Financial Statements
June 30, 2014

Hillcrest Family Services, Inc.

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of Hillcrest Family Services, Inc., which comprise the statement of financial position as of June 30, 2014, and the related statement of activities, functional expenses, and cash flows for the eight month period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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 Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillcrest Family Services, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the eight month period then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 26 through 38 is presented for the purposes of additional analysis and is not a required part of the financial statements. 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued a report dated January 20, 2015 on our consideration of Hillcrest Family Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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* in considering Hillcrest Family Services, Inc.'s internal control over financial reporting and compliance.

Eide Bailly LLP

Dubuque, Iowa
January 20, 2015

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Assets	
Current Assets	
Cash and cash equivalents	$ 18,564
Cash - custodial	49,476
Receivables	
Program service fees, net of allowances for uncollectibles of $100,000 in 2014	3,043,929
Program grants	281,915
Estimated third-party payor settlements	1,651,193
Promises to give	305,350
Prepaid expenses	175,978
Estimated insurance recoveries receivable	219,843
Total current assets	5,746,248
Property and Equipment, Net	9,335,014
Other Assets	
Promises to give	54,859
Investments	1,511,680
Beneficial interest in assets of community foundation	14,002
Deferred financing costs, net of accumulated amortization	28,472
Total other assets	1,609,013
Total assets	$ 16,690,275

See Notes to Financial Statements

Liabilities and Net Assets	
Current Liabilities	
Current maturities of long-term debt	$ 398,944
Refunds payable	23,800
Custodial funds	49,476
Accounts payable	
Trade	455,666
Estimated health claims payable	156,000
Accrued Expenses	
Salaries and wages	586,645
Vacation	646,512
Payroll taxes and other benefits	68,936
Other	44,561
Estimated insurance claims liability	219,843
Deferred revenue and grants	130,849
Total current liabilities	2,781,232
Long-Term Debt, Less Current Maturities	3,729,553
Total liabilities	6,510,785
Net Assets	
Unrestricted	
Undesignated	8,414,460
Designated by Board - quasi-endowment	1,205,856
	9,620,316
Temporarily restricted	328,174
Permanently restricted	231,000
Total net assets	10,179,490
Total liabilities and net assets	$ 16,690,275

Hillcrest Family Services, Inc.
Statement of Activities
Eight Months Ended June 30, 2014

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Support and Revenue				
Public Support				
Direct:				
Contributions	$ 299,598	$ -	$ -	$ 299,598
Bequests - trusts/estates	8,695	-	-	8,695
Bowl for Kids Sake	11,391	-	-	11,391
Special event - lights	200,068	-	-	200,068
Indirect:				
Grants - federal awards	762,668	-	-	762,668
Grants - other	203,101	-	-	203,101
United Way	2,666	117,000	-	119,666
Total public support	1,488,187	117,000	-	1,605,187
Revenue				
Program service fees and grants, net - Note 2	13,674,872	-	-	13,674,872
Investment income - Note 4	51,901	17,183	-	69,084
Distributions from and change in value of beneficial interest in assets of community foundation	900	-	-	900
Miscellaneous	27,797	-	-	27,797
Net assets released from restrictions - Note 13	109,213	(109,213)	-	-
Total revenue	13,864,683	(92,030)	-	13,772,653
Total public support and revenue	15,352,870	24,970	-	15,377,840
Expenses				
Program services	13,210,425	-	-	13,210,425
Supporting services				
General and administrative	1,742,328	-	-	1,742,328
Mission advancement	304,010	-	-	304,010
Special event - lights	101,706	-	-	101,706
Total expenses	15,358,469	-	-	15,358,469

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Public Support and Revenue in Excess of (Less than) Expenses	$ (5,599)	$ 24,970	$ -	$ 19,371
Other Changes in Net Assets				
Change in unrealized gains and losses on investments - Note 4	11,228	-	-	11,228
Change in Net Assets	5,629	24,970	-	30,599
Net Assets, Beginning of Year	9,614,687	303,204	231,000	10,148,891
Net Assets, End of Year	$ 9,620,316	$ 328,174	$ 231,000	$ 10,179,490

	Program Services						
	Residential Education	CMI Group Homes	Health Services	Schools	Shelter	Family Centered Services	Adoption
Salaries	$ 1,415,542	$ 1,881,947	$ 456,180	$ 1,911,436	$ 180,550	$ 43,229	$ 30,256
Fringe Benefits	312,555	391,139	102,738	477,326	35,581	4,196	5,487
Payroll Taxes and Other	103,721	135,619	32,204	136,096	13,304	3,253	2,215
Total personnel expenses	1,831,818	2,408,705	591,122	2,524,858	229,435	50,678	37,958
Contracted Services	45,030	27,821	17,863	8,671	3,800	511	10,109
Supplies and Equipment Maintenance	153,077	265,756	50,196	98,704	24,110	1,060	863
Telephone	11,410	20,721	11,719	10,374	2,237	-	1,350
Postage and Shipping	945	1,058	2,189	2,223	176	14	386
Occupancy	85,142	250,124	57,412	118,257	14,384	15,436	2,496
Outside Printing	43	26	435	561	9	-	-
Professional Insurance	2,632	3,545	1,916	3,387	342	94	68
Travel	17,272	37,771	14,984	17,299	2,386	207	2,026
Conferences and Meetings	2,721	4,365	5,819	6,706	546	393	-
Subscriptions	-	250	599	41	-	-	-
Client Assistance	25,788	6,793	10,966	7,250	4,538	915	-
Dues	12,558	11,331	83	15	161	21	890
Miscellaneous	10,845	15,362	3,658	14,010	1,460	338	326
Interest	8,901	31,801	-	51,172	352	2,625	-
Bad Debts (Recoveries)	53,592	20,528	3,531	-	15,356	15	-
Total Expenses Before Depreciation and Amortization	2,261,774	3,105,957	772,492	2,863,528	299,292	72,307	56,472
Depreciation and Amortization	108,527	83,089	7,869	108,097	26,283	7,815	244
Total Expenses Before Allocation	2,370,301	3,189,046	780,361	2,971,625	325,575	80,122	56,716
General and Administrative Allocation	297,370	417,414	100,423	380,465	39,789	10,257	7,262
Total Expenses	$ 2,667,671	$ 3,606,460	$ 880,784	$ 3,352,090	$ 365,364	$ 90,379	$ 63,978

See Notes to Financial Statements

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Eight Months Ended June 30, 2014

Program Services					
Hillcrest Supported Living IPRS/Voc	Transitional Housing	PATH Grant	Mental Health Centers	Big Brothers/ Big Sisters	Total Program Services
$ 480,603	$ 23,595	$ 24,929	$ 1,587,439	$ 38,696	$ 8,074,402
82,713	6,554	2,769	333,132	13,123	1,767,313
35,356	1,675	1,880	114,171	2,671	582,165
598,672	31,824	29,578	2,034,742	54,490	10,423,880
5,028	1	57	137,545	438	256,874
3,149	3,514	175	54,474	252	655,330
8,488	1,906	271	42,286	758	111,520
438	2	8	3,319	579	11,337
14,402	10,717	2,345	173,491	2,565	746,771
25	-	-	7	-	1,106
702	79	40	3,863	80	16,748
20,404	450	565	25,783	368	139,515
400	175	10	6,955	141	28,231
30	-	30	94	-	1,044
780	150	850	58	-	58,088
717	37	20	3,435	-	29,268
1,575	1	203	65,106	4,266	117,150
-	-	-	-	-	94,851
-	-	-	11,860	-	104,882
654,810	48,856	34,152	2,563,018	63,937	12,796,595
10,360	12,738	-	48,808	-	413,830
665,170	61,594	34,152	2,611,826	63,937	13,210,425
85,160	7,886	4,372	334,782	8,186	1,693,366
$ 750,330	$ 69,480	$ 38,524	$ 2,946,608	$ 72,123	$ 14,903,791

Hillcrest Family Services, Inc.
Statement of Functional Expenses
Eight Months Ended June 30, 2014

		Supporting Services				
	Total Program Services	General and Administrative	Mission Advancement	Special Event - Lights	Total Supporting Services	Total Expenses
Salaries	$ 8,074,402	$ 953,595	$ 132,513	$ -	$ 1,086,108	$ 9,160,510
Fringe Benefits	1,767,313	216,111	15,185	-	231,296	1,998,609
Payroll Taxes and Other	582,165	76,908	9,271	-	86,179	668,344
Total personnel expenses	10,423,880	1,246,614	156,969	-	1,403,583	11,827,463
Contracted Services	256,874	127,237	39,017	-	166,254	423,128
Supplies and Equipment Maintenance	655,330	93,788	3,460	-	97,248	752,578
Telephone	111,520	26,530	201	-	26,731	138,251
Postage and Shipping	11,337	3,671	1,247	-	4,918	16,255
Occupancy	746,771	38,652	15,113	-	53,765	800,536
Outside Printing	1,106	342	25,824	-	26,166	27,272
Professional Insurance	16,748	17,547	427	-	17,974	34,722
Travel	139,515	26,820	3,461	-	30,281	169,796
Conferences and Meetings	28,231	19,352	2,993	-	22,345	50,576
Subscriptions	1,044	1,476	251	-	1,727	2,771
Client Assistance	58,088	-	-	-	-	58,088
Dues	29,268	1,842	5,260	-	7,102	36,370
Miscellaneous	117,150	31,203	1,373	101,706	134,282	251,432
Interest	94,851	20,274	3,567	-	23,841	118,692
Bad Debts (Recoveries)	104,882	(12,827)	-	-	(12,827)	92,055
Total Expenses Before Depreciation and Amortization	12,796,595	1,642,521	259,163	101,706	2,003,390	14,799,985
Depreciation and Amortization	413,830	99,807	44,847	-	144,654	558,484
Total Expenses Before Allocation	13,210,425	1,742,328	304,010	101,706	2,148,044	15,358,469
General and Administrative Allocation	1,693,366	(1,742,328)	36,646	12,316	(1,693,366)	-
Total Expenses	$ 14,903,791	$ -	$ 340,656	$ 114,022	$ 454,678	$ 15,358,469

Hillcrest Family Services, Inc.
Statement of Cash Flows
Eight Months Ended June 30, 2014

Operating Activities	
Change in net assets	$ 30,599
Adjustments to reconcile change in net assets to net cash from (used for) operating activities	
Depreciation and amortization	558,484
Change in unrealized gains and losses on investments	(11,228)
Realized gain on sales of investments	(56,366)
Change in beneficial interest held by others	(900)
Bad debts	92,055
Changes in assets and liabilities	
Receivables	(372,013)
Prepaid expenses	51,884
Accounts/refunds payable	52,124
Accrued expenses	22,032
Deferred revenue and grants	(64,813)
Net Cash from Operating Activities	301,858
Investing Activities	
Purchase of property and equipment	(271,186)
Purchase of investments	(1,111,335)
Sale of investments	1,016,670
Net Cash used for Investing Activities	(365,851)
Financing Activities	
Principal payments on long-term debt	(258,337)
Change in Cash and Cash Equivalents	(322,330)
Cash and Cash Equivalents, Beginning of Year	340,894
Cash and Cash Equivalents, End of Year	$ 18,564
Supplemental Disclosure of Cash Flow Information	
Cash paid during the year for interest	$ 118,692

Note 1 - Organization and Significant Accounting Policies

Organization

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

Cash and Cash Equivalents

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

Receivables and Credit Policies

Accounts receivable consist primarily of uncollateralized individual and third-party payor obligations. Unpaid accounts receivable are not charged interest on amounts owed. Payments of client receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim. The carrying amount of client receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from clients and third-party payors. Management reviews client receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from clients due to bad debts. Accounts receivable are written off when deemed uncollectible.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the 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 June 30, 2014, no allowance was recorded as management estimates that all amounts are collectable.

Deferred Bond Offering Costs

Deferred bond offering costs are amortized using the 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.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the eight month period ended June 30, 2014.

Beneficial Interest in Assets Held by Community Foundation

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.

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.

Interest-Rate Swap

The Organization uses an interest-rate swap to mitigate interest-rate risk on a note payable (Note 7). The related liability or asset is reported at fair value in the statement of financial position, and unrealized losses or gains are included 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 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.

The Organization 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.

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

Advertising Costs

Advertising costs are expensed as incurred, and approximated $8,000 for the eight month period ended June 30, 2014.

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

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

Income Taxes

The Organization is organized as an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as 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 the Organization.

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. The Organization's Medicaid settlements have been finalized through the year ended June 30, 2012.

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. The Organization's Medicaid settlements have been finalized through the year ended June 30, 2012.

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 2014 net program service fees and grants revenue increased approximately $185,000 due to prior-year retroactive adjustments less than amounts previously estimated.

A summary of revenue from the various payors for the eight month period ended June 30, 2014 is as follows:

	2014
Medicaid (MBC of Iowa)	27%
Grants	26
County Board of Supervisors	23
Medicaid/Medicare	13
Commerical Insurance and Other Third-Party Payors and Clients	11
	100%

Note 3 - Fair Value Measurements

Certain assets 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 the Organization can access at the measurement date.

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

Level 3 – Unobservable inputs for the asset or liability. In these situations, The Organization develops inputs using the best information available in the circumstances.

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

A significant portion of the Organization's investment assets are classified within Level 1 because they are comprised of open-end mutual funds and common stock with readily determinable fair values based on daily redemption values. The fair value of the Organization's beneficial interest in assets held by the Community Foundation is based on the fair value of fund investments as reported by the Community Foundation. This is considered to be a Level 3 measurement.

The interest rate swap agreement is valued using a third party's proprietary discounted cash flow model which considers past, present and future assumptions regarding interest rates and market conditions to estimate the fair value of the agreement. This is classified within Level 2. At June 30, 2014, the fair value of the asset under the swap approximated zero.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2014:

	Fair Value Measurements at Report Date Using			
	Total	Quoted Prices in Active Markets fors Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Money market (at cost)	$ 84,887	$ -	$ -	$ -
Land - Arizona (at cost)	1,050	-	-	-
Mutual funds				
Balanced funds	286,662	286,662	-	-
Fixed income funds	548,285	548,285	-	-
Value funds	304,952	304,952	-	-
Growth funds	263,426	263,426	-	-
Corporate bonds (maturing within one year)	22,418	-	22,418	-
	$ 1,511,680	$ 1,403,325	$ 22,418	$ -
Beneficial Interest in Assets of Community Foundation	$ 14,002	$ -	$ -	$ 14,002

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the eight month period ended June 30, 2014:

Beginning Balance	$ 13,102
Investment income	1,619
Grants approved	(600)
Administrative/investment fees	(119)
Ending Balance	$ 14,002

Note 4 - Investment Income

Investment Income

Investment income is recorded net of investment fees of approximately $6,700 for the eight month period ended June 30, 2014. Investment income and changes in unrealized gains and losses on investments consist of the following:

Revenue	
Investment Income	
Interest and dividend income	$ 12,718
Realized gains (losses) on sale of investments	56,366
Total investment income	$ 69,084
Other Changes in Net Assets	
Changes in unrealized gains and losses on investments	$ 11,228

Investments in an Unrealized Gain (Loss) Position

Investments in an unrealized gain (loss) position at June 30, 2014 are shown in the following table:

	Fair Value	Unrealized Loss	Fair Value	Unrealized Gain
Mutual Funds	$ 116,121	$ (1,435)	$ 1,287,204	$ 82,133
Corporate Bonds	-	-	22,418	6,418
	$ 116,121	$ (1,435)	$ 1,309,622	$ 88,551

The duration of the investments in an unrealized loss position at June 30, 2014 is shown in the following table:

	Greater Than 8 Month Period		Less Than 8 Month Period	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mutual Funds	$ 82,486	$ (1,429)	$ 33,635	$ (6)

Note 5 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2014:

Less Than One Year	$ 305,350
One to Five Years	70,000
	375,350
Less discount to net present value (5%)	(15,141)
	$ 360,209

Note 6 - Property and Equipment

Property and equipment consists of the following at June 30, 2014:

	Cost	Accumulated Depreciation
Land	$ 75,570	$ -
Land Improvements	231,813	109,388
Buildings	12,046,106	4,273,381
Equipment	2,695,388	1,702,001
Vehicles	594,365	472,854
Furniture, Fixtures, and Equipment	345,600	212,281
Leasehold Improvements	181,514	85,455
Construction in Progress	20,018	-
	$ 16,190,374	$ 6,855,360
Net Property and Equipment		$ 9,335,014

Included in construction in progress at June 30, 2014 is approximately $8,000 for appraisal and inspection costs incurred for a house that was purchased in November 2014. The total anticipated cost for the house is estimated to be $284,000 and the house will be financed through a loan. The remaining costs included in construction in progress are for various smaller projects.

Note 7 - Long-Term Debt

Mortgage and notes payable consist of the following:

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	$ 1,940,457
Community Facility Revenue Bonds, Series 2012, Variable Interest Rate, Due in Monthly Installments of $9,547, Including Interest, Due in February 2033, Secured by Real Estate (A)	1,526,772
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	445,967
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, (Additional principal paid down in 2013)	107,243
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	83,502
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, (Additional principal paid down in 2013)	24,556
	4,128,497
Less Current Maturities	(398,944)
Long-Term Debt, Less Current Maturities	$ 3,729,553

Under the terms of certain mortgages and notes, Hillcrest Family Services, Inc. is required to maintain certain measures of financial performance. At June 30, 2014, Hillcrest Family Services, Inc. did not meet certain financial covenants. As of January 20, 2015, Hillcrest Family Services, Inc. had obtained waivers from the financial institutions relating to the financial covenants that were not met.

Future maturities of mortgage and notes payable are as follows:

Years Ending June 30,	
2015	$ 398,944
2016	276,711
2017	287,125
2018	201,239
2019	160,742
Thereafter	2,803,736
Total	$ 4,128,497

(A) – Hillcrest Family Services, Inc. entered into an interest rate protection agreement with a financial institution related to its Series 2012 Bonds pursuant to which Hillcrest pays a fixed rate of 3.77% per annum though February 2033 in exchange for an adjusted one month LIBOR variable rate (2.01% plus 67% of LIBOR or 2.37% at June 30, 2014). The interest payment dates, notional amounts and maturities of the Swap contract are consistent with the Series 2012 Bonds. The effect of the Swap is to convert the Organization's floating-rate debt to fixed-rate debt. At June 30, 2014, the fair value of the asset under the Swap approximated zero.

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% (3.49% at June 30, 2014). The line expires in June 2015, and is secured by substantially all assets of the Organization. At June 30, 2014, 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 - Operating Leases

Hillcrest Family Services, Inc. leases certain property and equipment under non-cancellable long-term operating lease agreements.

Future minimum lease payments are as follows:

Year Ending June 30,	
2015	$ 329,700
2016	219,527
2017	131,995
2018	16,859
2019	983
Total	$ 699,064

Total lease expense for the eight months ended June 30, 2014 totaled $311,952.

Note 10 - Refunds Payable

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

Note 11 - Deferred Revenue and Grants

Deferred revenue and grants include an advance from the Iowa Department of Public Health earmarked for future periods. The advance was $43,666 at June 30, 2014. Additional amounts are included for the Reflections in the Park event, the transitional housing program, and other activities.

Note 12 - 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.

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 June 30, 2014, 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 June 30, 2014, Hillcrest Family Services, Inc. had the following endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ 73,774	$ 231,000	$ 304,774
Board-Designated Endowment Funds	1,205,856	-	-	1,205,856
	$ 1,205,856	$ 73,774	$ 231,000	$ 1,510,630

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 June 30, 2014.

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 amounts available 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 to determine the spending amount for the upcoming year. During 2014, the maximum spending rate was 5%. Fluctuations of the market may cause the principal to go below the value of the donor’s gift(s). Distributions will not occur when the endowment fair value is less than the endowed principal amount or when distributions would invade the original endowed principal amount. 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 eight month period ended June 30, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 1,052,481	$ 64,890	$ 231,000	$ 1,348,371
Investment Return:				
Investment income	9,437	2,603	-	12,040
Net realized and unrealized appreciation	53,693	14,580	-	68,273
Contributions	90,245	-	-	90,245
Appropriation of Endowment Assets for Expenditure	-	(8,299)	-	(8,299)
Endowment Net Assets, End of Year	$ 1,205,856	$ 73,774	$ 231,000	$ 1,510,630

Note 13 - Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 consist of:

Time Restriction - United Way Contributions	$ 156,000
Time Restriction - Other Pledges	78,400
Unappropriated Endowment Earnings	73,774
Mission Advancement	20,000
	$ 328,174

Net assets were released from restrictions as follows during the eight month period ended June 30, 2014:

Satisfaction of Purpose Restrictions	
Chaplancy Gift	$ 20,000
Expiration of Time Restrictions	89,213
	$ 109,213

Permanently restricted net assets at June 30, 2014 are held in perpetuity with the income to be used for:

Unrestricted Support for Programs	$ 150,000
Educational Programs	80,000
Family Counseling	1,000
	$ 231,000

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 June 30, 2014 was as follows:

	2014
Grants	41%
County Board of Supervisors	19
Medicaid (MBC of Iowa)	16
Commerical Insurance and Other Third-Party Payors and Clients	13
Medicaid/Medicare	11
	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.

Worker’s Compensation Insurance

The Organization has worker’s compensation insurance coverage to provide protection for costs related to employee injuries. The Organization has accrued estimated costs related to claims of $220,000 at June 30, 2014. In addition, receivables of $220,000 have been recorded for expected insurance recoveries related to the cost of the claims.

Litigations, Claims, and Disputes

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

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 June 30, 2014, the provision for estimated health claims outstanding is $156,000.

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 eight month period ended June 30, 2014 approximated $289,000.

Note 17 - Related Party Transactions

During the eight months ended June 30, 2014, the organization purchased new caravans approximating $73,000 from a company owned by a member of its Board of Directors.

Note 18 - Subsequent Events

Hillcrest Family Services, Inc. obtained financing totaling $780,000 to purchase 4 houses near their main campus subsequent to June 30, 2014. The loans were secured with real estate.

Subsequent to June 30, 2014, Hillcrest Family Services, Inc. discontinued providing residential services at Highland Place in Ottumwa, Ia.

The Organization has evaluated subsequent events through January 20, 2014, the date which the financial statements were available to be issued.

Supplementary Information
June 30, 2014

Hillcrest Family Services, Inc.

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	Washington County MHC	Dubuque County MHC	Jackson County MHC	Asbury MHC
Salaries	$ 179,901	$ 688,614	$ 173,081	$ 75,437
Fringe Benefits	27,323	144,713	40,248	17,844
Payroll Taxes and Other	13,456	49,072	12,152	5,384
Total personnel expenses	220,680	882,399	225,481	98,665
Contracted Services	54,074	20,462	50,632	2,109
Supplies and Equipment Maintenance	3,396	11,083	3,075	390
Telephone	7,805	14,756	5,994	343
Postage and Shipping	832	1,771	337	16
Occupancy	40,829	48,281	28,655	7,009
Outside Printing	7	-	-	-
Professional Insurance	389	1,234	378	126
Travel	4,098	923	1,070	38
Conferences and Meetings	743	1,866	467	3,627
Subscriptions	-	-	34	-
Client Assistance	-	-	-	-
Dues	552	1,553	571	359
Miscellaneous	3,543	3,653	2,088	222
Bad Debts	3,894	5,543	2,369	-
Total Expenses Before Depreciation	340,842	993,524	321,151	112,904
Depreciation	8,169	21,923	7,959	2,408
Total Expenses Before Allocation	349,011	1,015,447	329,110	115,312
General and Administrative Allocation	44,812	130,266	42,137	14,764
Total Expenses	$ 393,823	$ 1,145,713	$ 371,247	$ 130,076

Henry County MHC	Louisa County MHC	Wellness Center MHC	Integrated Health Homes	Total Program Services
$ 32,938	$ 30,600	$ 168,216	$ 238,652	$ 1,587,439
12,013	3,561	40,391	47,039	333,132
2,560	2,395	11,653	17,499	114,171
47,511	36,556	220,260	303,190	2,034,742
2,988	1,727	2,498	3,055	137,545
8,831	6,633	3,290	17,776	54,474
2,349	2,418	4,191	4,430	42,286
189	56	54	64	3,319
3,900	4,014	26,304	14,499	173,491
-	-	-	-	7
189	281	318	948	3,863
2,317	2,074	6,903	8,360	25,783
31	31	170	20	6,955
-	-	60	-	94
-	-	-	58	58
45	48	307	-	3,435
25,719	22,423	1,320	6,138	65,106
-	-	54	-	11,860
94,069	76,261	265,729	358,538	2,563,018
127	470	7,752	-	48,808
94,196	76,731	273,481	358,538	2,611,826
12,060	9,824	35,014	45,905	334,782
$ 106,256	$ 86,555	$ 308,495	$ 404,443	$ 2,946,608

Hillcrest Family Services, Inc.
Schedules of Revenues and Expenses
WIC – Contract #5883AO35
Maternal Health – Contract #5888MH13
Contract Period: October 1, 2012 Through September 30, 2013

	WIC	Maternal Health
Revenues		
Iowa Department of Public Health	$ 652,458	$ 38,522
Title XIX	-	103,070
United Way	-	160
Miscellaneous	-	1,000
Total revenues	652,458	142,752
Expenses		
Salaries	323,213	80,780
Fringe benefits	73,839	21,374
Payroll taxes, etc.	23,374	5,561
Contracted services	23,622	9,411
Supplies and equipment maintenance	17,833	2,730
Telephone	10,797	301
Postage and shipping	1,863	10
Occupancy	55,960	2,983
Outside printing	15	-
Travel	9,372	413
Conferences and meetings	1,621	596
Client assistance	19,134	30
Dues	50	-
Miscellaneous	2,115	267
Depreciation	9,235	263
Total expenses	572,043	124,719
General and administrative allocation	71,824	15,659
Revenues less than expenses	$ 8,591	$ 2,374

* This schedule has been repeated for the grant period ending September 30, 2013 as this is the grant period which ends in Hillcrest Family Service's new fiscal year end.

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	N/A	$ 28,087
National School Lunch Program	10.555	18638000	47,919
Cluster total			76,006
Passed through Iowa Department of Public Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	5883AO35	375,796
Total U.S. Department of Agriculture			451,802
U.S. Department of Housing and Urban Development			
Direct Program			
Supportive Housing Program	14.235		39,578
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	19,265
Passed through State Department of Health and Human Services and Family Planning Council of Iowa			
Family Planning - Services	93.217	638-FY2014	95,118
Passed through Iowa Department of Human Services			
Temporary Assistance for Needy Families	93.558	ACFS-13-002	63,501
Passed through Iowa Department of Human Services			
Block Grants for Community Mental Health Services	93.958	MHDS 11-068	53,771
Passed through Iowa Department of Public Health			
Maternal and Child Health Services Block Grant to the States	93.994	5883MH13	19,903
Maternal and Child Health Services Block Grant to the States	93.994	5883MH13-FFS	3,232
			23,135
Total U.S. Department of Health and Human Services			254,790
Total			$ 746,170

See Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 financial statements. Hillcrest received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient, if any, is treated as an expenditure when it is paid to the subrecipient.

Note 2 – Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Hillcrest's summary of significant accounting policies is presented in Note 1 to the basic financial statements.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Hillcrest Family Services, Inc. (Hillcrest), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the eight month period then ended, and the related notes to the financial statements, and have issued our report thereon dated January 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hillcrest's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hillcrest's internal control. Accordingly, we do not express an opinion on the effectiveness of Hillcrest's internal control.

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

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify certain deficiencies in internal control, described in Part II of the accompanying schedule of findings and questioned costs as items 2014-A and 2014-B, that we consider to be a 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 Response to Finding

Hillcrest's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Hillcrest's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Eide Bailly LLP

Dubuque, Iowa
January 20, 2015

Independent Auditor's Report on Compliance for Its Major Federal Program;
Report on Internal Control Over Compliance Required by OMB Circular A-133

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

Report on Compliance for Its Major Federal Program

We have audited Hillcrest Family Services, Inc.'s (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 eight month period ended June 30, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for Hillcrest's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 noncompliance with the 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 on compliance for its major federal program. However, our audit does not provide a legal determination of Hillcrest's compliance.

Opinion on Its Major Federal Program

In our opinion, Hillcrest 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 eight month period ended June 30, 2014.

Report on Internal Control over Compliance

Management of Hillcrest is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hillcrest's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with 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 the 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Dubuque, Iowa
January 20, 2015

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

Financial Statements	
Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiency not considered to be a material weakness	Yes
Noncompliance material to financial statements noted	No
Federal Awards	
Internal control over major program:	
Material weakness identified	No
Significant deficiency not considered to be a material weakness	None reported
Type of auditor's report issued on compliance for major program	Unmodified
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	Name of Federal Program or Cluster
10.557	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:

2014 - A 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 – 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 II: Findings Related to the Financial Statements (continued)

2014 – B Cross Training of Employees in Processes and Procedures

Criteria – A properly designed system of internal control over financial reporting includes employees whom are cross trained in various areas of the revenue cycle process. Cross training of employees reduces the risk that one single individual has knowledge of specific processes and procedures. In addition, documentation of procedures in a manual serves as a single reference source for consistent organizational practices and can assist in management's review for adherence to policies; reducing the likelihood of errors, inefficient efforts, and duplicated or omitted procedures.

Condition – Hillcrest Family Services, Inc. has recently experienced turnover in the business office in a position in which one individual had detailed knowledge of various processes and procedures, including the use of software modules to process bills and generate financial reporting related to the revenue cycle. Remaining business office and finance staff have a basic knowledge of these areas and therefore were unable to readily fulfill these job responsibilities and are not prepared to train new employees when hired. This transition has resulted in delays in the revenue cycle process and interim financial reporting.

Cause – Staff are not cross trained in certain areas of the revenue cycle process.

Effect – The effect of this condition is the risk of the loss of knowledge when key staff leave the organization. The transition in replacing the position when there are no other staff cross trained in the vacant duties can result in delays in the revenue cycle process, such as timely billing, and may impact the ability to prepare interim accurate financial reports.

Recommendation – We recognize that it will take considerable time and effort to cross train employees and develop a strong accounting and revenue cycle procedures manual. However, with the recent staff vacancy within the business office operations, Hillcrest has the opportunity to streamline processes and strengthen internal controls over the revenue cycle process.

Response – Management has made strides over the past couple of months to document the processes and have invested time in cross-training of staff so that moving forward the billing/month end process will not be as affected by a staff member being out for personal or medical time.

Part III: Findings and Questioned Costs – Major Federal Award Program

Instances of Non-Compliance:

No matters were noted.

Internal Control over Compliance:

No material weaknesses in internal control over compliance were noted.

III-A-13 **Department of Agriculture**
CFDA # 10.557
Special Supplemental Nutrition Program for Women, Infants, and Children

Compliance Requirement
Significant Deficiency in Internal Control over Compliance

Condition: Hillcrest included an unallowable cost in their WIC program.

Finding: Including only allowable costs in their WIC program

Status: Resolved