



Financial Statements
October 31, 2010 and 2009

Hillcrest Family Services, Inc.

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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, 2010 and 2009, 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, 2010 and 2009, 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 31, 2011, on our consideration of Hillcrest Family Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hillcrest Family Service's basic financial statements. 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 (OMB) 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.

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

Dubuque, Iowa
March 31, 2011

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	<u>2010</u>	<u>2009</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 478,211	\$ 2,163,949
Cash - custodial	43,656	54,045
Receivables		
Program service fees, net of allowances of \$106,621 in 2010 and \$127,763 in 2009	2,338,410	2,061,905
Program grants	1,071,678	305,290
Estimated third-party payor settlements	1,192,826	992,817
Promises to give - Note 7	233,479	166,696
Inventory	-	29,243
Prepaid expenses	<u>195,017</u>	<u>151,576</u>
Total current assets	<u>5,553,277</u>	<u>5,925,521</u>
Land, Buildings and Equipment, Net - Note 6	<u>4,077,548</u>	<u>4,173,278</u>
Other Assets		
Promises to give - Note 7	413,602	209,463
Investments - Note 3	1,531,987	1,214,721
Beneficial interest in net assets of community foundation - Note 4	<u>11,745</u>	<u>10,530</u>
Total other assets	<u>1,957,334</u>	<u>1,434,714</u>
Total assets	<u>\$ 11,588,159</u>	<u>\$ 11,533,513</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.
 Statements of Financial Position
 October 31, 2010 and 2009

	2010	2009
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 9	\$ 129,791	\$ 57,547
Refunds payable - Note 8	40,751	224,150
Custodial funds	43,656	54,045
Accounts payable		
Trade	409,561	361,747
Estimated health claims payable - Note 11	132,000	60,000
Accrued Expenses		
Salaries and wages	155,173	197,505
Vacation	465,514	414,465
Payroll taxes and other	187,955	209,018
Pension liability - Note 11	140,855	1,779,781
Deferred revenue - Note 10	1,077,254	298,096
	2,782,510	3,656,354
Long-Term Debt, Less Current Maturities - Note 9	422,714	147,905
Total liabilities	3,205,224	3,804,259
Net Assets		
Unrestricted		
Undesignated	6,388,288	6,152,663
Designated by Board - Note 3	100,000	100,000
Designated by Board - Quasi-Endowment - Note 16	666,557	578,489
Temporarily restricted - Note 12	840,672	532,580
Permanently restricted - Note 12	387,418	365,522
	8,382,935	7,729,254
Total net assets	8,382,935	7,729,254
Total liabilities and net assets	\$ 11,588,159	\$ 11,533,513

	2010			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Support and Revenue				
Public Support				
Direct:				
Contributions	\$ 198,099	\$ 360,925	\$ 3,601	\$ 562,625
Bequests -				
trusts/estates	1,644	-	-	1,644
Bowl for Kids Sake	19,700	-	-	19,700
Special event - Lights	141,476	-	-	141,476
Indirect:				
Grants - federal				
awards	1,384,694	-	-	1,384,694
Grants - other	315,122	-	-	315,122
United Way - Note 7	10,797	117,000	-	127,797
Total public support	<u>2,071,532</u>	<u>477,925</u>	<u>3,601</u>	<u>2,553,058</u>
Revenue				
Program service fees				
and grants, net -				
Note 2	15,415,397	-	-	15,415,397
Investment income				
(loss) - Note 3	102,132	-	-	102,132
Miscellaneous	30,883	-	-	30,883
Net assets released				
from restrictions	151,538	(151,538)	-	-
Total revenue	<u>15,699,950</u>	<u>(151,538)</u>	<u>-</u>	<u>15,548,412</u>
Total public support				
and revenue	<u>17,771,482</u>	<u>326,387</u>	<u>3,601</u>	<u>18,101,470</u>
Expenses				
Program services	14,834,315	-	-	14,834,315
Supporting services				
General and				
administrative	2,099,058	-	-	2,099,058
Mission advancement	448,788	-	-	448,788
Special event - Lights	99,029	-	-	99,029
Total expenses	<u>17,481,190</u>	<u>-</u>	<u>-</u>	<u>17,481,190</u>

Hillcrest Family Services, Inc.
 Statements of Activities and Changes in Net Assets
 Years Ended October 31, 2010 and 2009

2009			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 214,255	\$ 184,700	\$ 52,202	\$ 451,157
2,221	-	-	2,221
27,593	-	-	27,593
144,610	-	-	144,610
1,377,021	-	-	1,377,021
313,095	-	-	313,095
2,756	117,000	-	119,756
<u>2,081,551</u>	<u>301,700</u>	<u>52,202</u>	<u>2,435,453</u>
15,394,219	-	-	15,394,219
(193,853)	-	-	(193,853)
48,075	-	-	48,075
<u>117,000</u>	<u>(117,000)</u>	<u>-</u>	<u>-</u>
<u>15,365,441</u>	<u>(117,000)</u>	<u>-</u>	<u>15,248,441</u>
<u>17,446,992</u>	<u>184,700</u>	<u>52,202</u>	<u>17,683,894</u>
14,649,964	-	-	14,649,964
2,092,851	-	-	2,092,851
485,626	-	-	485,626
108,270	-	-	108,270
<u>17,336,711</u>	<u>-</u>	<u>-</u>	<u>17,336,711</u>

	2010			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Public Support and Revenue in Excess of Expenses	\$ 290,292	\$ 326,387	\$ 3,601	\$ 620,280
Other Changes in Net Assets				
Change in unrealized gains and losses on investments - Note 3	45,951	-	-	45,951
Gain (loss) on disposal of assets	(12,550)	-	-	(12,550)
Pledges collected for endowment	-	(18,295)	18,295	-
Pension - related changes other than net periodic pension costs - Note 11	-	-	-	-
Increase in Net Assets	\$ 323,693	\$ 308,092	\$ 21,896	\$ 653,681
Net Assets, Beginning of Year	6,831,152	532,580	365,522	7,729,254
Net Assets, End of Year	\$ 7,154,845	\$ 840,672	\$ 387,418	\$ 8,382,935

See Notes to Financial Statements

Hillcrest Family Services, Inc.
 Statements of Activities and Changes in Net Assets
 Years Ended October 31, 2010 and 2009

2009			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 110,281	\$ 184,700	\$ 52,202	\$ 347,183
310,712	-	-	310,712
2,130	-	-	2,130
-	-	-	-
-	-	-	-
\$ 423,123	\$ 184,700	\$ 52,202	\$ 660,025
6,408,029	347,880	313,320	7,069,229
\$ 6,831,152	\$ 532,580	\$ 365,522	\$ 7,729,254

Program Services

	Residential Education	CMI Group Homes	Health Services	Schools	Shelter	Family Centered Services	Counseling
Salaries	\$ 1,735,481	\$ 1,341,993	\$ 887,552	\$ 2,283,862	\$ 260,005	\$ 132,016	\$ 24,934
Fringe benefits	326,294	265,034	181,292	501,286	45,234	18,050	6,877
Payroll taxes and other	125,694	98,385	63,841	163,689	19,152	10,085	1,362
Total personnel expenses	2,187,469	1,705,412	1,132,685	2,948,837	324,391	160,151	33,173
Contracted services	83,401	47,247	29,732	39,944	4,503	21,324	2,608
Supplies and equipment maintenance	188,547	160,057	288,039	146,518	25,337	17,537	1,026
Telephone	(8,905)	17,822	17,110	754	3,700	1,100	1,065
Postage and shipping	1,366	1,273	4,093	3,260	212	109	181
Occupancy	100,465	226,666	92,371	129,424	53,075	1,947	7,803
Outside printing	36	(407)	915	-	-	-	-
Professional insurance	7,842	5,296	4,173	8,182	1,138	673	379
Travel	22,908	23,007	24,155	36,015	8,386	3,180	80
Conferences and meetings	5,991	2,435	14,596	18,096	725	82	-
Subscriptions	188	437	243	-	-	-	45
Client assistance	42,823	7,174	20,199	15,426	7,237	-	-
Dues	8,030	3,288	517	2,467	746	217	71
Miscellaneous	12,743	4,593	13,011	23,649	2,044	379	28
Interest	6,647	1,577	1	-	-	-	-
Bad debts	16,803	3,393	(9,631)	-	4,577	-	(1,219)
Total expenses before depreciation	2,676,354	2,209,270	1,632,209	3,372,572	436,071	206,699	45,240
Depreciation	126,723	26,562	5,557	38,680	15,020	806	364
Total expenses before allocation	2,803,077	2,235,832	1,637,766	3,411,252	451,091	207,505	45,604
General and administrative allocation	382,515	305,105	223,489	465,481	61,556	28,319	6,225
Total expenses	<u>\$ 3,185,592</u>	<u>\$ 2,540,937</u>	<u>\$ 1,861,255</u>	<u>\$ 3,876,733</u>	<u>\$ 512,647</u>	<u>\$ 235,824</u>	<u>\$ 51,829</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2010

Program Services							
Adoption	Hillcrest Supported Living IPRS/Voc	Transitional Housing	PATH Grant	WRAP/ Recovery Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
\$ 36,376	\$ 741,308	\$ 30,113	\$ 25,137	\$ 91,835	\$ 1,193,123	\$ 61,845	\$ 8,845,580
4,872	114,677	7,067	702	10,357	183,332	10,847	1,675,921
2,815	54,799	2,183	1,904	6,150	86,162	4,604	640,825
44,063	910,784	39,363	27,743	108,342	1,462,617	77,296	11,162,326
11,673	9,105	399	7	178	843,650	1,997	1,095,768
658	9,979	4,456	532	5,118	39,918	1,029	888,751
2,160	10,959	2,943	484	3,108	22,970	128	75,398
388	946	35	83	43	4,046	1,199	17,234
7,803	49,063	16,307	1,668	29,875	88,705	-	805,172
75	-	-	-	-	220	477	1,316
379	2,845	379	-	379	4,216	379	36,260
3,094	36,829	185	1,021	4,031	8,587	557	172,035
20	648	33	6	(48)	2,386	26	44,996
383	-	-	-	49	110	-	1,455
-	5,873	460	6,226	-	900	-	106,318
60	1,796	40	72	104	2,750	3,270	23,428
196	2,259	603	293	1,271	9,523	2,900	73,492
-	-	-	-	-	-	-	8,225
(580)	259	422	-	771	31,066	-	45,861
70,372	1,041,345	65,625	38,135	153,221	2,521,664	89,258	14,558,035
1,469	8,349	22,269	-	2,236	28,245	-	276,280
71,841	1,049,694	87,894	38,135	155,457	2,549,909	89,258	14,834,315
9,806	143,240	11,991	5,206	21,214	347,974	12,178	2,024,299
<u>\$ 81,647</u>	<u>\$ 1,192,934</u>	<u>\$ 99,885</u>	<u>\$ 43,341</u>	<u>\$ 176,671</u>	<u>\$ 2,897,883</u>	<u>\$ 101,436</u>	<u>\$ 16,858,614</u>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2010

	Supporting Services					Total Expenses
	Total Program Services	General and Administrative	Mission Advancement	Special Event - Lights	Total Supporting Services	
Salaries	\$ 8,845,580	\$ 1,149,363	\$ 245,235	\$ -	\$ 1,394,598	\$ 10,240,178
Fringe benefits	1,675,921	256,766	39,067	-	295,833	1,971,754
Payroll taxes and other	640,825	87,048	17,446	-	104,494	745,319
Total personnel expenses	11,162,326	1,493,177	301,748	-	1,794,925	12,957,251
Contracted services	1,095,768	71,775	57,031	-	128,806	1,224,574
Supplies & equipment maintenance	888,751	123,548	8,936	-	132,484	1,021,235
Telephone	75,398	31,918	1,959	-	33,877	109,275
Postage and shipping	17,234	6,181	2,166	-	8,347	25,581
Occupancy	805,172	87,248	32	-	87,280	892,452
Outside printing	1,316	-	35,955	-	35,955	37,271
Professional insurance	36,260	-	1,138	-	1,138	37,398
Travel	172,035	24,354	8,428	-	32,782	204,817
Conferences and meetings	44,996	9,868	4,743	-	14,611	59,607
Subscriptions	1,455	-	284	-	284	1,739
Client assistance	106,318	-	-	-	-	106,318
Dues	23,428	2,557	7,330	-	9,887	33,315
Miscellaneous	73,492	60,682	13,489	99,029	173,200	246,692
Interest	8,225	11,251	753	-	12,004	20,229
Bad debts	45,861	-	-	-	-	45,861
Total expenses before depreciation	14,558,035	1,922,559	443,992	99,029	2,465,580	17,023,615
Depreciation	276,280	176,499	4,796	-	181,295	457,575
Total expenses before allocation	14,834,315	2,099,058	448,788	99,029	2,646,875	17,481,190
General and administrative allocation	2,024,299	(2,099,058)	60,821	13,938	(2,024,299)	-
Total expenses	\$ 16,858,614	\$ -	\$ 509,609	\$ 112,967	\$ 622,576	\$ 17,481,190

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	52,901	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	303,416	158,536	60,386
Contracted services	75,441	60,379	80,024	15,770	3,531	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	<u>\$ 3,084,194</u>	<u>\$ 2,540,415</u>	<u>\$ 2,127,168</u>	<u>\$ 3,810,660</u>	<u>\$ 468,327</u>	<u>\$ 190,956</u>	<u>\$ 88,445</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2009

Program Services							
Adoption	Hillcrest Supported Living IPRS/Voc	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	1,790,666
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	11,034,590
11,374	6,980	25	-	403	765,038	1,108	1,026,364
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>\$ 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>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
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	1,790,666	261,717	34,238	-	295,955	2,086,621
Payroll taxes and other	628,062	83,890	10,382	-	94,272	722,334
Total personnel expenses	11,034,590	1,470,288	219,196	-	1,689,484	12,724,074
Contracted services	1,026,364	56,043	133,528	-	189,571	1,215,935
Supplies and 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	68,905	-	-	-	-	68,905
Total expenses before depreciation	14,415,062	1,883,522	480,242	108,270	2,472,034	16,887,096
Depreciation	234,902	209,329	5,384	-	214,713	449,615
Total expenses	14,649,964	2,092,851	485,626	108,270	2,686,747	17,336,711
General and administrative allocation	2,010,111	(2,092,851)	67,656	15,084	(2,010,111)	-
Total expenses	\$ 16,660,075	\$ -	\$ 553,282	\$ 123,354	\$ 676,636	\$ 17,336,711

Hillcrest Family Services, Inc.
Statements of Cash Flows
Years Ended October 31, 2010 and 2009

	2010	2009
Operating Activities		
Increase in net assets	\$ 653,681	\$ 660,025
Adjustments to reconcile increase in net assets to net cash provided by (used for) operating activities		
Depreciation	457,575	449,615
(Gain) loss on disposal of assets	12,550	(2,130)
Change in unrealized gains and losses on investments	(45,951)	(310,712)
Bad debts	45,861	68,905
Changes in assets and liabilities		
Receivables	(1,559,685)	(259,250)
Inventory	29,243	(7,120)
Prepaid expenses	(43,441)	(26,064)
Accounts/refunds payable	(63,585)	117,282
Accrued expenses	(12,346)	30,557
Deferred revenue	779,158	77,294
Pension liability	(1,638,926)	210,998
Net Cash Provided by (used for) Operating Activities	(1,385,866)	1,009,400
Investing Activities		
Purchase of property and equipment	(381,350)	(663,082)
Purchase of investments	(879,621)	(1,751,262)
Sale of investments	607,091	3,545,043
Proceeds from sale of assets	6,955	2,130
Net Cash Provided by (used for) Investing Activities	(646,925)	1,132,829
Financing Activities		
Proceeds from issuance of long-term debt	445,000	-
Principal payments on long-term debt	(97,947)	(52,779)
Net Cash Provided by (used for) Financing Activities	347,053	(52,779)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,685,738)	2,089,450
Cash and Cash Equivalents, Beginning of Year	2,163,949	74,499
Cash and Cash Equivalents, End of Year	\$ 478,211	\$ 2,163,949
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 20,229	\$ 11,486
Supplemental Disclosure of Noncash Investing and Financing Activities		
Equipment financed through long-term debt	\$ -	\$ 48,610

Note 1 - Organization and Significant Accounting Policies

Organization

Hillcrest Family Services, Inc. (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.

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. 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 (loss) on disposal of assets and pledges collected for endowment.

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 prospectively determined rates by some payors. Certain other payors reimburse at interim rates with final settlement determined after submission of annual cost reports. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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 (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.

Donated Goods and Services

Donated materials and equipment are reflected as contributions in the accompanying financial 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, as applicable.

Advertising Costs

The Organization expenses advertising costs as incurred.

Accounting for Uncertainty in Taxes

The Organization has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), on November 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of October 31, 2010, the unrecognized tax benefit accrual was zero.

If incurred, the Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Organization is no longer subject to Federal tax examinations by tax authorities for years before 2006.

Subsequent Events

The Organization has evaluated subsequent events through March 31, 2011, the date which the financial statements were available to be issued.

Reclassifications

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

Other Significant Accounting Policies

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

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

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.

Medicaid (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, 2010 and 2009, is as follows:

	2010	2009
Grants	27%	28%
Medicaid/ Medicare	46	46
Commerical Insurance and Other Third-Party Payors and Clients	5	5
Medicaid (MBC of Iowa)	6	11
County Board of Supervisors	16	10
	100%	100%

Note 3 - Investments and Investment Income (Loss)

Investments

Investments include the following at October 31, 2010 and 2009:

	2010		2009	
	Market Value	Cost	Market Value	Cost
Certificates of Deposit	\$ 126,545	\$ 126,545	\$ 121,681	\$ 121,681
Money Market	50,572	50,572	61,747	61,747
Government Agencies	-	-	4,582	4,331
Common Stocks	626,990	570,810	454,579	435,066
Bond Funds	726,830	674,182	571,082	527,969
Land - Arizona	1,050	1,050	1,050	1,050
	\$ 1,531,987	\$ 1,423,159	\$ 1,214,721	\$ 1,151,844

Assets Limited as to Use

Included in investments are funds 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, 2010, are shown in the following table:

	Fair Value	Unrealized Losses	Fair Value	Unrealized Gains
Government Agencies	\$ -	\$ -	\$ -	\$ -
Common Stocks	98,756	(42,282)	528,234	98,461
Bond Funds	-	-	629,571	45,592
Mutual Funds	-	-	97,259	7,057
	\$ 98,756	\$ (42,282)	\$ 1,255,064	\$ 151,110

The duration of the investments in an unrealized loss position at October 31, 2010, 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	<u>\$ 50,570</u>	<u>\$ (35,453)</u>	<u>\$ 48,186</u>	<u>\$ (6,829)</u>

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
Common Stocks	98,230	(61,698)	356,349	81,211
Bond Funds	<u>-</u>	<u>-</u>	<u>571,082</u>	<u>43,112</u>
	<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	<u>\$ 68,444</u>	<u>\$ (59,387)</u>	<u>\$ 29,786</u>	<u>\$ (2,311)</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, 2010.

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.

Investment Income (Loss)

Investment income (loss) is recorded net of investment fees of \$12,065 and \$11,625 for the years ended October 31, 2010 and 2009, respectively. Investment income and gains and losses on cash equivalents and other investments consist of the following for the years ended October 31, 2010 and 2009:

	2010	2009
Investment Income (Loss)		
Interest and dividend income	\$ 44,542	\$ 95,609
Realized gains and losses on sale of investments	57,590	(289,462)
Total investment income (loss)	\$ 102,132	\$ (193,853)
Other Changes in Net Assets		
Change in unrealized gains and losses on investments	\$ 45,951	\$ 310,712

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 \$11,745 and \$10,530 at October 31, 2010 and 2009, 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 \$294,904 and \$168,753 at October 31, 2010 and 2009, 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:

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, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Assets		
Bond funds	\$ 726,830	\$ 571,082
Common stocks	626,990	454,579
Government agencies	-	4,582
Beneficial interest in net assets of community foundation	11,745	10,530
Promises to give	<u>647,081</u>	<u>376,159</u>
 Total assets	 <u>\$ 2,012,646</u>	 <u>\$ 1,416,932</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, 2010		
Assets		
Bond funds	\$ 726,830	\$ -
Common stocks	626,990	-
Government agencies	-	-
Beneficial interest in net assets of community foundation	<u>-</u>	<u>11,745</u>
 Total assets	 <u>\$ 1,353,820</u>	 <u>\$ 11,745</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>

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 assets measured on a non-recurring basis are determined as follows:

	Unobservable Inputs (Level 3)
October 31, 2010	
Assets	
Promises to give	\$ 647,081
October 31, 2009	
Assets	
Promises to give	\$ 376,159

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, 2010 and 2009, follows:

	2010		2009	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 40,000	\$ -	\$ 40,000	\$ -
Land Improvements	143,288	58,975	141,362	47,312
Buildings	6,452,194	3,348,592	6,229,544	3,160,381
Equipment	1,454,960	897,360	1,546,857	1,072,895
Vehicles	474,283	391,824	540,027	406,298
Furniture, Fixtures, and Equipment	247,245	163,754	590,852	516,038
Leasehold Improvements	85,835	39,666	56,226	32,473
Construction in Progress	79,914	-	263,807	-
	\$ 8,977,719	\$ 4,900,171	\$ 9,408,675	\$ 5,235,397
Net Land, Buildings and Equipment	\$ 4,077,548		\$ 4,173,278	

Construction in progress consists of a project related to constructing a Family Life Center. The estimated total cost of this project is \$2.1 million and will be funded through a capital campaign, financing and operations. The estimated completion date of this project is unknown.

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, 2010 and 2009, due to management's estimate that all amounts will be collected. Included in amounts due in less than one year are United Way contributions, totaling \$117,000 at October 31, 2010 and 2009, respectively. Promises to give are due as follows:

	2010	2009
Less Than One Year	\$ 239,214	\$ 169,130
One to Five Years	524,198	248,633
	763,412	417,763
Less Unamortized Discount	(116,331)	(41,604)
	\$ 647,081	\$ 376,159

Note 8 - Refunds Payable

Refunds payable consists of monies due to clients, third-party payors and counties for over payments on account balances.

Note 9 - Line of Credit and Long-Term Debt

The Organization has a line of credit available for up to \$500,000 with a bank. Interest is paid monthly at a rate of LIBOR plus 2.95% (3.73% at October 31, 2010). The line expires in June 2011, and is secured by substantially all assets of the Organization. At October 31, 2010 and 2009, there was no balance outstanding on the line of credit.

Long-term debt consists of:

	2010	2009
6.00% Note Payable to Bank, Due in Monthly Installments of \$1,865 Including Interest, Due in December 2013, Secured by Real Estate	\$ 62,755	\$ 80,727
4.99% Note Payable to Bank, Due in Monthly Installments of \$918 Including Interest, Due in March 2014, Secured by Vehicles	33,713	42,798
5.54% Note Payable to Bank, Due in Monthly Installments of \$1,130 Including Interest, Due in February 2013, Secured by Vehicles	29,554	41,094
6.49% Note Payable to Bank, Due in Monthly Installments of \$720 Including Interest, Due in July 2012, Secured by Vehicles	21,748	27,308
5.49% Note Payable to Bank, Due in Monthly Installments of \$864 Including Interest, Due in September 2010, Secured by Equipment	-	9,251
5.24% Note Payable to Bank, Due in Monthly Installments of \$724 Including Interest, Due in September 2010, Secured by Vehicles	-	4,274
4.50% Mortgage Payable to Bank, Due in Monthly Installments of \$8,310 Including Interest, Due in April 2015, Secured by Real Estate	404,735	-
	552,505	205,452
Less Current Maturities	(129,791)	(57,547)
Long-Term Debt, Less Current Maturities	\$ 422,714	\$ 147,905

Future principal payments on the above loans are as follows:

Year Ending October 31	
2011	\$ 129,791
2012	136,324
2013	133,938
2014	104,185
2015	48,267
Thereafter	
Total	\$ 552,505

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, 2010 and 2009. Also included in deferred revenue at October 31, 2010, is \$726,739 relating to a grant for Crisis Stabilization Service System Development.

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, 2010 and 2009, the provision for estimated health claims outstanding is \$132,000 and \$60,000, 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. The Organization also matches 50% of employee contributions up to 4% of eligible compensation.

The Organization has a qualified 401(k) retirement plan that covers all non-bargaining employees who have completed one year of service and are 21 years of age or older. The Organization makes discretionary contributions of 3% of eligible compensation. The Organization also matches 50% of employee contributions up to 4% of eligible compensation.

The employer contributions for the 401(k) plans for the years ended October 31, 2010 and 2009, were \$344,988 and \$301,651, 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 \$140,855 as of October 31, 2010 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, 2010 and 2009. The Organization accrued a liability of \$1,779,781 as of October 31, 2009 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, 2010, final distributions of approximately \$145,000 were paid to plan participants from the plan assets to complete the termination.

The Organization's pension plan assets as of October 31, 2010 and 2009 were invested in money market accounts.

Note 12 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at October 31, 2010 and 2009:

	2010	2009
Time Restriction - United Way Contributions	\$ 117,000	\$ 117,000
Time Restriction - Other Pledges	530,081	259,159
Construction of a Family Life Center	193,591	156,421
	\$ 840,672	\$ 532,580

Permanently restricted net assets at October 31, 2010 and 2009, are held in perpetuity with the income to be used for:

	2010	2009
Unrestricted Support for Programs	\$ 150,000	\$ 150,000
Support for the Family Life Center	156,418	134,522
Educational Programs	80,000	80,000
Family Counseling	1,000	1,000
	\$ 387,418	\$ 365,522

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, 2010 and 2009, was \$388,158 and \$368,158, respectively.

Minimum future lease payments are as follows:

Year Ending October 31	
2011	\$ 370,463
2012	313,109
2013	266,540
2014	268,660
2015	264,389
2015 - 2017	97,411
Total	\$ 1,580,572

Note 14 - 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, 2010 and 2009, was as follows:

	2010	2009
Medicaid/ Medicare	15%	21%
Grants	61%	28%
County Board of Supervisors	1%	21%
Medicaid (MBC of Iowa)	11%	16%
Commerical Insurance and Other Third-Party Payors and Clients	12%	14%
	100%	100%

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.

Note 15 - Contingencies

Liability Insurance

The Organization has liability insurance coverage to provide protection for general liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Excess Liability Umbrella Insurance

The Organization also has excess liability umbrella coverage on a claims-made basis subject to a limit of \$4,000,000 per occurrence and an annual aggregate limit of \$4,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Litigations, Claims, and Other Disputes

The Organization is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will not be material to the financial position of the Organization.

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Organization is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

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, 2010 and 2009, respectively, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
October 31, 2010				
Donor-Restricted				
Endowment Funds	\$ -	\$ 139,655	\$ 387,418	\$ 527,073
Board-Designated				
Endowment Funds	<u>666,557</u>	<u>-</u>	<u>-</u>	<u>666,557</u>
	<u>\$ 666,557</u>	<u>\$ 139,655</u>	<u>\$ 387,418</u>	<u>\$ 1,193,630</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>

Changes in endowment net assets for the years ended October 31, 2010 and 2009, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
October 31, 2010				
Endowment Net Assets, Beginning of Year	\$ 578,489	\$ 73,240	\$ 365,522	\$ 1,017,251
Investment Return:				
Investment income	19,219	18,881	-	38,100
Net realized and unrealized appreciation (depreciation)	50,335	53,526	-	103,861
Contributions	24,604	-	21,896	46,500
Appropriation of Endowment Assets for Expenditure	<u>(6,090)</u>	<u>(5,992)</u>	<u>-</u>	<u>(12,082)</u>
Endowment Net Assets, End of Year	<u>\$ 666,557</u>	<u>\$ 139,655</u>	<u>\$ 387,418</u>	<u>\$ 1,193,630</u>
	<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>

The components of endowment funds classified as permanently restricted net assets as of October 31, 2010 and 2009, respectively, are as follows:

Endowment Only Restricted Net Assets

	2010	2009
Temporarily Restricted Net Assets:		
The portion of perpetual endowment funds restricted to a purpose restriction under UPMIFA	\$ 139,655	\$ 73,240
 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	\$ 387,418	\$ 365,522

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, 2010.

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.

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, 2010 and 2009

Hillcrest Family Services, Inc.



Independent Auditor's Report on Supplementary Information

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

The audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit 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.

Eide Bailly LLP

Dubuque, Iowa
March 31, 2011

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Program Service Fees and Grants, Net	2010				
	Gross Fees	Contractual Allowance	Estimated Cost Settlement	Administrative Adjustment	Net Fees
Residential treatment	\$ 3,501,115	\$ (31,434)	\$ 46,693	\$ (12,007)	\$ 3,504,367
CMI group homes	2,575,310	(48,082)	28,727	(4,484)	2,551,471
Health services	717,979	(168,680)	-	3,192	552,491
Schools	3,841,482	-	-	-	3,841,482
Shelter	542,675	(2,143)	-	-	540,532
Family Centered Services	202,780	195	4,664	(810)	206,829
Counseling	61,718	(29,547)	-	30	32,201
Adoption	58,323	-	-	-	58,323
Hillcrest supported living/IPRS/VOC	1,256,091	(96,605)	57,795	(10,461)	1,206,820
Transitional housing	7,620	-	-	(554)	7,066
Washington County Mental Health Center	703,267	(304,371)	89,075	(8,271)	479,700
Dubuque County Mental Health Center	2,631,802	(954,562)	249,322	(30,116)	1,896,446
Jackson County Mental Health Center	700,466	(297,142)	99,275	(3,288)	499,311
PATH Grant	6,047	-	-	-	6,047
WRAP/Recovery Grant	37,390	(592)	-	(4,487)	32,311
Total program service fees and grants, net	<u>\$ 16,844,065</u>	<u>\$ (1,932,963)</u>	<u>\$ 575,551</u>	<u>\$ (71,256)</u>	<u>\$ 15,415,397</u>

Hillcrest Family Services, Inc.
Schedules of Program Service Fees and Grants, Net
October 31, 2010 and 2009

Program service fees and grants, net	2009				
	Gross Fees	Contractual Allowance	Estimated Cost Settlement	Administrative Adjustment	Net Fees
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
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>

2010

	Washington County MHC	Dubuque County MHC	Jackson County MHC	Total Program Services
Salaries	\$ 182,947	\$ 831,914	\$ 178,262	\$ 1,193,123
Fringe Benefits	27,506	132,795	23,031	183,332
Payroll Taxes and Other	13,127	60,539	12,496	86,162
Total personnel expenses	<u>223,580</u>	<u>1,025,248</u>	<u>213,789</u>	<u>1,462,617</u>
Contracted Services	172,784	549,555	121,311	843,650
Supplies & Equipment				
Maintenance	6,156	22,690	11,072	39,918
Telephone	4,312	13,043	5,615	22,970
Postage and Shipping	1,303	1,941	802	4,046
Occupancy	2,131	51,864	34,710	88,705
Outside Printing	-	220	-	220
Professional Insurance	801	2,656	759	4,216
Travel	5,599	647	2,341	8,587
Conferences and Meetings	340	1,388	658	2,386
Subscriptions	-	110	-	110
Client Assistance	-	900	-	900
Dues	416	1,898	436	2,750
Miscellaneous	2,378	5,520	1,625	9,523
Bad Debts	(3,174)	25,784	8,456	31,066
Total expenses before depreciation	416,626	1,703,464	401,574	2,521,664
Depreciation	<u>3,248</u>	<u>20,448</u>	<u>4,549</u>	<u>28,245</u>
Total Expenses	419,874	1,723,912	406,123	2,549,909
General and Administrative Allocation	<u>57,294</u>	<u>235,256</u>	<u>55,424</u>	<u>347,974</u>
Total Expenses	<u>\$ 477,168</u>	<u>\$ 1,959,168</u>	<u>\$ 461,547</u>	<u>\$ 2,897,883</u>

Hillcrest Family Services, Inc.
Schedules of Mental Health Center Expenses
October 31, 2010 and 2009

	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	172,010	859,734	193,882	1,225,626
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
Bad Debts	(9,543)	47,176	(5,750)	31,883
Total expenses before depreciation	290,831	1,566,200	341,948	2,198,979
Depreciation	3,505	18,404	5,105	27,014
Total Expenses	294,336	1,584,604	347,053	2,225,993
General and Administrative Allocation	41,638	224,175	49,098	314,911
Total Expenses	\$ 335,974	\$ 1,808,779	\$ 396,151	\$ 2,540,904

Hillcrest Family Services, Inc.

Schedules of Revenues and Expenses

WIC – Contract #5888AO35

Maternal Health – Contract #5888MH13

Contract Period: October 1, 2009 Through September 30, 2010

	WIC	Maternal Health
Revenues		
Iowa Department of Public Health	\$ 801,345	\$ 35,877
Title XIX	-	125,156
United Way	-	1,525
Miscellaneous	(971)	9,440
Total revenues	800,374	171,998
Expenses		
Salaries	398,006	97,506
Fringe benefits	101,403	35,134
Payroll taxes, etc.	28,847	6,708
Contracted services	1,385	7,768
Supplies & equipment maintenance	68,030	773
Telephone	12,422	778
Postage and shipping	1,240	219
Occupancy	53,443	4,616
Travel	9,794	492
Conferences and meetings	8,831	116
Subscriptions	243	-
Client assistance	7,969	90
Dues	291	-
Miscellaneous	3,565	865
Interest	(2)	-
Depreciation	528	-
Total expenses	695,995	155,065
General and administrative allocation	110,538	22,715
Revenues less than expenses	\$ (6,159)	\$ (5,782)

Hillcrest Family Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended October 31, 2010

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	\$ 109,040
Passed through Iowa Department of Public Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	5888AO35 5880AO35	754,264 42,740
			<u>797,004</u>
Total U.S. Department of Agriculture			<u>906,044</u>
U.S. Department of Housing and Urban Development			
Direct Program			
Supportive Housing Program	14.235		82,514
U.S. Department of Health and Human Services			
Passed through Iowa Department of Human Services			
Projects for Assistance in Transition from Homelessness	93.150	10-0444-401- 6890-2597-03 (2009-2010) 10-0444-401- 6890-2597-03 (2010-2011)	17,107
			7,885
			<u>24,992</u>
Passed through State Department of Health and Human Services and Family Planning Council of Iowa Family Planning - Services			
	93.217	529-FY2010 572-FY2011	88,632 45,422
			<u>134,054</u>
Passed through Iowa Department of Human Services			
Block Grants for Community Mental Health Services	93.958	BDPS 07-129 09-0324-401- MHDS11-016 10-0324-401- BDPS 07-129 09-0324-401- MHDS 11-016	36,662 8,521 40,430
			10,130
			<u>95,743</u>
Passed through Iowa Department of Public Health			
Maternal and Child Health Services Block Grant to the States	93.994	5880MH13 5881MH13	31,190 2,813
			<u>34,003</u>
Total U.S. Department of Health and Human Services			<u>288,792</u>
Total			<u>\$ 1,277,350</u>

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hillcrest Family Services, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

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

We have audited the financial statements of Hillcrest Family Services, Inc. (Hillcrest), as of and for the year ended October 31, 2010, and have issued our report thereon dated March 31, 2011. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Hillcrest's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying schedule of findings and questioned costs as items II-A-10 and II-B-10 to be significant deficiencies.

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 Trustees, 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 cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
March 31, 2011



Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
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 the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal program for the year ended October 31, 2010. 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended October 31, 2010.

Internal Control Over Compliance

The management of Hillcrest Family Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the 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 its major federal program 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hillcrest's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 Trustees, 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.



Dubuque, Iowa
March 31, 2011

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 No
 Significant deficiencies 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

Part II: Findings Related to the Financial Statements

Significant Deficiencies

II-A-10 Segregation of Duties

Criteria – One important aspect of internal control 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.

II-B-10 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 control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

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 considerations.

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.