

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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NEWS RELEASE

FOR RELEASE

October 15, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on Heart of Iowa Community Services Region for the year ended June 30, 2019.

FINANCIAL HIGHLIGHTS:

The Heart of Iowa Community Services Region's revenues totaled \$2,356,198 for the year ended June 30, 2019, a 4.6% decrease from the prior year. Expenses for the year ended June 30, 2019 totaled \$3,449,409, an 11.6% decrease from the prior year. The decrease in revenues and expenses is due primarily to reductions in property tax revenues and general administration expenses. The Region includes three member counties following the June 30, 2018 exit of Greene County from the 28E agreement.

AUDIT FINDINGS:

Sand reported three findings related to the receipt and disbursement of taxpayer funds. They are found on pages 24 through 25 of this report. The findings address the issues of annual report errors, noncompliance with the closed session requirements of Chapter 21.5 of the Code of Iowa and a deficit Fiscal Agent Fund balance. Sand provided the Heart of Iowa Community Services Region with recommendations to address each of the findings.

The three findings discussed above are repeated from the prior year. The Board has a fiduciary responsibility to provide oversight of the Heart of Iowa Community Services Region's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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HEART OF IOWA COMMUNITY SERVICES REGION

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SCHEDULE OF FINDINGS**

JUNE 30, 2019

Heart of Iowa Community Services Region



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Rob Sand
Auditor of State

September 25, 2020

Officials of the Heart of Iowa Community Services Region
Dallas County, Iowa (Fiscal Agent)

Dear Board Members:

I am pleased to submit to you the financial and compliance audit report for the Heart of Iowa Community Services Region for the year ended June 30, 2019. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the Heart of Iowa Community Services Region throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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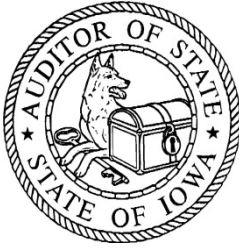
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Heart of Iowa Community Services Region

Regional Governance Board

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Clifford Carney	Board Chair	Guthrie County Board of Supervisors
Brad Golightly	Vice-Chair	Dallas County Board of Supervisors
Rick Thompson	Board Member	Audubon County Board of Supervisors
Larry Loss	Non-Voting – Ex Officio Board Member	
Terry Johnson	Non-Voting – Ex Officio Board Member	
Darci Alt	Chief Executive Officer	
Lisa Kempf	Secretary	

Heart of Iowa Community Services Region



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Rob Sand
Auditor of State

Independent Auditor's Report

To the Board of Directors of the Heart of Iowa Community Services Region:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of the Heart of Iowa Community Services Region as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise Heart of Iowa Community Services Region's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 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 Heart of Iowa Community Services Region'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 Region'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse and unmodified audit opinions.

Opinions

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 3, management has not recorded a liability for compensated absences in governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. U.S. generally accepted accounting principles require compensated absences attributable to employee services already rendered and not contingent on a specific event outside the control of the employer and employee be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position and change the expenses of governmental activities. The amount by which this departure affects the liabilities, net position and expenses of governmental activities has not been determined.

Also, as discussed in Note 3 to the financial statements, management has not recorded a total OPEB liability and a deferred outflow of resources or deferred inflows of resources related to other postemployment benefits (OPEB) in governmental activities and, accordingly, has not recorded an OPEB expense for the current change in that liability, deferred outflows of resources or deferred inflows of resources. U.S. generally accepted accounting principles require OPEB costs attributable to employee service already rendered be accrued as liabilities, deferred outflows of resources, deferred inflows of resources and expenses, which would increase the liabilities, deferred outflows of resources and/or deferred inflow of resources, reduce the net position and change the expenses of the governmental activities. The amount by which this departure affects deferred outflows of resources, liabilities, deferred inflows of resources, net position and expenses of the governmental activities has not been determined.

In addition, as discussed in Note 3, management has not recorded a net pension liability, deferred outflows of resources or deferred inflows of resources related to pensions in governmental activities and, accordingly, has not recorded pension expense for the current period change in that liability, deferred outflows of resources or deferred inflows of resources. U.S. generally accepted accounting principles require pension costs attributable to employee services already rendered be accrued as liabilities, deferred outflows of resources, deferred inflows of resources and expenses, which would increase the liabilities, deferred outflows of resources and/or deferred inflows of resources, reduce the net position and change the expenses of governmental activities. The amount by which this departure affects the deferred outflows of resources, liabilities, deferred inflows of resources, net position and expenses of governmental activities has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matters described in the “Basis for Adverse Opinion on Governmental Activities” paragraphs above, the Statement of Net Position and the Statement of Activities of the governmental activities do not present fairly the financial position of the governmental activities of the Heart of Iowa Community Services Region, as of June 30, 2019, or the changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Unmodified Opinions

In our opinion, the accompanying Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances of each major fund present fairly, in all material respects, the financial position of the Heart of Iowa Community Services Region as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with U.S generally accepted accounting principles.

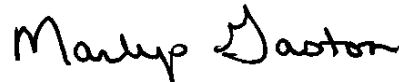
Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis which U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such omitted information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinions on the financial statements are not affected by this omitted information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2020 on our consideration of Heart of Iowa Community Services Region's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 Heart of Iowa Community Services Region's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

September 25, 2020

Heart of Iowa Community Services Region

Basic Financial Statements

Exhibit A

Heart of Iowa Community Services Region

Statement of Net Position

June 30, 2019

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 1,577,895
Receivables:	
Property tax:	
Delinquent	2,117
Succeeding year	2,321,000
Prepaid items	<u>1,026</u>
Total assets	<u>3,902,038</u>
Liabilities	
Accounts payable	330,082
Salaries and benefits payable	32,913
Due to other governments	<u>44,523</u>
Total liabilities	<u>407,518</u>
Deferred Inflows of Resources	
Unavailable succeeding year property tax	<u>2,321,000</u>
Net Position	
Restricted for mental health purposes	<u>\$ 1,173,520</u>

See notes to financial statements.

Heart of Iowa Community Services Region

Statement of Activities

Year ended June 30, 2019

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	
Governmental activities:				
Mental health	\$ 3,449,409	-	89	(3,449,320)
General Revenues:				
Property and other county tax levied for mental health purposes				2,221,145
State tax credits				133,633
Miscellaneous				1,331
Total general revenues				2,356,109
Special item - distribution due to change in region				(410,444)
Total general revenues and special item				1,945,665
Change in net position				(1,503,655)
Net position beginning of year				2,677,175
Net position end of year				\$ 1,173,520

See notes to financial statements.

Heart of Iowa Community Services Region

Balance Sheet

June 30, 2019

	Fiscal Agent	Special Revenue,	
		Audubon County	Dallas County
Assets			
Cash and pooled investments	\$ 504,648	567,891	235,810
Receivables:			
Property tax:			
Delinquent	-	-	2,117
Succeeding year	-	-	2,190,000
Due from fiscal agent	-	-	247,217
Prepaid insurance	-	-	1,026
Total assets	\$ 504,648	567,891	2,676,170
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ 327,755	94	2,025
Salaries and benefits payable	-	464	31,805
Due to member counties	971	-	-
Due to fiscal agent	247,217	-	-
Due to other governments	41,300	-	2,252
Total liabilities	617,243	558	36,082
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	-	2,190,000
Other	-	-	2,117
Total deferred inflows of resources	-	-	2,192,117
Fund balances (deficits):			
Nonspendable:			
Prepaid insurance	-	-	1,026
Restricted for mental health purposes	(112,595)	567,333	446,945
Total fund balances (deficits)	(112,595)	567,333	447,971
Total liabilities, deferred inflows of resources and fund balances	\$ 504,648	567,891	2,676,170

See notes to financial statements.

Guthrie County	Reclassification/ Elimination Entries	Region Total
269,546	-	1,577,895
-	-	2,117
131,000	-	2,321,000
-	(247,217)	-
-	-	1,026
400,546	(247,217)	3,902,038
208	-	330,082
644	-	32,913
-	(971)	-
-	(247,217)	-
-	971	44,523
852	(247,217)	407,518
131,000	-	2,321,000
-	-	2,117
131,000	-	2,323,117
-	-	1,026
268,694	-	1,170,377
268,694	-	1,171,403
400,546	(247,217)	

Amounts reported in the Statement of Net Position are different because certain long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.

	2,117
Net position of governmental activities	\$ 1,173,520

Heart of Iowa Community Services Region

Statement of Revenues, Expenditures and
Changes in Fund Balance

Year ended June 30, 2019

	Fiscal Agent	Audubon County	Special Revenue, Dallas County
Revenues:			
Property and other county tax	\$ -	-	2,119,128
Intergovernmental revenues:			
State tax credits	-	-	126,849
MH-DD reimbursement from other governments	-	-	800,392
Payments from member counties	3,899,327	-	391,548
Other	-	5,034	69
Total intergovernmental revenues	3,899,327	5,034	1,318,858
Miscellaneous	1,247	-	-
Total revenues	3,900,574	5,034	3,437,986
Expenditures:			
Services to persons with:			
Mental illness	2,289,102	6,142	461,455
Intellectual disability	131,298	-	-
Other developmental disabilities	50,437	-	-
Brain injury	17,339	-	-
Total direct services	2,488,176	6,142	461,455
General administration:			
Direct administration	58,448	-	427,687
Distribution to member counties	806,397	-	-
Distribution to MHDS regional fiscal agent	-	233,960	3,236,441
Total general administration	864,845	233,960	3,664,128
Total mental health, intellectual disabilities and developmental disabilities expenditures	3,353,021	240,102	4,125,583
Excess (deficiency) of revenues over (under) expenditures	547,553	(235,068)	(687,597)
Special item - distribution due to change in region	-	-	-
Change in fund balances	547,553	(235,068)	(687,597)
Fund balances (deficits) beginning of year	(660,148)	802,401	1,135,568
Fund balances (deficits) end of year	(112,595)	567,333	447,971

See notes to financial statements.

Mental Health Funds		Reclassification/	Region
Greene County	Guthrie County	Elimination Entries	Total
-	101,286	-	2,220,414
-	6,784	-	133,633
-	-	(800,392)	-
-	-	(3,899,327)	391,548
-	20	(5,034)	89
-	6,804	(4,704,753)	525,270
-	84	-	1,331
-	108,174	(4,704,753)	2,747,015
-	6,530	-	2,763,229
-	-	-	131,298
-	-	-	50,437
-	-	-	17,339
-	6,530	-	2,962,303
-	-	971	487,106
-	-	(806,397)	-
-	428,926	(3,899,327)	-
-	428,926	(4,704,753)	487,106
-	435,456	(4,704,753)	3,449,409
-	(327,282)	-	(702,394)
410,444	-	-	410,444
410,444	(327,282)	-	(1,112,838)
410,444	595,976	-	2,284,241
820,888	268,694	-	1,171,403

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

Net change in fund balances \$ (1,112,838)

Amounts reported in the Statement of Activities are different because some revenues will not be collected for several months after the Region's year end and, therefore, are not considered available revenues in the governmental funds.

(390,817)

Change in net position of governmental activities \$ (1,503,655)

Heart of Iowa Community Services Region

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

The Heart of Iowa Community Services Region is a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. The Region includes the following member counties: Audubon County, Dallas County, and Guthrie County. Greene County exited Heart of Iowa Community Services Region to join the Central Iowa Community Services Region on July 1, 2018. The member counties entered into this 28E agreement to create a mental health and disability service regional administrative entity as described by Chapter 331.389 of the Code of Iowa to provide local access to mental health and disability services for adults and to engage in any other related activity in which an Iowa 28E organization may lawfully be engaged.

The Region governing board is comprised of at least one board of supervisors' member, or their designees, from each member county. The Regional Governance Board also includes two individuals who utilize mental health and disability services or are actively involved relative of such an individual, serving in a nonvoting, ex officio capacity.

The Region designated Dallas County as the fiscal agent to account for all funds of the organization as permitted by Chapter 331.391 of the Code of Iowa.

Except as noted in the Independent Auditor's Report, the Region's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial statements of the Region are intended to present the financial position and the changes in financial position of the Heart of Iowa Community Services Region, which includes funds held by the Region's fiscal agent and funds held by the individual member counties in their respective Special Revenue, Mental Health Funds. Capital assets used for mental health purposes are owned by the respective member counties and, accordingly, are not reported in these financial statements.

A. Reporting Entity

For financial reporting purposes, the Heart of Iowa Community Services Region has included all funds, organizations, agencies, commissions and authorities. The Region has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Region are such that exclusion would cause the Region's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Region to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Region. The Region has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Entity-wide financial statements – The Statement of Net Position and the Statement of Activities report information on all of the activities of the Heart of Iowa Community Services Region.

The Statement of Net Position presents the Region's assets, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following category:

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include grants, contributions and interest restricted to meeting the operational requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Heart of Iowa Community Services Region reports the following major governmental funds:

Special Revenue:

Mental Health Fund (Fiscal Agent) is used to account for the activity of the Region not expended directly from the Mental Health Funds of the individual member counties.

Member County Mental Health Funds are used to account for property tax and other revenues to be used to fund mental health, intellectual disabilities and developmental disabilities services.

C. Measurement Focus and Basis of Accounting

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Region considers revenues to be available if they are collected within 90 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Region or member county.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Region funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Region's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Region's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned and then unassigned fund balances.

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Pooled Investments – The cash balances of most Heart of Iowa Community Services Region funds are pooled and invested. Interest earned on investments is recorded either by the fiscal agent or the member county mental health fund unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at amortized cost.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by each member county board of supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by each member county board of supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, each member county board of supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is reported as a deferred inflow of resources in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2017 assessed property valuations; is for the tax accrual period July 1, 2018 through June 30, 2019 and reflects the tax asking contained in the budget certified by each member county board of supervisors in March 2018.

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the fund financial statements consist of property tax receivable and other receivables not collected within 90 days after year end and succeeding year property tax receivable that will not be recognized until the year for which it is levied.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivable that will not be recognized until the year for which it is levied.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

(2) Cash and Pooled Investments

The Heart of Iowa Community Services Region's deposits in banks at June 30, 2019 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Region is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Region; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Region had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Compensated Absences, Other Postemployment Benefits (OPEB) and Pension Plan

In accordance with statements of understanding between the Regional Governance Board and each individual member county board of supervisors, the Regional Chief Executive Officer, the Coordinators of Disability Services and all support staff of the Region remain employees of the respective individual member counties. The applicable portion of the employee's wages and benefits are reimbursed to the individual member county from the Region.

The individual member county employees also accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. The individual member county employees are provided other postemployment and pension benefits. U.S. generally accepted accounting principles require deferred outflows of resources, liabilities, deferred inflows of resources and related expenses to be recorded when incurred for these items on the governmental activities financial statements. The Heart of Iowa Mental Health Region's governmental activities financial statements do not report these amounts.

(4) Risk Management

The Heart of Iowa Community Services Region is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 778 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Region not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Heart of Iowa Community Services Region's property and casualty contributions to the Pool are recorded as expenditures from its operating funds at the time of payment to the Pool. The Heart of Iowa Community Services Region's contributions to the Pool for the year ended June 30, 2019 were \$4,064.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Region's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Region's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Region's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The Heart of Iowa Community Services Region does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2019, no liability has been recorded in the Region's financial statements. As of June 30, 2019, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

(5) Special Item

On July 1, 2018, Greene County exited the Heart of Iowa Community Services Region to join the Central Iowa Community Services Region (CICS). The distribution of Greene County's fund balance to the CICS meets the Governmental Accounting Standards Board criteria of a special item as it is both within the control of management and infrequent in occurrence. Accordingly, the \$410,444 distribution is reported on both Exhibits A and C as a "Special Item".

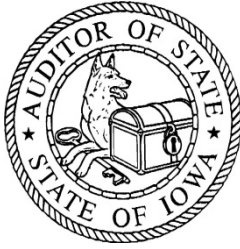
(6) Deficit Fund Balance

The Fiscal Agent Fund had a deficit fund balance of \$112,595 at June 30, 2019. The Region will eliminate the deficit by investigating alternatives to return the fund to a sound financial position.

(7) Subsequent Event

The COVID-19 outbreak is disrupting business across a range of industries in the United States and financial markets have experienced a significant decline. As a result, local regional and national economies, including that of Heart of Iowa Community Services Region, may be adversely impacted. The extent of the financial impact of COVID-19 will depend on future developments, including the duration and spread, which are uncertain and cannot be predicted. Due to the uncertainties surrounding the outbreak, management cannot presently estimate the potential impact to the Region's operations and finances.

Heart of Iowa Community Services Region



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**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**

To the Regional Governance Board of the Heart of Iowa Community Services Region:

We have audited in accordance with U.S. generally accepted auditing standards 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 the governmental activities and each major fund of the Heart of Iowa Community Services Region as of and for the year ended June 30, 2019, and the related Notes to Financial Statement, and have issued our report thereon dated September 25, 2020. Our report expressed unmodified opinions on the financial statements of each major fund. Our report expressed an adverse opinion on the financial statements of the governmental activities due to the omission of compensated absences, other postemployment benefits and pension related activity.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Heart of Iowa Community Services Region's internal control over financial reporting to determine the audit procedures 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 the Heart of Iowa Community Services Region's internal control. Accordingly, we do not express an opinion on the effectiveness of the Heart of Iowa Community Services Region'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 a material misstatement of the Region'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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Heart of Iowa Community Services Region'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. However, we noted certain immaterial instances of noncompliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Heart of Iowa Community Services Region's operations for the year ended June 30, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Region. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

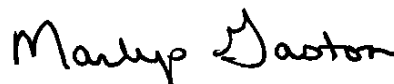
Heart of Iowa Community Services Region's Responses to the Findings

The Heart of Iowa Community Services Region's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Region'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 Heart of Iowa Community Services Region'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 Region's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



Marlys K. Gaston, CPA
Deputy Auditor of State

September 25, 2020

Heart of Iowa Community Services Region

Schedule of Findings

Year ended June 30, 2019

Part II: Finding Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCY:

(A) Annual Report

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Region's financial statements.

Condition – Revenues and expenditures in the Heart of Iowa Community Services Region's Annual Report did not agree to financial information reported in its member counties' respective GAAP-basis annual financial reports. Revenues, and ending fund balance were overstated by \$557,464 and \$1,071,701, respectively. Expenditures were understated by \$103,793.

Cause – Region policies and procedures have not been established to require independent review of member counties' annual financial reports to ensure the Region's financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in Region employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the Region's financial statements were necessary.

Recommendation – The Region should verify financial information presented in its annual report agrees to the GAAP-basis financial information reported in its respective member counties' annual financial reports.

Response – Due to the timing of when the Annual Report is due and when GAAP reports within the counties are completed, the Region does not always have accurate information for the annual report. The Region will make every attempt to receive the correct information for the annual report or amend the annual report with the correct information as soon as it is available.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Heart of Iowa Community Services Region

Schedule of Findings

Year ended June 30, 2019

Part IV: Other Findings Related to Required Statutory Reporting:

- (1) Region Minutes – No transactions were found that we believe should have been approved in the Region minutes but were not. However, the vote of each member present is not indicated in the meeting minutes as required by Chapter 21.3 of the Code of Iowa. Also, the minutes were not published within one week following the meeting, as required by Chapter 28E.6(3).

Also, the Board went into closed session; however, the minutes did not include documentation of the vote of each member on the question of holding the closed session nor the reason for the closed session by reference to a specific Code of Iowa exemption as required by Chapter 21.5 of the Code of Iowa.

Recommendation – The Region should ensure the vote of each member present is indicated in the meeting minutes. Closed meetings and publication of meeting minutes should comply with Chapters 21.5 and 28E.6(3) of the Code of Iowa.

Response – Now that the recording secretary is aware of this issue, this will be corrected moving forward.

Conclusion – Response accepted.

- (2) Travel Expense – No disbursements of Region money for travel expenses of spouses of Region officials or employees were noted.
- (3) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Region's investment policy were noted.
- (4) Questionable Expenditures – We noted no expenditures that we believe may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.
- (5) Financial Condition – The Fiscal Agent Region Fund had a deficit balance of \$112,595 at June 30, 2019.

Recommendation – The Region should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The Region will make stronger recommendations for amendments when necessary. After year end, the recommendations were made and followed. The outcome was much more positive for the next year's budget.

Conclusion – Response accepted.

Heart of Iowa Community Services Region

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Gwen D. Fangman, CPA, Manager
Adjoa S. Adanledji, Senior Auditor