

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 27, 2017

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Auditor of State Mary Mosiman today released an audit report on Heart of Iowa Community Services Region for the year ended June 30, 2016.

Heart of Iowa Community Services Region revenues totaled \$2,122,802 for the year ended June 30, 2016, including \$1,967,812 of property and other county tax, \$141,669 from state tax credits, \$13,247 from charges for services and \$74 from operating grants, contributions and restricted interest.

Expenses for the year ended June 30, 2016 totaled \$2,676,799, and included \$1,480,936 for direct services and \$1,195,863 for general administration.

A copy of the audit report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1614-2365-B00F>.

#

HEART OF IOWA COMMUNITY SERVICES REGION

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

JUNE 30, 2016

Table of Contents

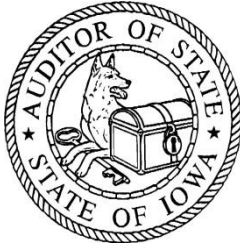
	<u>Page</u>
Officials	3
Independent Auditor's Report	5-7
Basic Financial Statements:	<u>Exhibit</u>
Statement of Net Position	A 10
Statement of Activities	B 11
Balance Sheet	C 12-13
Statement of Revenues, Expenditures and Changes in Fund Balances	D 14-15
Notes to Financial Statements	17-22
Independent 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 <u>Government Auditing Standards</u>	25-26
Schedule of Findings	27-30
Staff	31

Heart of Iowa Community Services Region

Regional Governance Board

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Duane Deist	Board Chair	Audubon County Board of Supervisors
Brad Golightly	Vice Chair	Dallas County Board of Supervisors
Dawn Rudolph	Board Member	Greene County Board of Supervisors
Clifford Carney	Board Member	Guthrie County Board of Supervisors
Pat Crosley	Non-Voting Ex Officio Board Member	
Darci Alt	Chief Executive Officer	

Heart of Iowa Community Services Region



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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, 2016, 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 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, management has not recorded a liability for other postemployment benefits (OPEB) 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 the Region's annual OPEB costs based on the annual required contribution of the Region, an amount actuarially determined in accordance with GASB Statement No. 45, be accrued as liabilities and expenses, 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.

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, 2016, 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, based on our audit, 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, 2016, 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 June 19, 2017 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 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.


MARY MOSIMAN, CPA
Auditor of State

June 19, 2017

Heart of Iowa Community Services Region

Basic Financial Statements

Exhibit A

Heart of Iowa Community Services Region

Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
Assets	
Cash, cash equivalents and pooled investments	\$ 5,050,643
Receivables:	
Property tax:	
Delinquent	1,031
Succeeding year	1,964,000
Accounts	20
Prepaid insurance	<u>95</u>
Total assets	<u>7,015,789</u>
Liabilities	
Accounts payable	223,636
Salaries and benefits payable	9,293
Due to other governments	<u>7,049</u>
Total liabilities	<u>239,978</u>
Deferred Inflows of Resources	
Unavailable property tax revenue	<u>1,964,000</u>
Net Position	
Restricted for mental health purposes	<u><u>\$ 4,811,811</u></u>

See notes to financial statements.

Heart of Iowa Community Services Region

Statement of Activities

Year ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	
Governmental activities:				
Mental health	\$2,676,799	13,247	74	(2,663,478)
General Revenues:				
Property and other county tax levied for mental health purposes				1,967,812
State tax credits				141,669
Total general revenues				2,109,481
Change in net position				(553,997)
Net position beginning of year				5,365,808
Net position end of year				\$ 4,811,811

See notes to financial statements.

Heart of Iowa Community Services Region

Balance Sheet

June 30, 2016

		Special Revenue,	
	Fiscal Agent	Audubon County	Dallas County
Assets			
Cash, cash equivalents and pooled investments	\$ 268,256	937,315	2,430,617
Receivables:			
Property tax:			
Delinquent	-	63	853
Succeeding year	-	114,000	1,471,000
Accounts	-	-	-
Due from member counties	-	-	-
Prepaid insurance	-	-	95
Total assets	\$ 268,256	1,051,378	3,902,565
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ 220,065	2,426	660
Salaries and benefits payable	-	99	8,159
Due to member counties	-	5,857	-
Due to other governments	6,232	293	-
Total liabilities	226,297	8,675	8,819
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	114,000	1,471,000
Other	-	63	830
Total deferred inflows of resources	-	114,063	1,471,830
Fund balances:			
Nonspendable:			
Prepaid insurance	-	-	95
Restricted for mental health purposes	41,959	928,640	2,421,821
Total fund balances	41,959	928,640	2,421,916
Total liabilities, deferred inflows of resources and fund balances	\$ 268,256	1,051,378	3,902,565

See notes to financial statements.

Mental Health Funds			
Greene County	Guthrie County	Elimination Entries	Region Total
587,357	827,098	-	5,050,643
115	-	-	1,031
169,000	210,000	-	1,964,000
-	20	-	20
16,344	-	(16,344)	-
-	-	-	95
772,816	1,037,118	(16,344)	7,015,789
485	-	-	223,636
284	751	-	9,293
-	10,487	(16,344)	-
-	524	-	7,049
769	11,762	(16,344)	239,978
169,000	210,000	-	1,964,000
110	-	-	1,003
169,110	210,000	-	1,965,003
-	-	-	95
602,937	815,356	-	4,810,713
602,937	815,356	-	4,810,808
772,816	1,037,118	(16,344)	

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.

	1,003
Net position of governmental activities	\$ 4,811,811

Heart of Iowa Community Services Region

Statement of Revenues, Expenditures and
Changes in Fund Balance

Year ended June 30, 2016

		Special Revenue,	
	Fiscal Agent	Audubon County	Dallas County
Revenues:			
Property and other county tax	\$ -	112,340	1,473,770
Intergovernmental revenues:			
State tax credits	-	8,677	103,652
MH-DD reimbursement from other governments	-	-	-
Payments from member counties	750,942	-	-
Other	-	-	46
Total intergovernmental revenues	750,942	8,677	103,698
Miscellaneous	-	956	12,195
Total revenues	750,942	121,973	1,589,663
Expenditures:			
Services to persons with:			
Mental illness	193,603	48,786	779,400
Intellectual disability	34,306	2,777	83,406
Other developmental disabilities	1,416	-	128,942
Brain injury	460	-	12,211
Total direct services	229,785	51,563	1,003,959
General administration:			
Direct administration	827,981	24,836	250,838
Distribution to MHDS regional fiscal agent	-	44,761	556,461
Total general administration	827,981	69,597	807,299
Total mental health, intellectual disabilities and developmental disabilities expenditures	1,057,766	121,160	1,811,258
Net change in fund balances	(306,824)	813	(221,595)
Fund balances beginning of year	348,783	927,827	2,643,511
Fund balances end of year	\$ 41,959	928,640	2,421,916
See notes to financial statements.			

Mental Health Funds			
Greene County	Guthrie County	Elimination Entries	Region Total
174,876	207,716	-	1,968,702
14,691	14,649	-	141,669
65,865	-	(65,865)	-
-	-	(750,942)	-
-	28	-	74
80,556	14,677	(816,807)	141,743
-	96	-	13,247
255,432	222,489	(816,807)	2,123,692
112,820	82,809	-	1,217,418
-	-	-	120,489
-	-	-	130,358
-	-	-	12,671
112,820	82,809	-	1,480,936
102,007	56,066	(65,865)	1,195,863
67,800	81,920	(750,942)	-
169,807	137,986	(816,807)	1,195,863
282,627	220,795	(816,807)	2,676,799
(27,195)	1,694	-	(553,107)
630,132	813,662	-	5,363,915
602,937	815,356	-	4,810,808

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

Net change in fund balances \$ (553,107)

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.

Change in net position of governmental activities (890)
\$ (553,997)

Heart of Iowa Community Services Region

Heart of Iowa Community Services Region

Notes to Financial Statements

June 30, 2016

(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, Greene County and Guthrie County. 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 governing board also includes one individual who utilizes mental health and disability services or is an 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 statement 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. Enabling legislation did not result in any restricted net position.

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, Cash Equivalents 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 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 deferred 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, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects the tax asking contained in the budget certified by each member county board of supervisors in March 2015.

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 consist of property tax receivable and other receivables not collected within 90 days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivables 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 Investments

The Heart of Iowa Community Services Region's deposits in banks at June 30, 2016 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. Also, 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 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 746 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, 2016 were \$4,988.

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 \$350,000 per claim. Claims exceeding \$350,000 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, 2016, no liability has been recorded in the Region's financial statements. As of June 30, 2016, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

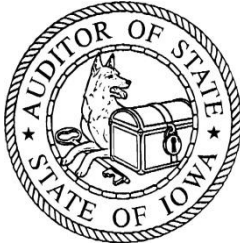
Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing 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) New Accounting Pronouncement

The Region adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the 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**

Heart of Iowa Community Services Region



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA

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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, 2016, and the related Notes to Financial Statement, and have issued our report thereon dated June 19, 2017. 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.

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 were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Region's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

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, 2016 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.


MARY MOSIMAN, CPA
Auditor of State

June 19, 2017

Heart of Iowa Community Services Region

Schedule of Findings

Year ended June 30, 2016

Part II: Finding Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCY:

(A) Segregation of Duties – Approval of Services

Criteria – A good system of internal control provides for adequate segregation of duties between the request for client services and approval of those client services. This segregation helps prevent unauthorized services and transactions.

Condition – For the Audubon, Guthrie and Greene County offices, one individual generally has control over requesting services for clients and approving those services.

Cause – The County offices noted above have a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation between requesting client services and the approval of those services could result in ineligible, duplicate or fictitious transactions.

Recommendation – The Region should establish procedures to ensure the person approving client services is independent of the request for those services.

Response – These procedures were further clarified. The Coordinator of Disability Services for Audubon, Greene and Guthrie counties will input funding requests to be approved by the CEO.

Conclusion – Response accepted.

(B) 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, expenditures, and beginning fund balances 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.

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.

Heart of Iowa Community Services Region

Schedule of Findings

Year ended June 30, 2016

Recommendation – The Region should establish procedures to ensure all receivables and payables are identified and are properly reported in the Region's financial statements. The Region should also 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 – Generally, the annual report is requested whether the information is accurate or not. HICS Region will make a concentrated effort to begin that report earlier in the year to ensure the information is accurate and not turn that report in until the information has all been gathered and is felt to be accurate.

Conclusion – Response accepted.

(C) Mail Receipts

Criteria – An effective internal control system provides for internal controls related to ensuring the proper recording and depositing of all receipts. The independent mail opener should periodically list mail receipts, forward the mail on to the appropriate individual for processing and later trace the mail receipts to proper recording and deposit.

Condition – Although a list of mail receipts was prepared by the mail opener, the list only included case management receipts and not all Region collections were listed. In addition, the list of mail receipts was not compared to recorded and deposited receipts by an independent person.

Cause – Policies have not been established and procedures have not been implemented to require the list of mail receipts include all Region receipts. In addition, someone independent of recording and depositing receipts does not test the listing of mail receipts.

Effect – This condition could result in unrecorded, misstated or misappropriation of receipts.

Recommendation – The list of mail receipts prepared by the mail opener should include all Region receipts.

Response – All receipts are now being logged and reviewed by an additional staff.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Heart of Iowa Community Services Region

Schedule of Findings

Year ended June 30, 2016

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, Board meeting minutes were not published within 20 days following adjournment of the meeting, including a schedule of claims allowed, as required by Chapter 28E.6 of the Code of Iowa. Also, Board meeting minutes were not signed.

Recommendation – The Region should ensure all Board meeting minutes are published within 20 days following the adjournment of the meeting, including a schedule of bills allowed, as required. All Board meeting minutes should be signed to authenticate the actions taken.

Response – The Board is now aware of this issue and will comply.

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) Wellness Center Project – In March 2015, the Region allocated \$551,000 for a wellness center project. The project consists of remodeling a building in Woodward, Iowa, owned by Premier Commercial Services, LLC (Premier), for use as a wellness crisis and transitional living center. The wellness center is part of the Region's Annual Service and Budget Plan and will be operated by Genesis Development, a non-profit organization that provides support for individuals with disabilities. Genesis Development has entered into a lease agreement with Premier to lease the building in Woodward for a period of ten years.

During the year ended June 30, 2016, the Region paid \$290,236 to Genesis Development to complete the wellness center project for a total contribution of \$691,074.

We noted the following regarding this project:

- Chapter 26.2(3) of the Code of Iowa defines a public improvement as “building or construction work which is constructed under the control of a governmental entity and is paid for in whole or in part with funds of the governmental entity, including a building or improvement constructed or operated jointly with any other public or private agency...”
- Chapter 26.3(1) of the Code of Iowa states in part, “If the estimated total cost of a public improvement exceeds the competitive bid threshold established in section 314.1B, the governmental entity shall advertise for sealed bids for the proposed public improvement by publishing notice to bidders.”

Heart of Iowa Community Services Region

Schedule of Findings

Year ended June 30, 2016

- Chapter 26.12 state in part, “If the estimated total cost of a public improvement exceeds the competitive bid threshold in section 26.3, or as adjusted in section 314.1B, the governmental entity shall not enter into a contract for the public improvement until the governmental entity has held a public hearing and has approved the proposed plans, specifications, and form of contract, and estimated total cost of the public improvement.”
- Chapter 26.6 of the Code of Iowa states, “If private funds are offered to a governmental entity for a building or an improvement to be used by the public and such funds are conditioned upon private construction of the building or improvement, this chapter shall not apply to the project if the governmental entity does not contribute any funds to such construction.”

The Region did not hold a public hearing or obtain competitive bids prior to entering into a contract for the wellness center project as required by Chapter 26 of the Code of Iowa.

The Region has not entered into a formal written agreement with Premier Commercial Services, LLC, or Genesis Development establishing the terms and responsibilities of the parties for the portion of remodeling work on Premier’s building funded by the Region.

Recommendation – The Region should consult legal counsel to determine the disposition of these matters. To safeguard the public funds provided for the wellness center project, the Region should enter into a formal written agreement with Premier Commercial Services, LLC and Genesis Development establishing the terms and responsibilities of the three parties with regard to the outlay of public funds for the project. In the future, the Region should comply with the public hearing and competitive bidding procedures of Chapter 26 of the Code of Iowa.

Response – The Region CEO is in the process of working with an attorney to develop a new lease. Also, in the future, should the Region develop a project where the cost will exceed the competitive bid threshold, we will comply with the competitive bid requirements.

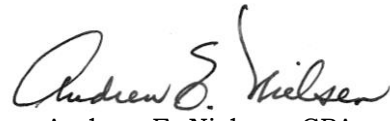
Conclusion – Response accepted.

Heart of Iowa Community Services Region

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Director
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Andrew E. Nielsen, CPA
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