The parties are currently discussing settlement of these matters. The maximum amount of potential loss on these audits is \$421,197. Due to the preliminary status of these audits, the Organization's legal counsel is currently unable to evaluate the likelihood of an unfavorable outcome or to estimate the amount or range of potential loss.

Supplemental Information

**HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA**

**SCHEDULE OF PROGRAM SERVICES FEES
FOR THE YEARS ENDED OCTOBER 31, 2006 AND 2005**

| | <u>2006</u> | <u>2005</u> |
|-------------------------------------|-----------------------------|-----------------------------|
| Program Service Fees: | | |
| Residential treatment | \$ 3,027,735 | \$ 3,052,141 |
| CMI group homes | 2,292,739 | 2,136,624 |
| Health services | 470,008 | 394,135 |
| Schools | 2,536,814 | 2,406,560 |
| Shelter | 502,640 | 378,015 |
| Family Centered Services | 557,843 | 762,436 |
| Counseling | 173,145 | 204,409 |
| Adoption | 186,248 | 97,580 |
| Hillcrest supported living/IPRS/VOC | 1,141,601 | 904,499 |
| Family Empowerment Center | 99,310 | 94,667 |
| Transitional housing | 860 | 2,015 |
| Washington County MHC | 260,928 | 258,594 |
| Dubuque County MHC | 795,033 | - |
| Jackson County MHC | 136,910 | - |
| Other | - | 23,315 |
| | <u> </u> | <u> </u> |
| Total Program Service Fees | <u><u>\$ 12,181,814</u></u> | <u><u>\$ 10,714,990</u></u> |

See accompanying independent auditor's report.

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

SCHEDULE OF REVENUES AND EXPENSES
WIC - CONTRACT # 5886AO35
MATERNAL HEALTH - CONTRACT # 5886MH13
ABSTINENCE ONLY - CONTRACT # 5885AB71 & 5886AB48
CONTRACT PERIOD: OCTOBER 1, 2005 THROUGH SEPTEMBER 30, 2006

| | <u>WIC</u> | <u>Maternal Health</u> | <u>Abstinence Only</u> |
|------------------------------------|-----------------------|----------------------------|----------------------------|
| Revenues: | | | |
| Iowa Dept. of Public Health | \$ 581,092 | \$ 67,381 | \$ 13,757 |
| Title XIX | 44 | 144,817 | - |
| United Way | - | 2,950 | - |
| Miscellaneous | <u>2,719</u> | <u>1,853</u> | <u>10</u> |
| Total Revenues | <u>\$ 583,855</u> | <u>\$ 217,001</u> | <u>\$ 13,767</u> |
| Expenses: | | | |
| Payroll expense | \$ 350,593 | \$ 110,957 | \$ 7,375 |
| Fringe benefits | 59,310 | 15,209 | 655 |
| Payroll taxes | 26,057 | 8,072 | 452 |
| Contracted services | 4,452 | 66,872 | 4,730 |
| Supplies and equipment maintenance | 32,754 | 3,791 | 1,201 |
| Telephone | 8,530 | 303 | 133 |
| Postage | 1,561 | 1,217 | 4 |
| Occupancy | 62,666 | 9,778 | - |
| Outside printing | 10 | 445 | - |
| Travel | 19,008 | 2,994 | 399 |
| Conferences and meetings | 5,201 | 723 | 225 |
| Subscriptions | 33 | 16 | - |
| Client assistance | 2,253 | (18) | 52 |
| Dues | 249 | 102 | - |
| Other | 11,443 | 4,675 | - |
| Depreciation | <u>7,942</u> | <u>7,370</u> | <u>-</u> |
| Total Expenses | <u>\$ 592,062</u> | <u>\$ 232,506</u> | <u>\$ 15,226</u> |
| Revenues Over (Under) Expenses | <u>\$ (8,207)</u> | <u>\$ (15,505)</u> | <u>\$ (1,459)</u> |

See accompanying independent auditor's report.

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED OCTOBER 31, 2006

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Grant Number | Program Expenditures |
|---|---------------------------|--|-------------------------|
| <u>Indirect:</u> | | | |
| <u>U.S. Department of Agriculture</u> | | | |
| Passed Through Iowa Department of Public Health | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 5886A035 5887A035 | \$ 522,512 44,790 |
| Passed Through Iowa Department of Education | | | |
| National School Lunch/Breakfast Programs | 10.555/ 10.553 | 31-8014 | 106,056 |
| <u>U.S. Department of Health and Human Services</u> | | | |
| Passed Through Iowa Department of Human Services | | | |
| CMHS Mental Health Block Grant | 93.958 | 06-0324-401- 6470-2349-18 07-0324-401- 6490-2349-84 | 28,574 |
| | 93.958 | 07-0324-401- 6490-2349-83 | 10,187 |
| Projects for Assistance in Transition from Homelessness | 93.150 | 06-0444-401- 6890-2597-03 (2006-2007) | 39,746 |
| Temporary Assistance to Needy Families Block Grant | 93.558 | - | 8,466 |
| Passed Through Iowa Department of Public Health | | | |
| Maternal and Child Health Services Block Grant | 93.994 | 5886MH13 5887MH13 | 45,103 8,285 |
| Abstinence Only Education Grant | 93.235 | 5886AB48 5887AB48 | 11,964 803 |
| Childhood Immunization Grant | 93.268 | 5885I435/ 5886I435 | 1,320 |
| HIV Prevention Project | 93.940 | 5885AP03/ 5886AP03 | 10,115 |
| Passed through State Department of Health and Human Services and Family Planning Council of Iowa | | | |
| Title X Family Planning | 93.217 | 412/420-FY2006 412/420-FY2007 | 97,857 46,693 |

SCHEDULE "3" (CONTINUED)

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED OCTOBER 31, 2006
(Continued)**

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Grant Number | Program Expenditures |
|---|---------------------------|-----------------|----------------------------|
| <u>Direct:</u> | | | |
| <u>U.S. Department of Housing and Urban Development</u> | | | |
| Supportive Housing Program | 14.235 | 31-8014 | 51,248 |
| <u>U.S. Department of Education</u> | | | |
| Mentoring Program Grants | 84.184B | Q184B040951 | 170,984 |
| Total | | | <u><u>\$ 1,204,703</u></u> |

This schedule of expenditures of federal awards is presented on the accrual basis of accounting.
See accompanying independent auditor's report.

**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**

Board of Directors
Hillcrest Family Services, Inc.
Dubuque, Iowa

We have audited the accompanying financial statements of Hillcrest Family Services, Inc. as of and for the year ended October 31, 2006, and have issued our report thereon dated May 16, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Organization in a separate letter dated May 16, 2007.

This report is intended solely for the information and use the board of directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa
May 16, 2007

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Hillcrest Family Services, Inc.
Dubuque, Iowa

Compliance

We have audited the compliance of Hillcrest Family Services, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended October 31, 2006. Hillcrest Family Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Hillcrest Family Services, Inc. Our responsibility is to express an opinion on Hillcrest Family Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 Hillcrest Family Services, Inc.'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. Our audit does not provide a legal determination on Hillcrest Family Services, Inc.'s compliance with those requirements.

In our opinion, Hillcrest Family Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended October 31, 2006.

Internal Control Over Compliance

The management of Hillcrest Family Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hillcrest Family Services, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, board of directors, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa
May 16, 2007

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED OCTOBER 31, 2006

Part I: Summary of the Independent Auditor's Results

- a) An unqualified opinion was issued on the financial statements.
- b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any noncompliance which is material to the financial statements.
- d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g) Major programs were as follows:
 - CFDA Number 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children
 - CFDA Number 14.235 - Supportive Housing Program (HUD)Clustered programs:
 - CFDA Number 10.555 - School Lunch Program
 - CFDA Number 10.553 - School Breakfast Program
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i) Hillcrest Family Services, Inc. did not qualify as a low-risk auditee.

HILLCREST FAMILY SERVICES, INC.
DUBUQUE, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED OCTOBER 31, 2006

Part II: Findings Related to the Financial Statements

Instances of Noncompliance:

No matters were reported.

Reportable Conditions/Material Weaknesses:

No matters were reported.

Part III: Findings and Questioned Costs for Federal Awards

CFDA Number 10.557 - Special Supplemental Nutrition Program for Women,
Infants, and Children

CFDA Number 14.235 - Supportive Housing Program (HUD)

Instances of Noncompliance:

No matters were reported.

Reportable Conditions/Material Weaknesses:

No matters were reported.