

Financial Statements
October 31, 2009 and 2008
Hillcrest Family Services, Inc.

HILLCREST FAMILY SERVICES, INC.

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4-5
Statement of Functional Expenses - October 31, 2009	6-7
Statement of Functional Expenses - October 31, 2008	8-9
Statements of Cash Flows	10
Notes to Financial Statements	11-30
SUPPLEMENTARY INFORMATION	
Schedule(s)	
Program Service Fees and Grants, net	31
Mental Health Center Expenses	32
Revenues and Expenses:	
WIC – Contract # 5888AO35	33
Maternal Health – Contract # 5888MH13	33
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	34
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	35-36
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	37-38
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	39-41



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Hillcrest Family Services, Inc., as of October 31, 2009 and 2008, and the related statements of activities and changes in net assets, 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 financial statements referred to above present fairly, in all material respects, the financial position of Hillcrest Family Services, Inc., as of October 31, 2009 and 2008, 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 March 25, 2010, on our consideration of Hillcrest Family Services, Inc.'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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Organization. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audits 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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
March 25, 2010

HILLCREST FAMILY SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
OCTOBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,163,949	\$ 74,499
Cash - custodial	54,045	45,862
Receivables		
Program service fees, net of allowances of \$127,763 in 2009 and \$174,550 in 2008	2,061,905	2,369,589
Program grants	305,290	698
Estimated third-party payor settlements	992,817	935,008
Promises to give – Note 7	166,696	131,450
Inventory	29,243	22,123
Prepaid expenses	<u>151,576</u>	<u>125,512</u>
Total current assets	<u>5,925,521</u>	<u>3,704,741</u>
LAND, BUILDINGS AND EQUIPMENT, net – Note 6	<u>4,173,278</u>	<u>3,911,201</u>
OTHER ASSETS		
Promises to give – Note 7	209,463	109,081
Investments – Note 3	1,214,721	2,699,129
Beneficial interest in net assets of community foundation – Note 4	<u>10,530</u>	<u>9,191</u>
Total other assets	<u>1,434,714</u>	<u>2,817,401</u>
 Total assets	 <u>\$ 11,533,513</u>	 <u>\$ 10,433,343</u>

See notes to financial statements.

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt – Note 9	57,547	133,418
Refunds payable - Note 8	224,150	189,758
Custodial funds	54,045	45,862
Accounts payable		
Trade	361,747	298,857
Estimated health claims payable - Note 11	60,000	40,000
Accrued expenses		
Salaries and wages	197,505	178,009
Vacation	414,465	389,892
Payroll taxes and other	209,018	222,530
Pension liability – Note 11	1,779,781	1,568,783
Deferred revenue – Note 10	<u>298,096</u>	<u>220,802</u>
 Total current liabilities	 3,656,354	 3,287,911
 LONG-TERM DEBT, less current maturities – Note 9	 <u>147,905</u>	 <u>76,203</u>
 Total liabilities	 <u>3,804,259</u>	 <u>3,364,114</u>
NET ASSETS		
Unrestricted		
Undesignated	6,152,663	4,180,619
Designated by board – Note 3	100,000	174,598
Designated by board – quasi-endowment - Note 18	578,489	2,052,812
Temporarily restricted – Note 12	532,580	347,880
Permanently restricted – Note 12	<u>365,522</u>	<u>313,320</u>
 Total net assets	 <u>7,729,254</u>	 <u>7,069,229</u>
 Total liabilities and net assets	 <u>\$ 11,533,513</u>	 <u>\$ 10,433,343</u>

HILLCREST FAMILY SERVICES, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED OCTOBER 31, 2009 AND 2008

	2009			Total Net Assets
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	
SUPPORT AND REVENUE				
Public support				
Direct:				
Contributions	\$ 214,255	\$ 184,700	\$ 52,202	\$ 451,157
Bequests - trusts/estates	2,221	-	-	2,221
Bowl for Kids Sake	27,593	-	-	27,593
The Big Event	-	-	-	-
Special events - lights	144,610	-	-	144,610
Indirect:				
Grants - federal awards	1,377,021	-	-	1,377,021
Grants - other	313,095	-	-	313,095
United Way - Note 7	2,756	117,000	-	119,756
Total public support	<u>2,081,551</u>	<u>301,700</u>	<u>52,202</u>	<u>2,435,453</u>
Revenue				
Program service fees and grants, net - Note 2	15,394,219	-	-	15,394,219
Investment loss - Note 3	(193,853)	-	-	(193,853)
Miscellaneous	48,075	-	-	48,075
Net assets released from restrictions	117,000	(117,000)	-	-
Total revenue	<u>15,365,441</u>	<u>(117,000)</u>	<u>-</u>	<u>15,248,441</u>
Total public support and revenue	<u>17,446,992</u>	<u>184,700</u>	<u>52,202</u>	<u>17,683,894</u>
EXPENSES				
Program services	14,649,964	-	-	14,649,964
Supporting services				
General and administrative	2,092,851	-	-	2,092,851
Mission Advancement	485,626	-	-	485,626
Special event - lights	108,270	-	-	108,270
Total expenses	<u>17,336,711</u>	<u>-</u>	<u>-</u>	<u>17,336,711</u>
PUBLIC SUPPORT AND REVENUE IN EXCESS OF EXPENSES	110,281	184,700	52,202	347,183
OTHER CHANGES IN NET ASSETS				
Change in unrealized gains and losses on investments - Note 3	310,712	-	-	310,712
Gain on disposal of assets	2,130	-	-	2,130
Net asset reclassification	-	-	-	-
Pension - related changes other than net periodic pension costs - Note 11	-	-	-	-
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 423,123</u>	<u>\$ 184,700</u>	<u>\$ 52,202</u>	<u>\$ 660,025</u>

See notes to financial statements.

2008

Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 244,793	\$ 154,773	\$ 102,320	\$ 501,886
4,181	-	-	4,181
28,092	-	-	28,092
2,671	-	-	2,671
221,335	-	-	221,335
1,142,791	-	-	1,142,791
351,177	-	-	351,177
44,919	117,000	-	161,919
<u>2,039,959</u>	<u>271,773</u>	<u>102,320</u>	<u>2,414,052</u>
14,846,382	-	-	14,846,382
(210,014)	-	-	(210,014)
40,813	-	-	40,813
92,000	(92,000)	-	-
<u>14,769,181</u>	<u>(92,000)</u>	<u>-</u>	<u>14,677,181</u>
<u>16,809,140</u>	<u>179,773</u>	<u>102,320</u>	<u>17,091,233</u>
13,653,495	-	-	13,653,495
2,485,915	-	-	2,485,915
295,101	-	-	295,101
118,210	-	-	118,210
<u>16,552,721</u>	<u>-</u>	<u>-</u>	<u>16,552,721</u>
256,419	179,773	102,320	538,512
(563,434)	-	-	(563,434)
130,394	-	-	130,394
(20,000)	-	20,000	-
<u>(1,403,330)</u>	<u>-</u>	<u>-</u>	<u>(1,403,330)</u>
<u>\$ (1,599,951)</u>	<u>\$ 179,773</u>	<u>\$ 122,320</u>	<u>\$ (1,297,858)</u>

(continued)

HILLCREST FAMILY SERVICES, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (continued)
YEARS ENDED OCTOBER 31, 2009 AND 2008

	2009			Total Net Assets
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 423,123</u>	<u>\$ 184,700</u>	<u>\$ 52,202</u>	<u>\$ 660,025</u>
NET ASSETS, BEGINNING OF YEAR	<u>6,408,029</u>	<u>347,880</u>	<u>313,320</u>	<u>7,069,229</u>
NET ASSETS, END OF YEAR	<u>\$ 6,831,152</u>	<u>\$ 532,580</u>	<u>\$ 365,522</u>	<u>\$ 7,729,254</u>

See notes to financial statements.

2008

<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total Net Assets</u>
<u>\$ (1,599,951)</u>	<u>\$ 179,773</u>	<u>\$ 122,320</u>	<u>\$ (1,297,858)</u>
<u>8,007,980</u>	<u>168,107</u>	<u>191,000</u>	<u>8,367,087</u>
<u>\$ 6,408,029</u>	<u>\$ 347,880</u>	<u>\$ 313,320</u>	<u>\$ 7,069,229</u>

HILLCREST FAMILY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2009

	Program Services						
	Residential Education	CMI Group Homes	Health Services	Schools	Shelter	Family Centered Services	Counseling
Salaries	\$ 1,633,035	\$ 1,323,567	\$ 978,464	\$ 2,263,257	\$ 233,413	\$ 125,819	\$ 46,068
Fringe benefits	360,716	258,229	208,759	516,886	49,186	23,408	11,710
Payroll taxes and other	118,636	96,808	71,032	163,321	17,102	9,309	2,608
Total personnel expenses	2,112,387	1,678,604	1,258,255	2,943,464	299,701	158,536	60,386
Contracted services	75,441	60,379	80,024	15,770	7,246	2,156	4,135
Supplies and equipment maintenance	177,481	170,940	298,183	192,988	21,528	1,386	1,217
Telephone	7,629	18,504	15,313	11,085	3,754	1,265	1,019
Postage and shipping	1,529	1,509	7,020	3,143	256	95	154
Occupancy	91,032	220,897	101,873	112,849	52,991	1,339	7,259
Outside printing	-	407	283	-	-	-	-
Professional insurance	17,328	6,755	4,090	7,896	1,444	749	372
Travel	21,225	22,410	37,286	35,601	6,106	2,078	463
Conferences and meetings	7,491	2,103	6,477	12,592	444	270	-
Subscriptions	500	103	342	-	-	-	-
Client assistance	40,739	9,166	14,727	18,363	7,679	-	-
Dues	5,009	2,731	206	2,100	100	114	-
Miscellaneous	17,053	6,404	12,540	8,707	1,133	124	96
Interest	6,867	1,002	(3)	-	-	-	-
Bad debts	10,044	(250)	22,735	-	115	-	1,895
Total expenses before depreciation	2,591,755	2,201,664	1,859,351	3,364,558	402,497	168,112	76,996
Depreciation	110,193	23,900	4,180	28,510	7,787	(823)	488
Total expenses before allocation	2,701,948	2,225,564	1,863,531	3,393,068	410,284	167,289	77,484
General and administrative allocation	382,246	314,851	263,637	417,592	58,043	23,667	10,961
Total expenses	\$ 3,084,194	\$ 2,540,415	\$ 2,127,168	\$ 3,810,660	\$ 468,327	\$ 190,956	\$ 88,445

See notes to financial statements.

Program Services

Adoption	Hillcrest Supported Living IPRS/Voc	Family Empowerment Center	Transitional Housing	PATH Grant	WRAP/ Recovery Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
\$ 48,335	\$ 781,839	\$ -	\$ 28,918	\$ 22,075	\$ 96,622	\$ 976,065	\$ 58,385	\$ 8,615,862
9,118	130,138	-	7,769	6,078	17,701	176,489	10,764	1,786,951
3,589	57,573	-	2,140	1,618	6,926	73,072	4,328	628,062
61,042	969,550	-	38,827	29,771	121,249	1,225,626	73,477	11,030,875
11,374	6,980	-	25	-	403	765,038	1,108	1,030,079
1,416	6,414	-	4,449	166	6,157	23,484	1,304	907,113
1,801	11,927	-	3,245	1,061	2,623	18,732	135	98,093
478	1,176	-	76	18	120	5,412	1,144	22,130
7,227	53,224	-	15,947	7,881	35,617	102,997	-	811,133
-	-	-	-	-	-	-	7	697
743	3,170	-	371	-	371	4,415	291	47,995
3,773	34,085	-	782	673	5,768	9,180	482	179,912
320	1,524	-	42	1	1,887	2,243	75	35,469
15	11	-	-	-	778	-	-	1,749
253	560	-	1,013	3,283	-	500	-	96,283
-	1,285	-	83	80	85	1,389	3,317	16,499
279	1,994	-	1,478	666	402	8,080	1,308	60,264
-	-	-	-	-	-	-	-	7,866
1,700	(2,000)	-	2,613	170	-	31,883	-	68,905
90,421	1,089,900	-	68,951	43,770	175,460	2,198,979	82,648	14,415,062
1,386	9,727	-	20,761	-	2,156	27,014	(377)	234,902
91,807	1,099,627	-	89,712	43,770	177,616	2,225,993	82,271	14,649,964
12,988	155,565	-	12,692	6,192	25,127	314,911	11,639	2,010,111
<u>\$ 104,795</u>	<u>\$ 1,255,192</u>	<u>\$ -</u>	<u>\$ 102,404</u>	<u>\$ 49,962</u>	<u>\$ 202,743</u>	<u>\$ 2,540,904</u>	<u>\$ 93,910</u>	<u>\$ 16,660,075</u>

(continued)

HILLCREST FAMILY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES (continued)
YEAR ENDED OCTOBER 31, 2009

	Supporting Services					Total Expenses
	Total Program Services	General and Administrative	Mission Advancement	Special Event - Lights	Total Supporting Services	
Salaries	\$ 8,615,862	\$ 1,124,681	\$ 174,576	\$ -	\$ 1,299,257	\$ 9,915,119
Fringe benefits	1,786,951	261,717	34,238	-	295,955	2,082,906
Payroll taxes and other	<u>628,062</u>	<u>83,890</u>	<u>10,382</u>	-	<u>94,272</u>	<u>722,334</u>
Total personnel expenses	11,030,875	1,470,288	219,196	-	1,689,484	12,720,359
Contracted services	1,030,079	56,043	133,528	-	189,571	1,219,650
Supplies & equipment maintenance	907,113	124,981	18,679	-	143,660	1,050,773
Telephone	98,093	30,970	2,293	-	33,263	131,356
Postage and shipping	22,130	6,961	1,870	-	8,831	30,961
Occupancy	811,133	93,200	9,034	-	102,234	913,367
Outside printing	697	125	68,905	-	69,030	69,727
Professional insurance	47,995	-	744	-	744	48,739
Travel	179,912	12,165	9,491	-	21,656	201,568
Conferences and meetings	35,469	12,500	2,587	-	15,087	50,556
Subscriptions	1,749	958	314	-	1,272	3,021
Client assistance	96,283	1,375	-	-	1,375	97,658
Dues	16,499	2,705	5,185	-	7,890	24,389
Miscellaneous	60,264	67,931	8,116	108,270	184,317	244,581
Interest	7,866	3,320	300	-	3,620	11,486
Bad debts	<u>68,905</u>	-	-	-	-	<u>68,905</u>
Total expenses before depreciation	14,415,062	1,883,522	480,242	108,270	2,472,034	16,887,096
Depreciation	<u>234,902</u>	<u>209,329</u>	<u>5,384</u>	-	<u>214,713</u>	<u>449,615</u>
Total expenses before allocation	14,649,964	2,092,851	485,626	108,270	2,686,747	17,336,711
General and administrative allocation	<u>2,010,111</u>	<u>(2,092,851)</u>	<u>67,656</u>	<u>15,084</u>	<u>(2,010,111)</u>	<u>-</u>
Total expenses	<u>\$ 16,660,075</u>	<u>\$ -</u>	<u>\$ 553,282</u>	<u>\$ 123,354</u>	<u>\$ 676,636</u>	<u>\$ 17,336,711</u>

HILLCREST FAMILY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2008

	Program Services						
	Residential Education	CMI Group Homes	Health Services	Schools	Shelter	Family Centered Services	Counseling
Salaries	\$ 1,670,568	\$ 1,311,917	\$ 872,276	\$ 2,003,585	\$ 268,078	\$ 201,336	\$ 28,254
Fringe benefits	297,203	233,396	155,183	356,448	47,693	35,819	5,027
Payroll taxes and other	<u>121,302</u>	<u>95,260</u>	<u>63,337</u>	<u>145,483</u>	<u>19,466</u>	<u>14,619</u>	<u>2,052</u>
Total personnel expenses	2,089,073	1,640,573	1,090,796	2,505,516	335,237	251,774	35,333
Contracted services	62,290	32,965	47,481	15,978	3,669	2,612	1,770
Supplies and equipment maintenance	199,436	147,041	159,121	111,575	36,167	4,070	368
Telephone	12,706	21,506	16,625	16,117	4,547	2,976	953
Postage and shipping	505	1,234	2,962	377	109	108	5
Occupancy	90,929	178,300	76,592	129,796	46,460	4,849	4,835
Outside printing	112	127	1,116	-	-	-	-
Professional insurance	31,052	22,938	13,328	32,468	5,783	2,998	384
Travel	28,864	26,943	32,511	36,624	7,638	5,426	511
Conferences and meetings	5,830	2,123	8,551	10,864	565	4,954	3
Subscriptions	13	15	135	25	1	1	10
Client assistance	15,980	5,475	19,402	3,438	5,038	73	-
Dues	3,155	1,673	613	1,240	429	295	57
Miscellaneous	9,798	2,485	2,465	4,239	519	294	22
Interest	7,158	618	119	306	67	65	1
Bad debts	<u>6,620</u>	<u>6,756</u>	<u>9,826</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>142</u>
Total expenses before depreciation	2,563,521	2,090,772	1,481,643	2,868,563	446,229	280,495	44,394
Depreciation	<u>56,903</u>	<u>24,809</u>	<u>8,254</u>	<u>25,014</u>	<u>4,791</u>	<u>2,026</u>	<u>241</u>
Total expenses	2,620,424	2,115,581	1,489,897	2,893,577	451,020	282,521	44,635
General and administrative allocation	<u>463,087</u>	<u>373,870</u>	<u>263,298</u>	<u>511,359</u>	<u>79,705</u>	<u>49,928</u>	<u>7,888</u>
Total expenses	<u>\$ 3,083,511</u>	<u>\$ 2,489,451</u>	<u>\$ 1,753,195</u>	<u>\$ 3,404,936</u>	<u>\$ 530,725</u>	<u>\$ 332,449</u>	<u>\$ 52,523</u>

See notes to financial statements.

Program Services

Adoption	Hillcrest Supported Living IPRS/Voc	Family Empowerment Center	Transitional Housing	PATH Grant	WRAP/ Recovery Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
\$ 41,301	\$ 839,039	\$ -	\$ 30,794	\$ 25,324	\$ 69,939	\$ 898,690	\$ 66,429	\$ 8,327,530
7,348	149,269	-	5,478	4,505	12,442	159,882	11,818	1,481,511
2,999	60,924	-	2,236	1,839	5,078	65,255	4,824	604,674
51,648	1,049,232	-	38,508	31,668	87,459	1,123,827	83,071	10,413,715
13,928	7,348	-	2,991	-	461	628,545	1,658	821,696
499	9,772	-	8,668	52	3,641	36,588	1,106	718,104
2,144	14,439	-	3,120	622	2,121	17,382	308	115,566
67	530	-	-	1	73	1,108	62	7,141
4,896	42,348	3,286	14,403	8,554	25,429	62,080	223	692,980
-	-	-	-	5	-	283	179	1,822
651	12,600	-	-	-	1,325	20,682	1,164	145,373
3,705	40,721	-	841	809	4,102	21,821	1,457	211,973
777	2,131	-	23	97	1,245	3,211	193	40,567
10	19	-	-	-	24	5	-	258
-	1,492	-	80	9	5	23	483	51,498
83	1,126	-	25	12	25	1,566	3,916	14,215
26	1,215	-	2	30	217	4,470	33	25,815
2	191	792	-	-	13	196	14	9,542
500	2,000	-	-	-	-	196,462	-	222,306
78,936	1,185,164	4,078	68,661	41,859	126,140	2,118,249	93,867	13,492,571
885	11,489	855	9,800	240	1,430	13,572	615	160,924
79,821	1,196,653	4,933	78,461	42,099	127,570	2,131,821	94,482	13,653,495
14,106	211,475	872	13,866	7,440	22,544	376,740	16,697	2,412,875
\$ 93,927	\$ 1,408,128	\$ 5,805	\$ 92,327	\$ 49,539	\$ 150,114	\$ 2,508,561	\$ 111,179	\$ 16,066,370

(continued)

HILLCREST FAMILY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES (continued)
YEAR ENDED OCTOBER 31, 2008

	Supporting Services					
	Total Program Services	General and Administrative	Mission Advancement	Special Event - Lights	Total Supporting Services	Total Expenses
Salaries	\$ 8,327,530	\$ 1,113,500	\$ 98,651	\$ -	\$ 1,212,151	\$ 9,539,681
Fringe benefits	1,481,511	195,813	17,551	-	213,364	1,694,875
Payroll taxes and other	<u>604,674</u>	<u>80,851</u>	<u>7,163</u>	<u>-</u>	<u>88,014</u>	<u>692,688</u>
Total personnel expenses	10,413,715	1,390,164	123,365	-	1,513,529	11,927,244
Contracted services	821,696	137,411	79,422	-	216,833	1,038,529
Supplies and equipment maintenance	718,104	204,579	8,176	-	212,755	930,859
Telephone	115,566	5,359	2,298	-	7,657	123,223
Postage and shipping	7,141	22,156	322	-	22,478	29,619
Occupancy	692,980	237,039	8,081	-	245,120	938,100
Outside printing	1,822	9,241	46,134	-	55,375	57,197
Professional insurance	145,373	-	2,974	-	2,974	148,347
Travel	211,973	41,142	9,943	-	51,085	263,058
Conferences and meetings	40,567	17,953	5,643	-	23,596	64,163
Subscriptions	258	3,568	173	-	3,741	3,999
Client assistance	51,498	40,447	-	-	40,447	91,945
Dues	14,215	16,999	418	-	17,417	31,632
Miscellaneous	25,815	60,077	3,933	118,210	182,220	208,035
Interest	9,542	12,646	471	-	13,117	22,659
Bad debts	<u>222,306</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>222,306</u>
Total expenses before depreciation	13,492,571	2,198,781	291,353	118,210	2,608,344	16,100,915
Depreciation	<u>160,924</u>	<u>287,134</u>	<u>3,748</u>	<u>-</u>	<u>290,882</u>	<u>451,806</u>
Total expenses	13,653,495	2,485,915	295,101	118,210	2,899,226	16,552,721
General and administrative allocation	<u>2,412,875</u>	<u>(2,485,915)</u>	<u>52,150</u>	<u>20,890</u>	<u>(2,412,875)</u>	<u>-</u>
Total expenses	<u>\$ 16,066,370</u>	<u>\$ -</u>	<u>\$ 347,251</u>	<u>\$ 139,100</u>	<u>\$ 486,351</u>	<u>\$ 16,552,721</u>

HILLCREST FAMILY SERVICES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 660,025	\$ (1,297,858)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities		
Depreciation	449,615	451,806
Gain on disposal of assets	(2,130)	(130,394)
Bad debts	68,905	222,306
Changes in assets and liabilities		
Receivables	(259,250)	(998,605)
Inventory	(7,120)	9,872
Prepaid expenses	(26,064)	(87,625)
Bank overdraft	-	(55,040)
Accounts/refunds payable	117,282	100,332
Accrued expenses	30,557	(88,001)
Deferred revenue	77,294	66,502
Pension liability	210,998	1,548,192
NET CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES	<u>1,320,112</u>	<u>(258,513)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(663,082)	(217,129)
Decrease in investments	1,483,069	638,131
Proceeds from sale of assets	2,130	164,414
NET CASH FROM INVESTING ACTIVITIES	<u>822,117</u>	<u>585,416</u>
FINANCING ACTIVITIES		
Net payments on line of credit	-	(259,224)
Proceeds from issuance of long-term debt	-	58,969
Principal payments on long-term debt	(52,779)	(126,006)
NET CASH USED FOR FINANCING ACTIVITIES	<u>(52,779)</u>	<u>(326,261)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,089,450	642
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>74,499</u>	<u>73,857</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,163,949</u>	<u>\$ 74,499</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 11,486</u>	<u>\$ 22,659</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment financed through long-term debt	<u>\$ 48,610</u>	<u>\$ 58,969</u>

See notes to financial statements.

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Hillcrest Family Services, Inc. (the Organization), located in Dubuque, Iowa, is organized as an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). However, the Organization would be subject to federal income tax on any unrelated business taxable income.

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.

Use of 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 those estimates.

Cash and Cash Equivalents

Cash and cash equivalents may include highly liquid investments with original maturities of three months or less, excluding assets limited as to use and other investments.

Accounts Receivable

Accounts receivable are 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. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Trustees to supplement operations, over which the Board retains control and may at its discretion subsequently use for other purposes.

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

Property and Equipment

Property and equipment acquisitions in excess of \$2,000 are capitalized and are recorded at cost. Donated property and equipment are recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset, generally 3 to 15 years for equipment, vehicles, and leasehold improvements, and up to 40 years for buildings and improvements, and is computed using the straight-line method.

Pension Liability

Hillcrest Family Services, Inc. records an accrued pension liability for its defined benefit retirement plan. The accrued liability represents the underfunded status of the defined benefit plan which is the difference between the plan's projected benefit obligation and fair value of the plan assets as of the October 31 measurement date. Adjustments for the difference between the projected benefit obligation and fair value of the plan assets are reported under Other Changes in the Statement of Activities and Changes in Net Assets. This plan was terminated during the fiscal year ended October 31, 2008, see Note 11.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Public Support and Revenue in Excess of Expenses

Public support and revenue in excess of expenses excludes change in unrealized gains and losses on investments, gain on disposal of assets, and pension-related changes other than net periodic pension costs.

Program Service Revenue

Hillcrest Family Services, Inc. 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 prospective 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.

Investments and Investment Income (Loss)

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value, and other investments are reported at the lower of cost or fair value. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in public support and revenue in excess of expenses unless the income or loss is restricted by donor or law. Change in unrealized gains and losses on investments is excluded from public support and revenue in excess of expenses unless the investments are trading securities.

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

Donated Goods and Services

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated fair market values at the date of receipt. No amounts have been reflected in the statements for donated services, inasmuch as no objective basis is available to measure the value of such services.

Promises to Give

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor stipulated time restrictions or purpose restrictions are met or accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the statement of activities and changes in net assets.

Fair Value Measurements

The Organization has determined the fair value of certain assets and liabilities recognized or disclosed at fair value in the financial statements.

Advertising Costs

The Organization expenses advertising costs as incurred.

Subsequent Events

The Organization has evaluated subsequent events through March 25, 2010, the date which the financial statements were available to be issued.

Reclassification

Certain items from the 2008 financial statements have been reclassified to conform to the current year presentation.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

NOTE 2 – NET PROGRAM SERVICE FEES

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

Medicaid (IME/T19)

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.

Grants

Hillcrest Family Services, Inc. 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.

MBC of Iowa – an Affiliate of Magellan Behavioral Health

The basis for reimbursement under agreements with Magellan is 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.

County Board of Supervisors

The Organization has also entered into payment agreements with several county Board of Supervisors. 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.

A summary of revenue from the various payors for the years ended October 31, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Grants	28%	23%
Medicaid/ Medicare	21	39
County Board of Supervisors	21	8
MBC of Iowa	16	14
Commerical insurance and other third-party payors and clients	14	16
	<u>100%</u>	<u>100%</u>

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

NOTE 3 – INVESTMENTS AND INVESTMENT INCOME (LOSS)

Investments

Investments include the following at October 31, 2009 and 2008:

	<u>2009</u>		<u>2008</u>	
	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>
Certificates of deposit	\$ 121,681	\$ 121,681	\$ 113,437	\$ 113,437
Money market	61,747	61,747	39,891	39,891
Government agencies	4,582	4,331	165,251	164,111
Common stocks	454,579	435,066	1,107,669	1,253,713
Bond funds	571,082	527,969	1,271,831	1,374,762
Land - Arizona	1,050	1,050	1,050	1,050
	<u>\$ 1,214,721</u>	<u>\$ 1,151,844</u>	<u>\$ 2,699,129</u>	<u>\$ 2,946,964</u>

Assets Limited as to Use

Included in investments are funds that have been designated by the Board of Trustees to supplement future operations.

Investments in an Unrealized Gain (Loss) Position

Investments in an unrealized gain (loss) position at October 31, 2009, are shown in the following table:

	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Gains</u>
Government agencies	\$ -	\$ -	\$ 4,582	\$ 252
Common stocks	98,230	(61,698)	356,349	81,211
Bond funds	-	-	571,082	43,112
	<u>\$ 98,230</u>	<u>\$ (61,698)</u>	<u>\$ 932,013</u>	<u>\$ 124,575</u>

The duration of the investments in an unrealized loss position at October 31, 2009, is shown in the following table:

	<u>Greater than 12 months</u>		<u>Less than 12 months</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Common stocks	\$ 68,444	\$ (59,387)	\$ 29,786	\$ (2,311)

(continued on next page)

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

Investments in an unrealized gain (loss) position at October 31, 2008, are shown in the following table:

	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Gains</u>
Government agencies	\$ -	\$ -	\$ 165,251	\$ 1,137
Common stocks	521,761	(182,130)	275,905	36,706
Bond funds	<u>1,271,830</u>	<u>(103,548)</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,793,591</u>	<u>\$ (285,678)</u>	<u>\$ 441,156</u>	<u>\$ 37,843</u>

The duration of the investments in an unrealized loss position at October 31, 2008, is shown in the following table:

	<u>Greater than 12 months</u>		<u>Less than 12 months</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Government agencies	\$ -	\$ -	\$ -	\$ -
Common stocks	73,316	(145,235)	448,445	(36,895)
Bond funds	<u>490,725</u>	<u>(35,387)</u>	<u>781,105</u>	<u>(68,161)</u>
	<u>\$ 564,041</u>	<u>\$ (180,622)</u>	<u>\$ 1,229,550</u>	<u>\$ (105,056)</u>

The unrealized losses on the Organization's investments in common stocks were caused by numerous changes in market factors. The Organization evaluated the near-term prospects of the issuers for common stock in relation to the severity and duration of the impairment. Based on that evaluation and the Organization's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Organization does not consider the investments in common stocks to be other-than-temporarily impaired at October 31, 2009.

The Organization invests in various investment securities which are exposed to risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the statement of financial position.

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

Investment Income (Loss)

Investment income (loss) is recorded net of investment fees of \$11,625 and \$22,687 for the years ended October 31, 2009 and 2008, respectively. Investment income and gains and losses on cash equivalents and other investments consist of the following for the years ended October 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Investment income (loss)		
Interest and dividend income	\$ 95,609	\$ 138,563
Realized gains and losses on sale of investments	<u>(289,462)</u>	<u>(348,577)</u>
Total investment income (loss)	<u>\$ (193,853)</u>	<u>\$ (210,014)</u>
Other changes in net assets		
Change in unrealized gains and losses on investments	<u>\$ 310,712</u>	<u>\$ (563,434)</u>

NOTE 4 – BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATION

The Organization is a beneficiary of a community foundation maintained by an independent trustee. The assets maintained by the community foundation are to be held in perpetuity. The Organization expects to receive annual distributions of its share of the community foundation's income. These distributions will be recorded in the financial statements as investment income. The funds which have been invested directly by the Organization are recognized in the financial statements as a beneficial interest in net assets of the community foundation at the fair market value of the Organization's interest in the foundation. These funds amounted to \$10,530 and \$9,191 at October 31, 2009 and 2008, respectively.

The community foundation also holds funds contributed by individual donors for the benefit of Hillcrest Family Services, Inc. It should be noted, however, that the community foundation has variance power, which allows them to modify the donor's stipulations under certain circumstances as they monitor the changing needs of the community. These funds will not be recorded as an asset on the financial statements of the Organization. They total \$168,753 and \$109,626 at October 31, 2009 and 2008, respectively, and are held by the community foundation as permanently endowed for the support of Hillcrest Family Services, Inc.

NOTE 5 – FAIR VALUE MEASUREMENTS

The Organization has determined the fair value of certain assets recognized or disclosed at fair value in the financial statements.

Fair value is the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. The accounting standard establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value:

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

Level 1 - Quoted market prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the related asset and are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data related to the asset.

Assets measured at fair value at October 31, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Assets		
Bond funds	\$ 571,082	\$ 1,271,831
Common stocks	454,579	1,107,669
Government agencies	4,582	165,251
Beneficial interest in net assets of community foundation	10,530	9,191
Promises to give	<u>376,159</u>	<u>240,531</u>
Total assets	<u>\$ 1,416,932</u>	<u>\$ 2,794,473</u>

The related fair values of these assets (measured on a recurring basis) are determined as follows:

	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>
October 31, 2009		
Assets		
Bond funds	\$ 571,082	\$ -
Common stocks	454,579	-
Government agencies	4,582	-
Beneficial interest in net assets of community foundation	<u>-</u>	<u>10,530</u>
Total assets	<u>\$ 1,030,243</u>	<u>\$ 10,530</u>

October 31, 2008

Assets		
Bond funds	\$ 1,271,831	\$ -
Common stocks	1,107,669	-
Government agencies	165,251	-
Beneficial interest in net assets of community foundation	<u>-</u>	<u>9,191</u>
Total assets	<u>\$ 2,544,751</u>	<u>\$ 9,191</u>

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HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

The fair value of the investments such as bond funds, common stocks and government agencies is determined by reference to quoted market prices. The fair value of the beneficial interest in net assets of community foundation is based upon reports of the financial activity of the Organization's Endowed Fund account as provided by the community foundation.

The related fair values of these assets (measured on a non-recurring basis) are determined as follows:

	Unobservable Inputs (Level 3)
October 31, 2009	
Assets	
Promises to give	\$ <u>376,159</u>
 October 31, 2008	
Assets	
Promises to give	\$ <u>240,531</u>

The fair value of promises to give is determined based on the present value of expected future cash flows.

NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings, and equipment at October 31, 2009 and 2008, follows:

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	\$ 40,000	\$ -	\$ 40,000	\$ -
Land improvements	141,362	47,312	141,362	37,575
Buildings	6,229,544	3,160,381	6,229,647	2,978,527
Equipment	1,546,857	1,072,895	-	-
Vehicles	540,027	406,298	513,578	367,554
Furniture, fixtures, and equipment	590,852	516,038	1,751,531	1,406,954
Leasehold improvements	56,226	32,473	42,934	25,829
Construction in progress	263,807	-	8,588	-
	<u>\$ 9,408,675</u>	<u>\$ 5,235,397</u>	<u>\$ 8,727,640</u>	<u>\$ 4,816,439</u>
Net land, buildings and equipment	<u>\$ 4,173,278</u>		<u>\$ 3,911,201</u>	

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HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

Construction in progress consists of several projects at year end. The largest portion of construction in progress consists of costs associated with a geothermal system. The estimated total cost of this system is \$150,000 and will be funded through financing and operations. This project is expected to be completed in 2010.

The second largest portion of construction in progress is related to the second phase of the video surveillance system. The estimated total cost of this system is \$150,000 and will be funded through financing and operations. This project is expected to be completed in 2010.

The next largest portion of construction in progress at year end consists of costs associated with the Family Life Center project which is expected to begin construction in late 2010 or early 2011. The estimated cost to complete this project is \$10 million and will be funded through a capital campaign and operations.

The other projects in progress at year end are remodeling projects for New Pathways, Marywood and Peterson as well as costs associated with the Vision Works software. The estimated costs of these projects total \$25,000 and will be funded through grants. These projects are expected to be completed in early 2010.

NOTE 7 – UNCONDITIONAL PROMISES

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate of 5%. No allowance has been recorded at October 31, 2009 and 2008, due to management's belief that all amounts will be collected. No discount has been recorded for 2008 due to the timing of expected collections. Included in amounts due in less than one year are United Way contributions, totaling \$117,000 at October 31, 2009 and 2008, respectively. Promises to give are due as follows:

	<u>2009</u>	<u>2008</u>
Less than one year	\$ 169,130	\$ 131,450
One to five years	<u>248,633</u>	<u>109,081</u>
	417,763	240,531
Less unamortized discount	<u>(41,604)</u>	<u>-</u>
	<u>\$ 376,159</u>	<u>\$ 240,531</u>

NOTE 8 – REFUNDS PAYABLE

Refunds payable consists of monies due to clients for over payments of accounts and refunds to counties for fiscal years 2009 and 2008 for financial assistance provided by the counties for Medicaid reimbursement losses experienced by Hillcrest related to mental health services. There is an understanding that Hillcrest will reimburse the counties for their risk-sharing assistance if a cost settlement is paid by Medicaid to correct the rate reimbursement. Hillcrest received a corrected rate from Medicaid and, therefore, will refund the financial assistance to the counties. Included in the refunds payable accrual is a payable to Dubuque County for \$160,798 and \$159,298 for the years ended October 31, 2009 and 2008, respectively.

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

NOTE 9 – LINE OF CREDIT AND LONG-TERM DEBT

The Organization has a line of credit available of up to \$750,000 with U.S. Bank in Dubuque, Iowa. Interest is paid monthly at a rate of LIBOR plus 2.95% (4.21% at October 31, 2009). The line expires in June 2010, and is secured by substantially all assets of the Organization. At October 31, 2009 and 2008, there was no balance outstanding on the line of credit.

Long-term debt consists of:

	<u>2009</u>	<u>2008</u>
6.00% note payable to bank, due in monthly installments of \$1,865 including interest, due in December 2013, secured by real estate.	\$ 80,727	\$ 97,676
4.99% note payable to bank, due in monthly installments of \$918 including interest, due in March 2014, secured by vehicles.	42,798	-
5.54% note payable to bank, due in monthly installments of \$1,130 including interest, due in February 2013, secured by vehicles.	41,094	52,005
6.49% note payable to bank, due in monthly installments of \$720 including interest, due in July 2012, secured by vehicles.	27,308	28,602
5.49% note payable to bank, due in monthly installments of \$864 including interest, due in September 2010, secured by equipment.	9,251	18,828
5.24% note payable to bank, due in monthly installments of \$724 including interest, due in September 2010, secured by vehicles.	<u>4,274</u>	<u>12,510</u>
	205,452	209,621
Less current maturities	<u>(57,547)</u>	<u>(133,418)</u>
Long-term debt, less current maturities	<u>\$ 147,905</u>	<u>\$ 76,203</u>

Future principal payments on the above loans are as follows:

<u>Year Ending October 31</u>	
2010	\$ 57,547
2011	46,584
2012	49,297
2013	42,880
2014	<u>9,144</u>
Total	<u>\$ 205,452</u>

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

NOTE 10 – DEFERRED REVENUE

Deferred revenue includes an advance from the Iowa Department of Public Health earmarked for future periods. The advance was \$43,666 at October 31, 2009 and 2008.

NOTE 11 – EMPLOYEE BENEFIT PLANS

Self-Insured Health Plan

Hillcrest Family Services, Inc. self-insures for losses related to employee health benefits. Reinsurance coverage is maintained for specific individual and aggregate liability losses over specified amounts. At October 31, 2009 and 2008, the provision for estimated health claims outstanding is \$60,000 and \$40,000, respectively.

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. Effective November 1, 2008, the Organization matches 50% of employee contributions up to 4% of eligible compensation. Prior to this date, the Organization matched 50% of employee contributions up to 2% of eligible compensation.

Effective January 1, 2008, the Organization also adopted 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 401k plans for the years ended October 31, 2009 and 2008, were \$301,651 and \$257,016, respectively.

Defined Benefit Pension Plan and Plan Termination

Hillcrest Family Services, Inc. had a defined benefit pension plan covering substantially all non-bargaining employees. The Organization notified its employees during 2007 of its intent to terminate the defined benefit pension plan. Plan benefits were frozen on December 31, 2007. According to the plan document, participants become 100% vested in their accrued benefit upon plan termination. Benefits are to be distributed to the participants in the manner and priorities allowed by the plan, as soon as practicable. The Organization has accrued \$1,779,781 as of October 31, 2009 to cover the remaining liabilities related to the plan including funding for disbursements to plan participants and estimated fees to be paid to the plan's actuary and trustee. Due to the termination and frozen status of the plan, no actuarial computations have been completed as of October 31, 2009. The Organization accrued a liability of \$1,568,783 as of October 31, 2008 which was equal to the shortfall in the benefit obligation and the fair value of the plan assets as of that date.

Subsequent to October 31, 2009, the Internal Revenue Service (IRS) approved the termination of the plan and benefits were disbursed. Distributions of approximately \$3,857,000 were paid to the plan participants from the plan assets subsequent to year end. It is estimated that an additional \$57,000 will be paid from the remaining plan assets to complete the termination.

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

The following table sets forth the changes in projected benefit obligations, changes in plan assets and funded status for the plan for the year ended October 31, 2008, using a measurement date of October 31, 2008 also. Plan benefits are based primarily on years of service and employee's compensation near retirement. Plan assets consist of a money market fund.

	<u>2008</u>
Change in benefit obligation	
Benefit obligation at beginning of year	\$ 3,898,410
Service cost	53,737
Interest cost	221,898
Actuarial loss	928,875
Benefits paid	(651,619)
Settlements	84,718
Curtailments	<u>55,981</u>
Benefit obligation at end of year	<u>\$ 4,592,000</u>
<u>2008</u>	
Change in plan assets	
Fair value of plan assets at beginning of year	\$ 3,877,819
Actual net return on plan assets	(243,525)
Employer contribution	40,542
Benefits paid	(2,115)
Settlements	<u>(649,504)</u>
Fair value of plan assets at end of year	<u>\$ 3,023,217</u>
Funded status	\$ (1,568,783)
Unrecognized net actuarial loss	-
Unrecognized transition (asset) obligation	<u>-</u>
Accrued benefit cost liability	<u>\$ (1,568,783)</u>
<u>2008</u>	
Amounts recognized in the statement of financial position consist of:	
Liabilities - accrued benefit liability	<u>\$ (1,568,783)</u>
Amounts recognized in unrestricted net assets consist of:	
Net actuarial loss	\$ 671,263
Net transition obligation	<u>229,931</u>
Total amounts included in unrestricted net assets	<u>\$ 901,194</u>

(continued on next page)

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

	<u>2008</u>
Weighted-average assumptions as of October 31	
Discounted rate	6.00%
Rate of total compensation increase	4.50%
Expected return on plan assets	5.00%

Historical market returns, risks, and peer data are examined as part of determining the assumption related to the expected return on plan assets. Current market factors, such as inflation and interest rates, are also evaluated.

The components of net periodic pension cost and other amounts recognized in changes in unrestricted net assets for the year ended October 31, 2008, include the following:

	<u>2008</u>
Net periodic benefit cost	
Service cost	\$ 53,737
Interest cost	221,898
Expected return on plan assets	(185,402)
Amortization of transition obligation	12,362
Amortization of unrecognized net gain	<u>(57,890)</u>
Net periodic benefit cost	<u>\$ 44,705</u>
Other changes in plan assets and projected benefit obligations recognized in changes in unrestricted net assets	
Amortization of net transition asset	\$ (12,362)
Net loss experienced during the year	1,357,802
Amortization of net loss	<u>57,890</u>
Total recognized in changes in unrestricted net assets	<u>\$ 1,403,330</u>
Total recognized in net periodic benefit cost and changes in unrestricted net assets	<u>\$ 1,448,035</u>
Other costs	
Recognized loss due to settlement or curtailment	<u>\$ 100,157</u>

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plan that will be amortized from unrecognized net assets into net periodic benefit cost during the 2009 fiscal year are \$35,641, \$0 and \$0, respectively.

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

The Organization's pension plan asset allocation at October 31, 2008, by asset category is as follows:

	<u>2008</u>
Money market funds	<u>100%</u>

Management's investment philosophy to achieve acceptable returns with reasonable risks involves diversification into different investment asset classes, which in turn, mitigates an over exposure to any one segment of investment alternatives, avoids market timing, and controls fees.

NOTE 12 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at October 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Time restriction - United Way contributions	\$ 117,000	\$ 117,000
Time restriction - other pledges	259,159	123,531
Family Life Center	<u>156,421</u>	<u>107,349</u>
	<u>\$ 532,580</u>	<u>\$ 347,880</u>

Permanently restricted net assets at October 31, 2009 and 2008, are held in perpetuity with the income to be used for:

	<u>2009</u>	<u>2008</u>
Unrestricted support for programs	\$ 150,000	\$ 140,000
Family Life Center	134,522	92,320
Educational programs	80,000	80,000
Family counseling	<u>1,000</u>	<u>1,000</u>
	<u>\$ 365,522</u>	<u>\$ 313,320</u>

NOTE 13 – OPERATING LEASES

The Organization leases certain property and equipment under non-cancellable long-term operating lease agreements. Total lease expense for the years ended October 31, 2009 and 2008, was \$368,158 and \$360,845, respectively.

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

Minimum future lease payments are as follows:

<u>Year Ending October 31</u>	
2010	\$ 340,374
2011	220,384
2012	200,003
2013	160,491
2014	161,835
2015 - 2017	<u>157,370</u>
Total	<u>\$ 1,240,457</u>

NOTE 14 – RELATED PARTY TRANSACTIONS

The Organization had transactions with a company owned by the family of an employee related to the purchase and installation of flooring. The total payments for the years ended October 31, 2009 and 2008, were \$14,857 and \$21,384, respectively. The Organization also had transactions with a company owned by the daughter of an employee related to cleaning services provided at the United Way location. The total payments for the years ended October 31, 2009 and 2008, were \$6,559 and \$0, respectively. The Organization had transactions with a company owned by an employee and spouse related to the purchase of signs and banners. The total payments for the years ended October 31, 2009 and 2008, were \$0 and \$1,392, respectively.

NOTE 15 – CONCENTRATIONS OF CREDIT RISK

Hillcrest Family Services, Inc. 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 at October 31, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicaid/ Medicare	46%	47%
Grants	28	31
MBC of Iowa	11	10
County Board of Supervisors	10	6
Commerical insurance and other third-party payors and clients	5	6
	<u>100%</u>	<u>100%</u>

The Organization’s cash balances are maintained in various bank deposit accounts and at times may be in excess of federally insured limits. Management believes these financial institutions have strong credit ratings and that credit risk related to these deposits is minimal.

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

NOTE 16 – ENDOWMENTS

Hillcrest Family Services, Inc.'s endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (quasi-endowment). As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of Hillcrest Family Services, Inc. has interpreted the 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 absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

The composition of Endowment Net Assets by fund type as of October 31, 2009 and 2008, respectively, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
October 31, 2009				
Donor-restricted endowment funds	\$ -	\$ 73,240	\$ 365,522	\$ 438,762
Board-designated endowment funds	<u>578,489</u>	<u>-</u>	<u>-</u>	<u>578,489</u>
	<u>\$ 578,489</u>	<u>\$ 73,240</u>	<u>\$ 365,522</u>	<u>\$ 1,017,251</u>
 October 31, 2008				
Donor-restricted endowment funds	\$ -	\$ 17,194	\$ 313,320	\$ 330,514
Board-designated endowment funds	<u>2,052,812</u>	<u>-</u>	<u>-</u>	<u>2,052,812</u>
	<u>\$ 2,052,812</u>	<u>\$ 17,194</u>	<u>\$ 313,320</u>	<u>\$ 2,383,326</u>

(continued on next page)

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

Changes in endowment net assets for the years ended October 31, 2009 and 2008, are as follows:

Change in Endowment Assets

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
October 31, 2009				
Endowment net assets, beginning of year	\$ 2,052,812	\$ 17,194	\$ 313,320	\$ 2,383,326
Investment return:				
Investment income	48,476	16,863	-	65,339
Net realized and unrealized appreciation (depreciation)	(22,288)	42,265	-	19,977
Contributions	7,046	-	52,202	59,248
Appropriation of endowment assets for expenditure	<u>(1,507,557)</u>	<u>(3,082)</u>	<u>-</u>	<u>(1,510,639)</u>
Endowment net assets, end of year	<u>\$ 578,489</u>	<u>\$ 73,240</u>	<u>\$ 365,522</u>	<u>\$ 1,017,251</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
October 31, 2008				
Endowment net assets, beginning of year	\$ 2,805,366	\$ 107,067	\$ 191,000	\$ 3,103,433
Investment return:				
Investment income	97,794	12,167	-	109,961
Net realized and unrealized appreciation (depreciation)	(707,382)	(99,633)	-	(807,015)
Contributions	9,522	-	122,320	131,842
Appropriation of endowment assets for expenditure	<u>(152,488)</u>	<u>(2,407)</u>	<u>-</u>	<u>(154,895)</u>
Endowment net assets, end of year	<u>\$ 2,052,812</u>	<u>\$ 17,194</u>	<u>\$ 313,320</u>	<u>\$ 2,383,326</u>

(continued on next page)

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

The components of endowment funds classified as permanently restricted net assets as of October 31, 2009 and 2008, respectively, are as follows:

Endowment Only Restricted Net Assets

	<u>2009</u>	<u>2008</u>
Temporarily Restricted Net Assets:		
The portion of perpetual endowment funds subject to a purpose restriction under UPMIFA	<u>\$ 73,240</u>	<u>\$ 17,194</u>
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	<u>\$ 365,522</u>	<u>\$ 313,320</u>

Funds with Deficiencies

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 Hillcrest Family Services, Inc. to retain as a fund of perpetual duration. There were no such deficiencies as of October 31, 2009.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board designated funds.

The endowment assets of the Organization are commingled with its other investments. Under its investment policy, as approved by the Board of Trustees, the assets are invested in a manner that will help to ensure that the assets are managed in the best interests of the Organization and at the most economical cost. The primary goal of the investment assets of the Organization is to develop a customized portfolio that can help achieve the best possible returns while helping to reduce certain types of risks. To accomplish the Organization's asset mix, the Manager is authorized to utilize portfolios of equity securities (common stocks and convertible securities), fixed-income securities and short-term (cash) investments.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

HILLCREST FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's investment objectives of the endowment funds are to assure preservation of capital through minimization of default risk and to realize the best available total rate of return commensurate with the appropriate risk levels. The investment objective is the long-term growth of principal and creating an annual income stream.

Annually the Board of Trustees may approve, by a simple majority, a withdrawal of quarterly disbursements from the fund. Such disbursements for the next fiscal year are to be based on no more than 5% of the three-year average market value of the fund as of 10/31 of each year. 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 market value is less than the endowed principal amount or when distributions would invade the original endowed principal amount.

Supplementary Information
October 31, 2009 and 2008

Hillcrest Family Services, Inc.

HILLCREST FAMILY SERVICES, INC.
SCHEDULES OF PROGRAM SERVICE FEES AND GRANTS, NET
OCTOBER 31, 2009 AND 2008

Program service fees and grants, net	2009				
	<u>Gross fees</u>	<u>Contractual allowance</u>	<u>Estimated cost settlement</u>	<u>Administrative adjustment</u>	<u>Net fees</u>
Residential treatment	\$ 3,328,358	\$ (23,678)	\$ -	\$ 14,590	\$ 3,319,270
CMI group homes	2,649,552	(46,257)	-	47,601	2,650,896
Health services	966,253	(85,615)	-	(29,346)	851,292
Schools	3,896,007	-	-	(20,008)	3,875,999
Shelter	516,463	3,232	-	(2,562)	517,133
Family Centered Services	187,003	-	-	269	187,272
Counseling	157,087	(84,726)	-	(2,230)	70,131
Adoption	69,851	-	-	-	69,851
Hillcrest supported living/IPRS/VOC	1,361,328	(87,051)	-	3,923	1,278,200
Family Empowerment Center	-	-	-	-	-
Transitional housing	7,136	-	-	(350)	6,786
Washington County Mental Health Center	528,038	(244,152)	68,685	(11,255)	341,316
Dubuque County Mental Health Center	2,459,396	(893,489)	246,339	(32,526)	1,779,720
Jackson County Mental Health Center	586,617	(224,699)	85,319	(24,682)	422,555
PATH Grant	4,025	-	-	(297)	3,728
WRAP/Recovery Grant	22,020	-	-	(1,950)	20,070
Total program service fees and grants, net	<u>\$ 16,739,134</u>	<u>\$ (1,686,435)</u>	<u>\$ 400,343</u>	<u>\$ (58,823)</u>	<u>\$ 15,394,219</u>

Program service fees and grants, net	2008				
	Gross fees	Contractual allowance	Estimated cost settlement	Administrative adjustment	Net fees
Residential treatment	\$ 3,045,673	\$ 37,489	\$ 91,124	\$ (2,112)	\$ 3,172,174
CMI group homes	2,494,165	(87,645)	(27,388)	(6,474)	2,372,658
Health services	604,047	(44,323)	-	(62,032)	497,692
Schools	3,540,482	-	-	-	3,540,482
Shelter	564,956	25,600	-	(913)	589,643
Family Centered Services	244,510	4,117	12,084	(366)	260,345
Counseling	61,458	(7,306)	-	(70)	54,082
Adoption	67,670	6,209	-	-	73,879
Hillcrest supported living/IPRS/VOC	1,449,551	(84,893)	(19,565)	(11,617)	1,333,476
Family Empowerment Center	-	-	-	-	-
Transitional housing	4,808	-	-	-	4,808
Washington County Mental Health Center	383,157	(127,611)	182,143	(7,982)	429,707
Dubuque County Mental Health Center	2,178,220	(792,593)	668,912	(31,502)	2,023,037
Jackson County Mental Health Center	485,870	(257,448)	280,010	(16,481)	491,951
PATH Grant	2,445	-	-	-	2,445
WRAP/Recovery Grant	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>
Total program service fees and grants, net	<u>\$ 15,127,015</u>	<u>\$ (1,328,404)</u>	<u>\$ 1,187,320</u>	<u>\$ (139,549)</u>	<u>\$ 14,846,382</u>

HILLCREST FAMILY SERVICES, INC.
SCHEDULES OF MENTAL HEALTH CENTER EXPENSES
OCTOBER 31, 2009 AND 2008

	2009			
	Washington County MHC	Dubuque County MHC	Jackson County MHC	Total Program Services
Salaries	\$ 136,271	\$ 684,654	\$ 155,140	\$ 976,065
Fringe benefits	25,725	124,029	26,735	176,489
Payroll taxes and other	10,014	51,051	12,007	73,072
Total personnel expenses	<u>172,010</u>	<u>859,734</u>	<u>193,882</u>	<u>1,225,626</u>
Contracted services	116,399	529,427	119,212	765,038
Supplies & equipment maintenance	(1,665)	28,217	(3,068)	23,484
Telephone	3,292	10,682	4,758	18,732
Postage and shipping	1,171	3,331	910	5,412
Occupancy	1,040	75,761	26,196	102,997
Outside printing	-	-	-	-
Professional insurance	796	2,810	809	4,415
Travel	4,705	1,458	3,017	9,180
Conferences and meetings	521	1,611	111	2,243
Subscriptions	-	-	-	-
Client assistance	-	500	-	500
Dues	197	968	224	1,389
Miscellaneous	1,908	4,525	1,647	8,080
Interest	-	-	-	-
Bad debts	(9,543)	47,176	(5,750)	31,883
Total expenses before depreciation	<u>290,831</u>	<u>1,566,200</u>	<u>341,948</u>	<u>2,198,979</u>
Depreciation	<u>3,505</u>	<u>18,404</u>	<u>5,105</u>	<u>27,014</u>
Total expenses	<u>294,336</u>	<u>1,584,604</u>	<u>347,053</u>	<u>2,225,993</u>
General and administrative allocation	<u>41,638</u>	<u>224,175</u>	<u>49,098</u>	<u>314,911</u>
Total expenses	<u>\$ 335,974</u>	<u>\$ 1,808,779</u>	<u>\$ 396,151</u>	<u>\$ 2,540,904</u>

	2008			
	Washington County MHC	Dubuque County MHC	Jackson County MHC	Total Program Services
Salaries	\$ 116,709	\$ 662,919	\$ 119,062	\$ 898,690
Fringe benefits	20,763	117,937	21,182	159,882
Payroll taxes and other	8,474	48,136	8,645	65,255
Total personnel expenses	<u>145,946</u>	<u>828,992</u>	<u>148,889</u>	<u>1,123,827</u>
Contracted services	100,583	449,401	78,561	628,545
Supplies & equipment maintenance	11,798	21,443	3,347	36,588
Telephone	3,783	11,373	2,226	17,382
Postage and shipping	663	216	229	1,108
Occupancy	2,388	41,879	17,813	62,080
Outside printing	283	-	-	283
Professional insurance	2,874	14,686	3,122	20,682
Travel	3,495	7,550	10,776	21,821
Conferences and meetings	135	2,834	242	3,211
Subscriptions	-	2	3	5
Client assistance	-	23	-	23
Dues	196	1,155	215	1,566
Miscellaneous	775	3,407	288	4,470
Interest	39	129	28	196
Bad debts	30,910	128,355	37,197	196,462
Total expenses before depreciation	<u>303,868</u>	<u>1,511,445</u>	<u>302,936</u>	<u>2,118,249</u>
Depreciation	<u>1,548</u>	<u>9,958</u>	<u>2,066</u>	<u>13,572</u>
Total expenses	305,416	1,521,403	305,002	2,131,821
General and administrative allocation	<u>53,974</u>	<u>268,866</u>	<u>53,900</u>	<u>376,740</u>
Total expenses	<u>\$ 359,390</u>	<u>\$ 1,790,269</u>	<u>\$ 358,902</u>	<u>\$ 2,508,561</u>

HILLCREST FAMILY SERVICES, INC.
SCHEDULE OF REVENUES AND EXPENSES
WIC – CONTRACT # 5888AO35
MATERNAL HEALTH – CONTRACT # 5888MH13
CONTRACT PERIOD: OCTOBER 1, 2008 THROUGH SEPTEMBER 30, 2009

	<u>WIC</u>	<u>Maternal Health</u>
Revenues		
Iowa Department of Public Health	\$ 736,854	\$ 92,706
Title XIX	-	126,531
United Way	-	2,825
Miscellaneous	<u>96</u>	<u>(54,406)</u>
Total revenues	<u>736,950</u>	<u>167,656</u>
Expenses		
Salaries	349,311	135,008
Fringe benefits	70,566	22,489
Payroll taxes, etc.	25,926	9,703
Contracted services	1,866	21,426
Supplies & equipment maintenance	100,640	1,459
Telephone	10,607	863
Postage and shipping	1,212	336
Occupancy	53,073	5,066
Travel	20,284	3,224
Conferences and meetings	4,658	469
Subscriptions	285	-
Client assistance	22,961	-
Dues	964	1
Miscellaneous	3,685	1,849
Interest	17	8
Depreciation	<u>(1,507)</u>	<u>(387)</u>
Total expenses	<u>664,548</u>	<u>201,514</u>
General and administrative allocation	<u>68,199</u>	<u>23,113</u>
Revenues less than expenses	<u>\$ 4,203</u>	<u>\$ (56,971)</u>

HILLCREST FAMILY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED OCTOBER 31, 2009

Grantor/Program	CFDA Number	Agency or Pass- through Number	Program Expenditures
U.S. Department of Agriculture			
Passed through Iowa Department of Education			
School Breakfast Program	10.553/		
National School Lunch Program	10.555	18638000	<u>\$ 102,877</u>
Passed through Iowa Department of Public Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	5888AO35 5880AO35	695,951 <u>47,081</u> <u>743,032</u>
Total U.S. Department of Agriculture			<u>845,909</u>
U.S. Department of Housing and Urban Development			
Direct Program			
Supportive Housing Program	14.235	31-8014	<u>45,086</u>
U.S. Department of Health and Human Services			
Passed through Iowa Department of Human Services			
Projects for Assistance in Transition from Homelessness	93.150	09-0444-401- 6890-2597-03 (2008-2009) 10-0444-401- 6890-2597-03 (2009-2010)	18,174 <u>6,998</u> <u>25,172</u>
Passed through State Department of Health and Human Services and Family Planning Council of Iowa			
Family Planning Services	93.217	412/420-FY2009 553/420-FY2010	87,005 <u>44,316</u> <u>131,321</u>
Passed through Iowa Department of Human Services			
Block Grants for Community Mental Health Services	93.958	10-0324-401- 6490-2349-83 09-0324-401- 6490-2349-83 10-0324-401- 6490-2349-84 09-0324-401- 6490-2349-84	28,337 15,958 34,746 <u>14,695</u> <u>93,736</u>
Passed through Iowa Department of Public Health			
Maternal and Child Health Services Block Grant to the States	93.994	5889MH13 5880MH13	196,366 <u>2,999</u> <u>199,365</u>
Total U.S. Department of Health and Human Services			<u>449,594</u>
Total			<u>\$ 1,340,589</u>

See notes to the Schedule of Expenditures of Federal Awards.



**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 Directors
Hillcrest Family Services, Inc.
Dubuque, Iowa

We have audited the financial statements of Hillcrest Family Services, Inc. (Hillcrest), as of and for the year ended October 31, 2009, and have issued our report thereon dated March 25, 2010. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillcrest's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hillcrest's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hillcrest's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in Part II of the schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including a deficiency we consider to be material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hillcrest's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of Hillcrest's financial statements that is more than inconsequential will not be prevented or detected by Hillcrest's internal control. We consider the deficiencies in internal control described in Part II of the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Hillcrest's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies in Part II of the schedule of findings and questioned costs, we consider item II-B-09 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillcrest's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Hillcrest's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on Hillcrest's responses, we did not audit Hillcrest's responses, and accordingly, we express no opinion on them.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Hillcrest Family Services, Inc. during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

Dubuque, Iowa
March 25, 2010



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO ITS MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Hillcrest Family Services, Inc. (Hillcrest), with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended October 31, 2009. Hillcrest's major federal program is identified in the summary of the independent 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 its major federal program is the responsibility of Hillcrest's management. Our responsibility is to express an opinion on Hillcrest'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 Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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'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'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 its major federal program for the year ended October 31, 2009.

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 grant agreements applicable to federal programs. In planning and performing our audit, we considered Hillcrest'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, but not for the purpose of expressing an opinion on the effectiveness of Hillcrest's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hillcrest's internal control over compliance.

A control deficiency in Hillcrest's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hillcrest's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Hillcrest's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by Hillcrest's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
March 25, 2010

HILLCREST FAMILY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED OCTOBER 31, 2009

Part I: Summary of the Independent Auditor's Results:

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

Material weakness identified Yes

Significant deficiency Yes

Noncompliance material to financial statements noted No

Federal Awards

Internal control over major programs:

Material weakness identified No

Significant deficiency None reported

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) No

Identification of major programs:

CFDA Number

10.557

Name of Federal Program or Cluster

Special Supplemental Nutrition Program for Women, Infants, and Children

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee No

HILLCREST FAMILY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED OCTOBER 31, 2009

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCY

II-A-09 Segregation of Duties

Criteria – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Organization should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Organization should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of Hillcrest Family Services, Inc. Due to the limited number of office employees, management will continue to monitor the Organization's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS

II-B-09 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted account principles (GAAP).

HILLCREST FAMILY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED OCTOBER 31, 2009

Part II: Findings Related to the Financial Statements (continued)

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

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

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

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

Response – This finding and recommendation is not a result of any change in the Organization's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and FASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs For Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES:

No material weaknesses in internal control over the major program were noted.