



Financial Statements
October 31, 2012 and 2011

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, 2012 and 2011, 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 the Organization as of October 31, 2012 and 2011, 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 28, 2013, on our consideration of the Organization'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 the Organization's financial statements as a whole. The supplementary schedules on pages 31 through 34 are presented for purposes of additional analysis and are not a required part of the financial statements of the Organization. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 17 to the financial statements, it was noted during the current year that the balance in accounts receivable as of and for the year ended October 31, 2011 was overstated. Accordingly, the 2011 financial statements have been restated to correct the error. The effect of this retroactive adjustment is disclosed in Note 17.

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

Dubuque, Iowa
March 28, 2013

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	2012	(As Restated) 2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 806,643	\$ 562,436
Cash - custodial	77,119	61,549
Receivables		
Program service fees, net of allowances for uncollectibles of \$7,500 in 2012 and \$20,300 in 2011	2,090,293	2,011,401
Program grants	284,218	280,403
Estimated third-party payor settlements	1,609,283	1,376,794
Promises to give - Note 5	280,323	304,021
Inventory	-	221
Prepaid expenses	299,006	97,242
Total current assets	<u>5,446,885</u>	<u>4,694,067</u>
Land, Buildings and Equipment, Net - Note 6	<u>9,229,667</u>	<u>4,285,103</u>
Other Assets		
Promises to give - Note 5	299,893	347,708
Investments - Note 3	1,149,206	1,887,544
Beneficial interest in net assets of community foundation	11,258	11,490
Deferred financing costs, net of accumulated amortization	30,391	-
Total other assets	<u>1,490,748</u>	<u>2,246,742</u>
Total assets	<u>\$ 16,167,300</u>	<u>\$ 11,225,912</u>

See Notes to Financial Statements

Hillcrest Family Services, Inc.
 Statements of Financial Position
 October 31, 2012 and 2011

	<u>2012</u>	<u>(As Restated) 2011</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 7	\$ 489,358	\$ 139,500
Refunds payable - Note 9	10,110	3,178
Custodial funds	77,119	61,549
Accounts payable		
Trade	458,595	252,797
Construction	165,819	83,736
Estimated health claims payable - Note 11	150,000	50,000
Accrued Expenses		
Salaries and wages	372,583	246,968
Vacation	525,639	497,170
Payroll taxes and other benefits	85,656	259,295
Other	105,005	94,403
Deferred revenue and grants - Note 10	<u>259,002</u>	<u>419,952</u>
Total Current Liabilities	2,698,886	2,108,548
Long-Term Debt, Less Current Maturities - Note 7	<u>4,145,668</u>	<u>374,818</u>
Total liabilities	<u>6,844,554</u>	<u>2,483,366</u>
Net Assets		
Unrestricted		
Undesignated	8,464,631	6,399,922
Designated by Board	-	100,000
Designated by Board - quasi-endowment - Note 16	-	732,287
Temporarily restricted - Note 12	627,115	1,066,304
Permanently restricted - Note 12	<u>231,000</u>	<u>444,033</u>
Total net assets	<u>9,322,746</u>	<u>8,742,546</u>
Total liabilities and net assets	<u>\$ 16,167,300</u>	<u>\$ 11,225,912</u>

2012

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Support and Revenue				
Public Support				
Direct:				
Contributions	\$ 325,037	\$ 114,858	\$ -	\$ 439,895
Bequests -				
trusts/estates	6,940	-	-	6,940
Bowl for Kids Sake	24,893	-	-	24,893
The Big Event	14,055	-	-	14,055
Special event - lights	184,745	-	-	184,745
Indirect:				
Grants - federal				
awards	1,243,332	-	-	1,243,332
Grants - other	541,364	-	-	541,364
United Way	9,611	117,000	-	126,611
Total public support	2,349,977	231,858	-	2,581,835
Revenue				
Program service fees				
and grants, net -				
Note 2	15,802,824	-	-	15,802,824
Investment income -				
Note 4	44,993	-	-	44,993
Miscellaneous	46,604	-	-	46,604
Net assets released from				
restrictions - Note 12	884,080	(671,047)	(213,033)	-
Total revenue	16,778,501	(671,047)	(213,033)	15,894,421
Total public support				
and revenue	19,128,478	(439,189)	(213,033)	18,476,256
Expenses				
Program services	15,215,000	-	-	15,215,000
Supporting services				
General and				
administrative	2,077,166	-	-	2,077,166
Mission advancement	565,956	-	-	565,956
Special event - lights	109,980	-	-	109,980
Total expenses	17,968,102	-	-	17,968,102

Hillcrest Family Services, Inc.
 Statements of Activities and Changes in Net Assets
 Years Ended October 31, 2012 and 2011

2011			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 315,092	\$ 282,247	\$ -	\$ 597,339
4,096	-	-	4,096
26,387	-	-	26,387
20,915	-	-	20,915
150,578	-	-	150,578
1,334,453	-	-	1,334,453
579,498	-	-	579,498
12,596	117,000	-	129,596
2,443,615	399,247	-	2,842,862
15,701,823	-	-	15,701,823
137,747	-	-	137,747
43,313	-	-	43,313
117,000	(117,000)	-	-
15,999,883	(117,000)	-	15,882,883
18,443,498	282,247	-	18,725,745
14,974,900	-	-	14,974,900
2,069,775	-	-	2,069,775
493,879	-	-	493,879
105,475	-	-	105,475
17,644,029	-	-	17,644,029

	2012			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Public Support and Revenue in Excess of (Less than) Expenses	\$ 1,160,376	\$ (439,189)	\$ (213,033)	\$ 508,154
Other Changes in Net Assets				
Change in unrealized gains and losses on investments - Note 4	72,046	-	-	72,046
Loss on disposal of assets	-	-	-	-
Pledges collected for endowment	-	-	-	-
Change in Net Assets	1,232,422	(439,189)	(213,033)	580,200
Net Assets, Beginning of Year				
As previously reported	7,232,209	1,066,304	444,033	8,742,546
Restatement - Note 17	-	-	-	-
Net assets, as restated	7,232,209	1,066,304	444,033	8,742,546
Net Assets, End of Year	\$ 8,464,631	\$ 627,115	\$ 231,000	\$ 9,322,746

See Notes to Financial Statements

Hillcrest Family Services, Inc.
 Statements of Activities and Changes in Net Assets
 Years Ended October 31, 2012 and 2011

2011			
Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
\$ 799,469	\$ 282,247	\$ -	\$ 1,081,716
(143,358)	-	-	(143,358)
(865)	-	-	(865)
-	(56,615)	56,615	-
655,246	225,632	56,615	937,493
7,154,845	840,672	387,418	8,382,935
(577,882)	-	-	(577,882)
6,576,963	840,672	387,418	7,805,053
\$ 7,232,209	\$ 1,066,304	\$ 444,033	\$ 8,742,546

Program Services

	Residential Education	CMI Group Homes	Health Services	Schools	Shelter	Family Centered Services	Adoption
Salaries	\$ 1,916,842	\$ 1,366,411	\$ 897,854	\$ 2,280,799	\$ 251,183	\$ 77,600	\$ 36,772
Fringe Benefits	336,246	261,658	179,286	481,968	35,713	6,769	5,609
Payroll Taxes and Other	140,603	99,919	64,100	164,289	18,598	5,946	2,747
Total personnel expenses	2,393,691	1,727,988	1,141,240	2,927,056	305,494	90,315	45,128
Contracted Services	90,234	48,365	26,959	35,363	4,212	1,111	12,620
Supplies and Equipment							
Maintenance	221,016	187,606	159,409	168,646	32,541	1,157	1,812
Telephone	(25,477)	17,030	16,237	(5,938)	4,225	22	2,674
Postage and Shipping	1,457	881	3,378	3,036	244	35	322
Occupancy	122,386	202,527	85,812	140,157	51,251	30,614	2,242
Outside Printing	-	310	1,037	6,116	-	-	100
Professional Insurance	3,657	2,767	2,181	4,531	515	217	88
Travel	26,755	21,420	20,719	28,099	6,420	1,365	3,168
Conferences and Meetings	5,113	4,008	14,328	5,765	625	87	408
Subscriptions	-	340	22	488	-	-	-
Client Assistance	37,665	8,731	17,266	10,883	6,123	-	10
Dues	5,562	3,523	186	2,022	449	29	626
Miscellaneous	19,550	6,969	3,025	13,396	979	283	47
Interest	4,346	1,212	-	12,376	-	3,925	-
Bad Debts (Recoveries)	3,244	875	(219)	-	(1,384)	(1,967)	800
Total Expenses Before Depreciation and Amortization	2,909,199	2,234,552	1,491,580	3,351,996	411,694	127,193	70,045
Depreciation and Amortization	139,035	21,639	8,983	64,926	8,998	9,013	89
Total Expenses Before Allocation	3,048,234	2,256,191	1,500,563	3,416,922	420,692	136,206	70,134
General and Administrative Allocation	398,385	294,917	196,147	446,641	54,991	17,865	9,168
Total Expenses	<u>\$ 3,446,619</u>	<u>\$ 2,551,108</u>	<u>\$ 1,696,710</u>	<u>\$ 3,863,563</u>	<u>\$ 475,683</u>	<u>\$ 154,071</u>	<u>\$ 79,302</u>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2012

Program Services					
Hillcrest Supported Living IPRS/Voc	Transitional Housing	PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
\$ 683,076	\$ 33,232	\$ 38,203	\$ 1,824,758	\$ 54,672	\$ 9,461,402
101,173	8,084	2,857	329,919	8,251	1,757,533
49,611	2,446	2,883	133,079	4,040	688,261
833,860	43,762	43,943	2,287,756	66,963	11,907,196
5,861	-	-	532,754	660	758,139
5,650	3,342	496	72,326	2,482	856,483
11,663	2,863	150	31,969	714	56,132
616	3	35	5,567	1,158	16,732
34,963	14,439	1,432	194,628	3,021	883,472
-	-	-	128	190	7,881
1,000	105	-	4,721	99	19,881
32,639	529	1,433	15,460	798	158,805
978	35	192	21,240	274	53,053
-	-	43	257	-	1,150
3,399	4,845	4,885	1,035	-	94,842
1,655	41	22	3,052	3,119	20,286
1,293	730	312	6,930	1,642	55,156
-	-	-	-	-	21,859
-	1,331	-	6,264	-	8,944
933,577	72,025	52,943	3,184,087	81,120	14,920,011
4,596	19,797	-	17,913	-	294,989
938,173	91,822	52,943	3,202,000	81,120	15,215,000
122,631	12,002	6,921	418,546	10,603	1,988,817
<u>\$ 1,060,804</u>	<u>\$ 103,824</u>	<u>\$ 59,864</u>	<u>\$ 3,620,546</u>	<u>\$ 91,723</u>	<u>\$ 17,203,817</u>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2012

	Supporting Services					Total Expenses
	Total Program Services	General and Administrative	Mission Advancement	Special Event - Lights	Total Supporting Services	
Salaries	\$ 9,461,402	\$ 1,258,616	\$ 263,887	\$ -	\$ 1,522,503	\$ 10,983,905
Fringe Benefits	1,757,533	244,872	38,500	-	283,372	2,040,905
Payroll Taxes and Other	688,261	94,418	17,861	-	112,279	800,540
Total personnel expenses	11,907,196	1,597,906	320,248	-	1,918,154	13,825,350
Contracted Services	758,139	76,702	104,094	-	180,796	938,935
Supplies and Equipment						
Maintenance	856,483	133,901	25,227	-	159,128	1,015,611
Telephone	56,132	34,108	1,787	-	35,895	92,027
Postage and Shipping	16,732	5,436	1,722	-	7,158	23,890
Occupancy	883,472	42,371	16,648	-	59,019	942,491
Outside Printing	7,881	1,042	48,741	-	49,783	57,664
Professional Insurance	19,881	11,035	765	-	11,800	31,681
Travel	158,805	24,960	8,301	-	33,261	192,066
Conferences and						
Meetings	53,053	16,090	6,079	-	22,169	75,222
Subscriptions	1,150	1,416	338	-	1,754	2,904
Client Assistance	94,842	10	-	-	10	94,852
Dues	20,286	1,967	5,256	-	7,223	27,509
Miscellaneous	55,156	41,932	20,480	109,980	172,392	227,548
Interest	21,859	12,172	40	-	12,212	34,071
Bad Debts (Recoveries)	8,944	(61,581)	-	-	(61,581)	(52,637)
Total Expenses Before Depreciation and Amortization	14,920,011	1,939,467	559,726	109,980	2,609,173	17,529,184
Depreciation and Amortization	294,989	137,699	6,230	-	143,929	438,918
Total Expenses Before Allocation	15,215,000	2,077,166	565,956	109,980	2,753,102	17,968,102
General and Administrative Allocation	1,988,817	(2,077,166)	73,974	14,375	(1,988,817)	-
Total Expenses	\$ 17,203,817	\$ -	\$ 639,930	\$ 124,355	\$ 764,285	\$ 17,968,102

Program Services

	Residential Education	CMI Group Homes	Health Services	Schools	Shelter	Family Centered Services
Salaries	\$ 1,824,216	\$ 1,358,674	\$ 870,603	\$ 2,319,683	\$ 236,799	\$ 125,793
Fringe Benefits	285,006	219,359	155,369	395,380	35,616	9,229
Payroll Taxes and Other	132,472	98,366	61,873	165,359	17,523	9,047
Total personnel expenses	2,241,694	1,676,399	1,087,845	2,880,422	289,938	144,069
Contracted Services	99,709	42,551	28,136	27,375	3,509	2,348
Supplies and Equipment						
Maintenance	196,056	170,285	179,667	175,216	23,988	2,412
Telephone	(19,130)	17,061	18,455	(3,298)	3,819	415
Postage and Shipping	1,699	1,191	4,273	3,227	246	77
Occupancy	118,310	223,836	86,662	136,120	59,129	18,610
Outside Printing	-	220	1,492	32	-	-
Professional Insurance	5,740	4,630	3,306	10,574	892	360
Travel	25,235	23,778	21,150	36,812	5,859	271
Conferences and Meetings	8,222	4,374	7,249	22,899	661	175
Subscriptions	-	436	274	235	-	-
Client Assistance	37,031	7,896	8,987	13,075	4,768	222
Dues	12,620	9,786	116	2,028	393	75
Miscellaneous	19,264	5,562	14,586	25,972	779	354
Interest	5,349	1,212	-	70	-	120
Bad Debts (Recoveries)	22,164	5,306	(3,076)	-	5,235	2,508
Total Expenses Before Depreciation	2,773,963	2,194,523	1,459,122	3,330,759	399,216	172,016
Depreciation	138,757	19,863	4,785	49,762	12,390	7,701
Total Expenses Before Allocation	2,912,720	2,214,386	1,463,907	3,380,521	411,606	179,717
General and Administrative Allocation	387,215	294,380	194,613	449,412	54,719	23,893
Total Expenses	<u>\$ 3,299,935</u>	<u>\$ 2,508,766</u>	<u>\$ 1,658,520</u>	<u>\$ 3,829,933</u>	<u>\$ 466,325</u>	<u>\$ 203,610</u>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2011

Program Services						
Adoption	Hillcrest Supported Living IPRS/Voc	Transitional Housing	PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
\$ 39,292	\$ 729,609	\$ 31,890	\$ 30,430	\$ 1,615,652	\$ 55,266	\$ 9,237,907
3,430	89,614	6,249	1,728	236,561	7,821	1,445,362
3,025	53,334	2,312	2,303	118,347	4,118	668,079
45,747	872,557	40,451	34,461	1,970,560	67,205	11,351,348
14,037	5,797	240	-	771,783	654	996,139
1,316	10,926	7,135	309	54,569	1,263	823,142
3,045	11,226	2,779	406	29,389	141	64,308
157	808	23	52	4,906	1,043	17,702
1,924	41,802	14,748	1,229	156,081	3,264	861,715
75	-	-	-	-	262	2,081
154	1,957	178	-	6,675	184	34,650
3,386	33,417	219	462	16,351	765	167,705
174	657	70	51	23,132	245	67,909
-	-	-	38	133	-	1,116
1	2,880	3,139	9,143	1,560	-	88,702
8,430	897	40	84	2,098	3,616	40,183
156	1,744	(60)	325	15,632	371	84,685
-	-	-	-	-	-	6,751
(250)	-	2,862	-	55,727	-	90,476
78,352	984,668	71,824	46,560	3,108,596	79,013	14,698,612
73	4,304	20,165	-	18,488	-	276,288
78,425	988,972	91,989	46,560	3,127,084	79,013	14,974,900
10,425	131,474	12,229	6,190	415,042	10,504	1,990,096
<u>\$ 88,850</u>	<u>\$ 1,120,446</u>	<u>\$ 104,218</u>	<u>\$ 52,750</u>	<u>\$ 3,542,126</u>	<u>\$ 89,517</u>	<u>\$ 16,964,996</u>

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Year Ended October 31, 2011

	Supporting Services					Total Expenses
	Total Program Services	General and Administrative	Mission Advancement	Special Event - Lights	Total Supporting Services	
Salaries	\$ 9,237,907	\$ 1,260,756	\$ 270,899	\$ -	\$ 1,531,655	\$ 10,769,562
Fringe Benefits	1,445,362	201,878	37,687	-	239,565	1,684,927
Payroll Taxes and Other	668,079	88,472	18,719	-	107,191	775,270
Total personnel expenses	11,351,348	1,551,106	327,305	-	1,878,411	13,229,759
Contracted Services	996,139	67,811	66,222	-	134,033	1,130,172
Supplies and Equipment						
Maintenance	823,142	95,712	8,870	-	104,582	927,724
Telephone	64,308	33,762	2,348	-	36,110	100,418
Postage and Shipping	17,702	5,515	2,106	-	7,621	25,323
Occupancy	861,715	43,670	16,002	-	59,672	921,387
Outside Printing	2,081	274	40,106	-	40,380	42,461
Professional Insurance	34,650	18,301	1,176	-	19,477	54,127
Travel	167,705	20,261	9,562	-	29,823	197,528
Conferences and Meetings	67,909	23,900	6,571	-	30,471	98,380
Subscriptions	1,116	1,434	318	-	1,752	2,868
Client Assistance	88,702	13	-	-	13	88,715
Dues	40,183	2,505	5,140	-	7,645	47,828
Miscellaneous	84,685	47,221	3,760	105,475	156,456	241,141
Interest	6,751	19,056	229	-	19,285	26,036
Bad Debts (Recoveries)	90,476	(6,622)	-	-	(6,622)	83,854
Total Expenses Before Depreciation	14,698,612	1,923,919	489,715	105,475	2,519,109	17,217,721
Depreciation	276,288	145,856	4,164	-	150,020	426,308
Total Expenses Before Allocation	14,974,900	2,069,775	493,879	105,475	2,669,129	17,644,029
General and Administrative Allocation	1,990,096	(2,069,775)	79,679	-	(1,990,096)	-
Total Expenses	\$ 16,964,996	\$ -	\$ 573,558	\$ 105,475	\$ 679,033	\$ 17,644,029

Hillcrest Family Services, Inc.
Statements of Cash Flows
Years Ended October 31, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	\$ 580,200	\$ 937,493
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	438,918	426,308
Loss on disposal of assets	-	865
Change in unrealized gains and losses on investments	(72,046)	143,358
Realized (gain) loss on sales of investments	(2,124)	78,802
Bad debts (recoveries)	(52,637)	83,854
Changes in assets and liabilities		
Receivables	(191,046)	267,932
Inventory	221	(221)
Prepaid expenses	(201,764)	97,775
Accounts/refunds payable	394,813	(192,600)
Accrued expenses	(8,953)	289,194
Deferred revenue and grants	(160,950)	(657,302)
Pension liability	-	(140,855)
Net Cash provided by Operating Activities	724,632	1,334,603
Investing Activities		
Purchase of property and equipment	(5,383,334)	(634,729)
Purchase of investments	(39,619)	(1,718,204)
Sale of investments	852,359	1,140,742
Net Cash used for Investing Activities	(4,570,594)	(1,212,191)
Financing Activities		
Proceeds from issuance of long-term debt	4,260,000	92,000
Principal payments on long-term debt	(139,292)	(130,187)
Payment of deferred financing costs	(30,539)	-
Net Cash provided by (used for) Financing Activities	4,090,169	(38,187)
Change in Cash and Cash Equivalents	244,207	84,225
Cash and Cash Equivalents, Beginning of Year	562,436	478,211
Cash and Cash Equivalents, End of Year	\$ 806,643	\$ 562,436
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest (including amounts capitalized)	\$ 66,583	\$ 26,036
Supplemental Disclosure of Noncash Investing and Financing Activities		
through long-term debt	\$ 4,425,819	\$ 175,736

Note 1 - Organization and Significant Accounting Policies

Organization

Hillcrest Family Services, Inc. (Organization) is located in Dubuque, Iowa. The purpose of the Organization is to provide a range of educational, counseling, and health services to individuals and families in an effort to improve the welfare of their clients.

Cash and Cash Equivalents

Hillcrest Family Services, Inc. considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Organization are excluded from this definition.

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. Accounts receivable are written off when deemed uncollectible.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At October 31, 2012 and 2011, no allowance was recorded as management estimates that all amounts are collectable.

Inventory

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

Deferred Bond Offering Costs

Deferred bond offering costs are amortized using the effective straight-line method over the life of the bonds.

Property and Equipment

Property and equipment additions over \$2,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 15 years for equipment, vehicles, and leasehold improvements, and up to 40 years for building and improvements. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed.

Hillcrest Family Services, Inc. reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended October 31, 2012.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Investment income is reported in the statement of activities and consists of interest and dividend income, and realized and unrealized capital gains and losses, net of investment fees. Changes in unrealized gains and losses on investments are excluded from public support and revenue in excess of expenses unless the investments are trading securities.

Beneficial Interest in Assets Held by Community Foundation

During 2004, Hillcrest Family Services, Inc. established a permanent endowment fund (the Fund) under Community Foundation of Greater Dubuque's (the CFGD) Organization Endowment Fund program and named itself as beneficiary. Hillcrest Family Services, Inc. granted variance power to CFGD which allows CFGD to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of CFGD's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Fund is held and invested by CFGD for the benefit of Hillcrest Family Services, Inc., and is reported at fair value in the statement of financial position, with trust distributions and changes in fair value recognized in the statement of activities.

Net Assets

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

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for operating reserve and quasi-endowment.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Organization's Board of Directors.

Hillcrest Family Services, Inc. reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements.

Program Service Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. 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.

Donated Goods and Services

Volunteers contribute significant amounts of time to Hillcrest Family Services, Inc.'s program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Hillcrest Family Services, Inc. records donated professional services at the respective fair values of the services received.

Advertising Costs

Advertising costs are expensed as incurred, and were approximately \$26,842 and \$27,789 for the years ended October 31, 2012 and 2011, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Self-Insurance Reserves

Hillcrest Family Services, Inc. provides for self-insurance reserves for estimated incurred but not reported claims for its employee health plan. This reserve, which is included in current liabilities on the statements of activities is estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to the reserve are reflected in the operating results in the period in which the change in estimate is identified.

Income Taxes

The Organization is organized as an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundations under Sections 509(a)(1) and (3), respectively. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and businesses supportive of the Organization's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Board of Trustees. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Board of Trustees believe that the investment policies and guidelines are prudent for the long-term welfare of Hillcrest Family Services, Inc.

Reclassifications

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

Note 2 - Net Program Service Fees

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

Medicaid

The Medicaid program reimburses the Organization for services as defined in various agreements. The basis for reimbursement under these agreements may include discounts from established charges and prospectively determined rates, or may be based on a cost reimbursement methodology. Under this methodology, the Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports.

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.

The 2012 and 2011 net program service fees and grants revenue increased (decreased) approximately (\$76,000) and \$110,000, respectively, due to prior-year retroactive adjustments in excess of (less than) amounts previously estimated.

A summary of revenue from the various payors for the years ended October 31, 2012 and 2011, is as follows:

	2012	2011
Grants	27%	27%
Medicaid/ Medicare	38	42
Commerical Insurance and Other Third-Party Payors and Clients	8	7
Medicaid (MBC of Iowa)	11	8
County Board of Supervisors	16	16
	100%	100%

Note 3 - Fair Value Measurements

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities that Hillcrest Family Services, Inc. can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, Hillcrest Family Services, Inc. develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to Hillcrest Family Services, Inc.'s assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of Hillcrest Family Services, Inc.'s investment assets are classified within Level 1 because they are comprised of open-end mutual funds and common stock with readily determinable fair values based on daily redemption values. The fair value of Hillcrest Family Services, Inc.'s beneficial interest in assets held by the Community Foundation is based on the fair value of fund investments as reported by the Community Foundation. This is considered to be a Level 2 measurement.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at October 31, 2012:

Assets	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)
Investments			
Mutual funds			
Balanced funds	\$ 82,593	\$ 82,593	\$ -
Fixed income funds	541,657	541,657	-
Growth funds	44,460	44,460	-
Common stock			
Basic materials	61,911	61,911	-
Consumer goods	24,291	24,291	-
Financial	131,266	131,266	-
Healthcare	47,481	47,481	-
Industrial goods	14,941	14,941	-
Services	44,292	44,292	-
Technology	83,453	83,453	-
Utilities	18,088	18,088	-
Money market funds (at cost)	53,723	-	-
Land - Arizona (at cost)	1,050	-	-
	<u>\$ 1,149,206</u>	<u>\$ 1,094,433</u>	<u>\$ -</u>
Beneficial Interest in Net Assets of Community Foundation	<u>\$ 11,258</u>	<u>\$ -</u>	<u>\$ 11,258</u>
Total assets	<u>\$ 1,160,464</u>	<u>\$ 1,094,433</u>	<u>\$ 11,258</u>

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at October 31, 2011:

Assets	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)
Investments			
Mutual funds			
Balanced funds	\$ 105,919	\$ 105,919	\$ -
Fixed income funds	514,497	514,497	-
Growth funds	62,924	62,924	-
Common stock			
Basic materials	98,898	98,898	-
Consumer goods	50,955	50,955	-
Financial	178,534	178,534	-
Healthcare	75,199	75,199	-
Industrial goods	45,520	45,520	-
Services	71,405	71,405	-
Technology	117,280	117,280	-
Utilities	21,127	21,127	-
Money market funds (at cost)	412,632	-	-
Certificate of deposit (at cost)	131,604	-	-
Land - Arizona (at cost)	1,050	-	-
	<u>\$ 1,887,544</u>	<u>\$ 1,342,258</u>	<u>\$ -</u>
Beneficial Interest in Net Assets of Community Foundation	<u>\$ 11,490</u>	<u>\$ -</u>	<u>\$ 11,490</u>
Total assets	<u>\$ 1,899,034</u>	<u>\$ 1,342,258</u>	<u>\$ 11,490</u>

The Organization has no liabilities measured at fair market value.

Note 4 - Investment Income

Investment Income

Investment income is recorded net of investment fees of \$11,377 and \$14,996 for the years ended October 31, 2012 and 2011, respectively. Investment income and changes in unrealized gains and losses on investments consist of the following:

	2012	2011
Revenue		
Investment Income		
Interest and dividend income	\$ 47,117	\$ 58,945
Realized gains (losses) on sale of investments	(2,124)	78,802
Total investment income	\$ 44,993	\$ 137,747
Other Changes in Net Assets		
Changes in unrealized gains and losses on investments	\$ 72,046	\$ (143,358)

Investments in an Unrealized Gain (Loss) Position

Investments in an unrealized gain (loss) position at October 31, 2012, are shown in the following table:

	Fair Value	Unrealized Loss	Fair Value	Unrealized Gain
Common Stock	\$ 154,052	\$ (30,620)	\$ 271,671	\$ 47,663
Mutual Funds	87,201	(3,204)	581,509	23,677
	\$ 241,253	\$ (33,824)	\$ 853,180	\$ 71,340

The duration of the investments in an unrealized loss position at October 31, 2012, is shown in the following table:

	Greater Than 12 months		Less Than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Common Stock	\$ 75,736	\$ (21,830)	\$ 78,316	\$ (8,790)
Mutual Funds	39,468	(2,231)	47,733	(973)
	\$ 115,204	\$ (24,061)	\$ 126,049	\$ (9,763)

Investments in an unrealized gain (loss) position at October 31, 2011, are shown in the following table:

	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Common Stock	\$ 250,945	\$ (87,247)	\$ 407,973	\$ 58,160
Mutual Funds	<u>279,477</u>	<u>(15,331)</u>	<u>403,863</u>	<u>9,888</u>
	<u>\$ 530,422</u>	<u>\$ (102,578)</u>	<u>\$ 811,836</u>	<u>\$ 68,048</u>

The duration of the investments in an unrealized loss position at October 31, 2011, is shown in the following table:

	<u>Greater Than 12 months</u>		<u>Less Than 12 months</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Common Stock	\$ 71,566	\$ (18,721)	\$ 179,379	\$ (68,526)
Mutual Funds	<u>-</u>	<u>-</u>	<u>279,477</u>	<u>(15,331)</u>
	<u>\$ 71,566</u>	<u>\$ (18,721)</u>	<u>\$ 458,856</u>	<u>\$ (83,857)</u>

Note 5 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at October 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Less Than One Year	\$ 280,323	\$ 304,021
One to Five Years	<u>356,480</u>	<u>408,409</u>
	636,803	712,430
Less discount to net present value (5% for both years)	<u>(56,587)</u>	<u>(60,701)</u>
	<u>\$ 580,216</u>	<u>\$ 651,729</u>

Note 6 - Land, Buildings and Equipment

A summary of land, buildings, and equipment at October 31, 2012 and 2011 follows:

	2012		2011	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 43,818	\$ -	\$ 40,000	\$ -
Land Improvements	165,651	79,910	141,551	66,975
Buildings	9,059,227	3,732,001	6,588,223	3,551,763
Equipment	1,835,378	1,226,964	1,548,374	1,056,637
Vehicles	475,448	428,512	478,283	425,181
Furniture, Fixtures, and Equipment	270,618	182,311	248,205	174,592
Leasehold Improvements	172,845	58,243	85,835	46,575
Construction in Progress	2,914,623	-	476,355	-
	<u>\$ 14,937,608</u>	<u>\$ 5,707,941</u>	<u>\$ 9,606,826</u>	<u>\$ 5,321,723</u>
Net Land, Buildings and Equipment		<u>\$ 9,229,667</u>		<u>\$ 4,285,103</u>

Construction in progress at October 31, 2012 consists of costs incurred for the Hadley Chapel and the Seippel Road Facility. The Hadley Chapel is expected to be completed by November 1, 2012 at an estimated total cost of \$1,188,000. This project will be funded through a capital campaign. The Seippel Road Facility is expected to be completed by November 1, 2012 at an estimated total cost of \$1,600,000. This project will be funded through financing.

Note 7 - Long-Term Debt

	2012	2011
Mortgage Payable to Bank, Variable Interest Rate Currently 3.65%, Due in Monthly Installments of \$12,224, Including Interest, Due in August 2032, Secured by Real Estate (1)	\$ 2,080,000	\$ -
Note Payable to Bank, Accrues Interest at 2.21%, Due in Monthly Installments of \$6,067, Including Interest, Due in February 2033, Secured by Real Estate	1,175,000	-
Note Payable to Bank, Accrues Interest at 3.55%, Due in Monthly Installments of \$11,854, Including Interest, Due in October 2017, Secured by Real Estate	650,000	-

Hillcrest Family Services, Inc.
Notes to Financial Statements
October 31, 2012 and 2011

	2012	2011
Note Payable to Bank, Accrues Interest at 3.25%, Due in Annual Installments of \$126,107, Including Interest, Due in October 2015, Secured by Real Estate	\$ 355,000	\$ -
Mortgage Payable to Bank, Accrues Interest at 4.50%, Due in Monthly Installments of \$8,310, Including Interest, Due in April 2015, Secured by Real Estate	234,920	321,755
Note Payable to Bank, Accrues Interest at 4.28%, Due in Monthly Installments of \$574, Including Interest, Due in June 2031, Secured by Real Estate	88,580	91,546
Note Payable to Bank, Accrues Interest at 6.00%, Due in Monthly Installments of \$1,865, Including Interest, Due in December 2013, Secured by Real Estate	23,379	43,658
Note Payable to Bank, Accrues Interest at 4.99%, Due in Monthly Installments of \$918 Including Interest, Due in March 2014, Secured by Vehicles	14,135	24,163
Note Payable to Bank, Accrues Interest at 6.49%, Due in Monthly Installments of \$720, Including Interest, Due in July 2014, Secured by Vehicles	9,570	15,848
Note Payable to Bank, Accrues Interest at 5.54%, Due in Monthly Installments of \$1,130, Including Interest, Due in February 2013, Secured by Vehicles	4,442	17,348
	4,635,026	514,318
Less Current Maturities	(489,358)	(139,500)
Long-Term Debt, Less Current Maturities	\$ 4,145,668	\$ 374,818

(1) On November 1, 2011, the City of Peosta, Iowa, issued bonds to a bank for the purpose of providing funds to be loaned to Hillcrest Family Services, Inc. for financing the construction of a new building . Hillcrest Family Services, Inc. is required to maintain a debt service coverage ratio of at least 1.20. At October 31, 2012, Hillcrest Family Services, Inc. met the debt service coverage ratio.

Future principal payments are as follows:

Year Ending October 31,	
2013	\$ 489,358
2014	474,522
2015	431,710
2016	269,948
2017	278,153
Thereafter	2,691,335
Total	\$ 4,635,026

A summary of interest cost on borrowed funds during the years ended October 31, 2012 and 2011, is as follows:

	2012	2011
Capitalized as Part of Construction Project	\$ 32,512	\$ -
Recognized as Interest Expense	34,071	26,036
Total	\$ 66,583	\$ 26,036

Note 8 - Line of Credit

The Organization has a line of credit available for up to \$750,000 with a bank. Interest is paid monthly at a rate of LIBOR plus 2.95% (3.879% at October 31, 2012). The line expires in June 2013, and is secured by substantially all assets of the Organization. At October 31, 2012 and 2011, there was no balance outstanding on the line of credit. The line of credit is secured by a mortgage on the primary property at 1995 Asbury Road.

Note 9 - Refunds Payable

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

Note 10 - Deferred Revenue and Grants

Deferred revenue and grants include an advance from the Iowa Department of Public Health earmarked for future periods. The advance was \$43,666 at October 31, 2012 and 2011. Additional amounts are included for the Reflections in the Park event, the transitional housing program, and other activities.

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, 2012 and 2011, the provision for estimated health claims outstanding is \$150,000 and \$50,000, 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, 2012 and 2011, were \$377,959, and \$353,263, respectively.

Note 12 - Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at October 31, 2012 and 2011:

	2012	2011
Time Restriction - United Way Contributions	\$ 117,000	\$ 117,000
Time Restriction - Other Pledges	463,215	534,729
Mission Advancement	46,900	-
Construction of the Family Life Center	-	414,575
	\$ 627,115	\$ 1,066,304

Net assets were released from restrictions as follows during the years ended October 31, 2012 and 2011:

	2012	2011
Satisfaction of Purpose Restrictions		
Construction of the Family Life Center	\$ 627,609	\$ -
Expiration of Time Restrictions	256,471	117,000
	\$ 884,080	\$ 117,000

Permanently restricted net assets at October 31, 2012 and 2011, are held in perpetuity with the income to be used for:

	2012	2011
Unrestricted Support for Programs	\$ 150,000	\$ 150,000
Support for the Family Life Center	-	213,033
Educational Programs	80,000	80,000
Family Counseling	1,000	1,000
	\$ 231,000	\$ 444,033

During the year ended October 31, 2012, the Organization received permission from donors to release previously permanently restricted donations amounting to \$213,033 to help pay for the construction of the Family Life Center.

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, 2012 and 2011, was \$395,154 and \$367,234, respectively. Minimum future lease payments are as follows:

Year Ending October 31,	
2013	\$ 387,230
2014	355,391
2015	340,465
2016	262,166
2017	188,362
Total	\$ 1,533,614

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, 2012 and 2011, was as follows:

	2012	2011
Medicaid/ Medicare	23%	19%
Grants	51	52
County Board of Supervisors	4	4
Medicaid (MBC of Iowa)	16	13
Commerical Insurance and Other Third-Party Payors and Clients	6	12
	100%	100%

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 Disputes

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

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

Note 16 - Endowments

Hillcrest Family Services, Inc.'s endowment (the Endowment) consists of individual funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain unrestricted net assets designated for quasi-endowment by the Board of Directors. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Laws

Hillcrest Family Services, Inc.'s Board of Trustees has interpreted the Iowa Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At October 31, 2012 and 2011, there were no such donor stipulations. As a result of this interpretation, Hillcrest Family Services, Inc. classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Hillcrest Family Services, Inc. in a manner consistent with the standard of prudence prescribed by UPMIFA. Hillcrest Family Services, Inc. considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

As of October 31, 2012 and 2011, Hillcrest Family Services, Inc. had the following endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
October 31, 2012				
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 231,000	\$ 231,000
October 31, 2011				
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 444,033	\$ 444,033
Board-Designated Endowment Funds	732,287	-	-	732,287
	\$ 732,287	\$ -	\$ 444,033	\$ 1,176,320

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, 2012 and 2011.

Investment and Spending Policies

Hillcrest Family Services, Inc. has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

Hillcrest Family Services, Inc. uses an endowment spending-rate formula to determine the amount to spend from the Endowment each year. The rate, determined and adjusted from time to time by the Board of Directors, is applied to the average fair value of the Endowment investments for the prior 3 years at October 31 of each year to determine the spending amount for the upcoming year. During 2012 and 2011, the spending rate was 5%. Fluctuations of the market may cause the principal to go below the value of the donor's gift(s). Distributions will not occur when the endowment fair value is less than the endowed principal amount or when distributions would invade the original endowed principal amount. In establishing this policy, Hillcrest Family Services, Inc. considered the long-term expected return on the Endowment, and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

Changes in endowment net assets for the years ended October 31, 2012 and 2011, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
October 31, 2012				
Endowment Net Assets, Beginning of Year	\$ 732,287	\$ -	\$ 444,033	\$ 1,176,320
Investment Return:				
Investment income	25,388	10,686	-	36,074
Net realized and unrealized appreciation	51,769	21,703	-	73,472
Contributions	6,707	-	-	6,707
Released From Restriction By Donors	213,033	-	(213,033)	-
Appropriation of Endowment Assets for Expenditure	<u>(1,029,184)</u>	<u>(32,389)</u>	<u>-</u>	<u>(1,061,573)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 231,000</u>	<u>\$ 231,000</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
October 31, 2011				
Endowment Net Assets, Beginning of Year	\$ 666,557	\$ -	\$ 387,418	\$ 1,053,975
Investment Return:				
Investment income	21,971	16,097	-	38,068
Net realized and unrealized depreciation	(21,910)	(13,339)	-	(35,249)
Contributions	72,279	-	56,615	128,894
Appropriation of Endowment Assets for Expenditure	<u>(6,610)</u>	<u>(2,758)</u>	<u>-</u>	<u>(9,368)</u>
Endowment Net Assets, End of Year	<u>\$ 732,287</u>	<u>\$ -</u>	<u>\$ 444,033</u>	<u>\$ 1,176,320</u>

Note 17 - Restatement

The accompanying financial statements for 2011 have been restated to correct an error. Furthermore, net assets at the beginning of 2011 have also been adjusted to correct this error.

The balance of unrestricted net assets at October 31, 2010 has been restated from amounts previously reported to reflect a retroactive change of \$577,882 from the overstatement of accounts receivable. The \$577,882 has been reflected as a decrease in accounts receivable and a decrease in beginning unrestricted net assets for 2011.

The financial statement line items for 2011 were affected by the aforementioned restatement as follows:

	<u>As Originally Reported</u>	<u>As Restated</u>
Statement of Financial Position		
Assets		
Current Assets		
Program service fees, net of allowances	\$ 2,589,283	\$ 2,011,401
Total current assets	<u>5,271,949</u>	<u>4,694,067</u>
Total assets	<u>\$ 11,803,794</u>	<u>\$ 11,225,912</u>
Net Assets		
Unrestricted		
Undesignated	\$ 6,977,804	\$ 6,399,922
Total net assets	<u>9,320,428</u>	<u>8,742,546</u>
Total liabilities and net assets	<u>\$ 11,803,794</u>	<u>\$ 11,225,912</u>

Note 18 - Subsequent Events

Hillcrest Family Services, Inc. purchased the former Julien Care Facility from Dubuque County near yearend. The facility name was changed to Hillcrest RCF and PMI, and will be operated as a residential rehabilitation facility for adults with psychiatric or mild to moderate intellectual disabilities.

Subsequent to October 31, 2012, Hillcrest Family Services, Inc. received \$425,000 from loan proceeds. These funds relate to the Seipple Road project disclosed in Note 7.

The Organization has evaluated subsequent events through March 28, 2013, the date which the financial statements were available to be issued.



Supplementary Information
October 31, 2012 and 2011

Hillcrest Family Services, Inc.

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2012

Program Service Fees and Grants, Net	Gross Fees	Contractual Allowance	Estimated Cost Settlement	Administrative Adjustment	Net Fees
Residential education	\$ 3,566,709	\$ (41,269)	\$ 145,674	\$ (77,822)	\$ 3,593,292
CMI group homes	2,645,358	(47,246)	-	(32,376)	2,565,736
Health services	1,184,464	(714,187)	-	(242)	470,035
Schools	3,813,751	-	-	(174)	3,813,577
Shelter	442,945	(6,156)	-	(2,518)	434,271
Family centered services	171,206	(370)	-	(10,410)	160,426
Counseling	-	-	-	-	-
Adoption	74,459	-	-	-	74,459
Hillcrest supported living/IPRS/VOC	1,152,115	(73,206)	-	(644)	1,078,265
Transitional housing	32,589	-	-	(476)	32,113
Washington County Mental Health Center	893,759	(354,004)	144,663	(5,410)	679,008
Dubuque County Mental Health Center	2,627,675	(1,007,795)	320,851	(7,508)	1,933,223
Jackson County Mental Health Center	884,275	(380,680)	156,133	546	660,274
Asbury Mental Health Center	323,010	(172,927)	77,260	(2,769)	224,574
PATH Grant	4,481	-	-	(200)	4,281
WRAP/Recovery Grant	88,762	669	-	(10,141)	79,290
Total program service fees and grants, net	<u>\$ 17,905,558</u>	<u>\$ (2,797,171)</u>	<u>\$ 844,581</u>	<u>\$ (150,144)</u>	<u>\$ 15,802,824</u>

Hillcrest Family Services, Inc.
Schedules of Program Service Fees and Grants, Net
Years Ended October 31, 2012 and 2011

2011				
Gross Fees	Contractual Allowance	Estimated Cost Settlement	Administrative Adjustment	Net Fees
\$ 3,344,635	\$ (38,367)	\$ 82,028	\$ (27,490)	\$ 3,360,806
2,622,740	(51,511)	-	(18,524)	2,552,705
869,544	(372,950)	-	13	496,607
3,744,377	-	-	-	3,744,377
436,593	(858)	-	(6,440)	429,295
231,052	4,075	8,193	(418)	242,902
-	(49)	-	-	(49)
73,635	-	-	-	73,635
1,262,005	(132,805)	674	(18,604)	1,111,270
21,045	-	-	(485)	20,560
840,741	(332,070)	124,420	(51,350)	581,741
2,769,960	(1,013,811)	401,735	29,183	2,187,067
955,090	(408,063)	190,288	19,648	756,963
125,358	(39,545)	14,554	(350)	100,017
4,737	-	-	(385)	4,352
40,557	(2,619)	5,814	(4,177)	39,575
<u>\$ 17,342,069</u>	<u>\$ (2,388,573)</u>	<u>\$ 827,706</u>	<u>\$ (79,379)</u>	<u>\$ 15,701,823</u>

	Washington County MHC	Dubuque County MHC	Jackson County MHC
Salaries	\$ 232,327	\$ 933,160	\$ 241,594
Fringe Benefits	41,777	164,772	42,489
Payroll Taxes and Other	16,836	68,434	17,850
Total personnel expenses	<u>290,940</u>	<u>1,166,366</u>	<u>301,933</u>
Contracted Services	118,276	295,493	108,677
Supplies and Equipment			
Maintenance	7,790	41,506	9,325
Telephone	5,107	12,469	6,997
Postage and Shipping	1,600	3,017	833
Occupancy	25,186	69,221	39,866
Outside Printing	128	-	-
Professional Insurance	658	2,821	586
Travel	3,867	1,453	1,083
Conferences and Meetings	2,280	2,448	1,111
Subscriptions	-	-	-
Client Assistance	-	-	-
Dues	370	1,281	449
Miscellaneous	818	4,105	673
Bad Debts	1,490	3,417	1,357
Total Expenses Before Depreciation	<u>458,510</u>	<u>1,603,597</u>	<u>472,890</u>
Depreciation	<u>2,836</u>	<u>8,516</u>	<u>2,923</u>
Total Expenses Before Allocation	461,346	1,612,113	475,813
General and Administrative Allocation	<u>60,304</u>	<u>210,726</u>	<u>62,196</u>
Total Expenses	<u><u>\$ 521,650</u></u>	<u><u>\$ 1,822,839</u></u>	<u><u>\$ 538,009</u></u>

Hillcrest Family Services, Inc.
Schedule of Mental Health Center Expenses
Year Ended October 31, 2012

Asbury MHC	Wellness Center MHC	Total Program Services
\$ 73,615	\$ 344,062	\$ 1,824,758
12,617	68,264	329,919
5,455	24,504	133,079
<u>91,687</u>	<u>436,830</u>	<u>2,287,756</u>
1,117	9,191	532,754
3,744	9,961	72,326
231	7,165	31,969
8	109	5,567
12,803	47,552	194,628
-	-	128
60	596	4,721
278	8,779	15,460
9,675	5,726	21,240
-	257	257
-	1,035	1,035
651	301	3,052
171	1,163	6,930
<u>-</u>	<u>-</u>	<u>6,264</u>
120,425	528,665	3,184,087
<u>199</u>	<u>3,439</u>	<u>17,913</u>
120,624	532,104	3,202,000
<u>15,767</u>	<u>69,553</u>	<u>418,546</u>
<u>\$ 136,391</u>	<u>\$ 601,657</u>	<u>\$ 3,620,546</u>

	Washington County MHC	Dubuque County MHC	Jackson County MHC
Salaries	\$ 178,658	\$ 876,412	\$ 224,270
Fringe Benefits	22,865	129,246	30,514
Payroll Taxes and Other	13,117	63,732	17,927
Total personnel expenses	<u>214,640</u>	<u>1,069,390</u>	<u>272,711</u>
Contracted Services	155,908	502,998	107,604
Supplies and Equipment			
Maintenance	7,462	19,280	11,739
Telephone	4,608	14,041	5,184
Postage and Shipping	1,428	2,665	658
Occupancy	2,149	73,054	40,197
Outside Printing	-	-	-
Professional Insurance	889	3,511	784
Travel	4,142	775	1,759
Conferences and Meetings	932	1,391	422
Subscriptions	-	110	-
Client Assistance	-	600	-
Dues	214	1,449	256
Miscellaneous	3,856	3,595	2,141
Bad Debts	2,217	39,905	11,605
Total Expenses Before Depreciation	<u>398,445</u>	<u>1,732,764</u>	<u>455,060</u>
Depreciation	<u>2,211</u>	<u>10,624</u>	<u>3,005</u>
Total Expenses Before Allocation	400,656	1,743,388	458,065
General and Administrative Allocation	<u>53,263</u>	<u>231,767</u>	<u>60,895</u>
Total Expenses	<u>\$ 453,919</u>	<u>\$ 1,975,155</u>	<u>\$ 518,960</u>

Hillcrest Family Services, Inc.
 Schedule of Mental Health Center Expenses
 Year Ended October 31, 2011

Asbury MHC	Wellness Center MHC	Total Program Services
\$ 44,294	\$ 292,018	\$ 1,615,652
1,149	52,787	236,561
2,757	20,814	118,347
<u>48,200</u>	<u>365,619</u>	<u>1,970,560</u>
721	4,552	771,783
763	15,325	54,569
-	5,556	29,389
-	155	4,906
6,401	34,280	156,081
-	-	-
-	1,491	6,675
5	9,670	16,351
277	20,110	23,132
-	23	133
-	960	1,560
38	141	2,098
104	5,936	15,632
<u>1,000</u>	<u>1,000</u>	<u>55,727</u>
57,509	464,818	3,108,596
<u>68</u>	<u>2,580</u>	<u>18,488</u>
57,577	467,398	3,127,084
<u>6,981</u>	<u>62,136</u>	<u>415,042</u>
<u>\$ 64,558</u>	<u>\$ 529,534</u>	<u>\$ 3,542,126</u>

Hillcrest Family Services, Inc.

Schedules of Revenues and Expenses

WIC – Contract #5888AO35

Maternal Health – Contract #5888MH13

Contract Period: October 1, 2011 Through September 30, 2012

	WIC	Maternal Health
	<u>WIC</u>	<u>Maternal Health</u>
Revenues		
Iowa Department of Public Health	\$ 656,951	\$ 35,530
Title XIX	-	88,163
United Way	-	2,500
Miscellaneous	1,000	8,098
	<u>657,951</u>	<u>134,291</u>
Total revenues		
Expenses		
Salaries	386,911	83,588
Fringe benefits	75,209	19,162
Payroll taxes, etc.	27,910	5,697
Contracted services	981	10,324
Supplies and equipment maintenance	18,140	562
Telephone	13,127	291
Postage and shipping	1,012	13
Occupancy	54,358	3,019
Travel	9,401	320
Conferences and meetings	1,425	265
Subscriptions	22	-
Client assistance	3,953	-
Dues	25	-
Miscellaneous	1,594	360
Depreciation	3,659	262
	<u>597,727</u>	<u>123,863</u>
Total expenses		
General and administrative allocation	<u>80,273</u>	<u>16,641</u>
Revenues less than expenses	<u>\$ (20,049)</u>	<u>\$ (6,213)</u>

Hillcrest Family Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended October 31, 2012

Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. Department of Agriculture			
Passed through Iowa Department of Education			
National School Breakfast/Lunch Program Cluster			
School Breakfast Program	10.553		\$ 42,166
National School Lunch Program	10.555	18638000	78,356
Cluster total			<u>120,522</u>
Passed through Iowa Department of Public Health			
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	5882AO35	606,278
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	5883AO35	46,448
			<u>652,726</u>
Total U.S. Department of Agriculture			<u>773,248</u>
U.S. Department of Housing and Urban Development			
Direct Program			
Supportive Housing Program	14.235		32,589
Supportive Housing Program	14.235		24,121
			<u>56,710</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	MHDS 11-040	39,730
Passed through State Department of Health and			
Human Services and Family Planning Council of			
Iowa			
Family Planning - Services	93.217	613-FY2012	99,500
Family Planning - Services	93.217	638-FY2013	49,115
			<u>148,615</u>
Passed through Iowa Department of Human Services			
Temporary Assistance for Needy Families	93.558	BDPS-06-063	51,747
Temporary Assistance for Needy Families	93.558	ACFS-13-002	27,638
			<u>79,385</u>
Passed through Iowa Department of Human Services			
Block Grants for Community Mental			
Health Services	93.958	MHDS 11-068	85,247
Passed through Iowa Department of Public Health			
Maternal and Child Health Services Block Grant to			
the States	93.994	5882MH13	32,831
Maternal and Child Health Services Block Grant to			
the States	93.994	5883MH13	2,736
			<u>35,567</u>
Total U.S. Department of Health and Human Services			<u>388,544</u>
Total			<u>\$ 1,218,502</u>

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) 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.

The purpose of the Schedule is to present a summary of those activities of Hillcrest Family Services, Inc., for the year ended October 31, 2012, which the United States government has financed. For the purpose of the Schedule, federal awards include all federal assistance entered into directly between Hillcrest Family Services, Inc. and the federal government and sub awards from nonfederal organizations made under federal sponsored agreements, if any. Since the Schedule presents only a selected portion of the activities of Hillcrest Family Services, Inc., it is not intended to, and does not present the financial position, results of operations, changes in net assets, or cash flows of Hillcrest Family Services, Inc.

**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, 2012, and have issued our report thereon dated March 28, 2013. Our report on the financial statements includes an explanatory paragraph describing a material restatement discussed in Note 17 to the financial statements, of beginning net assets. 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

Management of Hillcrest Family Services, Inc. is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Hillcrest's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying schedule of findings and questioned costs as II-A-12 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying schedule of findings and questioned costs as item II-B-12 to be a significant deficiency.

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. 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, others within Hillcrest Family Services, Inc., 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.

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

Dubuque, Iowa
March 28, 2013

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Its 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 Hillcrest Family Services, Inc.'s (Hillcrest) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended October 31, 2012. 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, 2012.

Internal Control over Compliance

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, others within Hillcrest Family Services, Inc., 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 28, 2012

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 program:

 Material weakness identified No

 Significant deficiency None reported

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

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

Identification of major program:

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 Yes

Part II: Findings Related to the Financial Statements

Material Weakness

II-A-12 **Restatement**

Criteria – A properly designed system of internal control over financial reporting allows entities to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles and the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Condition – During the course of the audit, an adjustment was proposed to restate beginning net assets due to an overstatement of the balance in accounts receivable in prior years. This adjustment to the financial statements would not have been identified as a result of Hillcrest Family Services, Inc.'s existing internal controls and, therefore, could have resulted in a material misstatement of Hillcrest Family Services, Inc.'s financial statements.

Cause – Hillcrest Family Services, Inc. provides services to agencies that reimburse for actual expenses incurred. Some of these agencies reimburse on a quarterly basis. Hillcrest Family Services, Inc.'s fiscal year does not coincide with a quarter-end. Monthly journal entries are prepared to recognize the revenue activity associated with these quarterly billings rather than using invoicing to accrue amounts due.

Effect – The effect of this condition is that accounts receivable was overstated in the past and the balance was never corrected.

Recommendation – We recommend that management review the method of recording this activity using journal entries and consider using invoicing to accrue amounts due. This would enable management to track the aging of receivables to identify potential reporting errors.

Response – This finding and recommendation is a result of an accounting procedure that is not effective. Management is aware of the error and will take steps to change the recording of the activity to ensure that the proper cut-off for recording revenue/receivables is put in place.

Part II: Findings Related to the Financial Statements

Significant Deficiency

II-B-12 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).

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 Hillcrest'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.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were noted.

Internal Control over Compliance:

No material weaknesses in internal control over compliance were noted.