



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE

June 29, 2017

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

The Region had revenues of \$6,624,934 for the year ended June 30, 2016, including \$5,931,914 from property and other county tax, \$465,091 from state tax credits, \$94,267 from operating grants, contributions and restricted interest, \$150 from charges for service and \$133,512 from other general revenues.

Expenditures for the year ended June 30, 2016 totaled \$6,127,178 and included \$5,234,649 for direct services to consumers and \$892,529 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/1614-2359-B00F>.

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**SOUTHWEST IOWA MHDS REGION**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2016**

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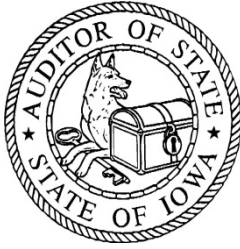
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**Southwest Iowa MHDS Region**

**Regional Governance Board**

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Richard Crouch	Board Chair	Mills County Board of Supervisors
Melvyn Houser	Vice Chair	Pottawattamie County Board of Supervisors
Frank Waters	Board Member	Cass County Board of Supervisors
Randy Hickey	Board Member	Fremont County Board of Supervisors
Russell Kurth	Board Member	Harrison County Board of Supervisors
Brady Hanson	Board Member	Monona County Board of Supervisors
Mark Peterson	Board Member	Montgomery County Board of Supervisors
Elaine Armstrong	Board Member	Page County Board of Supervisors
Steve Kenkel	Board Member	Shelby County Board of Supervisors
Al Ringgenberg	Non-Voting Ex-Officio Board Member	
John Bigelow	Non-Voting Ex-Officio Board Member	
Suzanne Watson	Chief Executive Officer	

**Southwest Iowa MHDS Region**



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Independent Auditor's Report

To the Regional Governance Board of Southwest Iowa MHDS Region:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Southwest Iowa MHDS Region, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise Southwest Iowa MHDS Region's basic financial statements 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 did not audit the Special Revenue, Mental Health Funds of Cass and Shelby Counties, which represent 2.2% and 2.1%, respectively, of the assets, 1.0% and .9%, respectively, of the fund balance and 6.9% and 6.0%, respectively, of the revenues included in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, respectively. Those Special Revenue, Mental Health Funds were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Cass and Shelby Counties, is based solely on the reports of the other auditors. 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 Southwest Iowa MHDS 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 the Governmental Activities*

As discussed in Note 3, management has not recorded a liability for compensated absences in the governmental activities and, accordingly, has not recorded an expense for the current year 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 Southwest Iowa MHDS Region and its employees 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 the governmental activities and, accordingly, has not recorded an expense for the current year change in that liability. U.S. generally accepted accounting principles require the Southwest Iowa MHDS Region's annual OPEB costs based on the annual required contribution of the Southwest Iowa MHDS 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 the governmental activities. The amount by which this departure affects the liabilities, 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 the governmental activities and, accordingly, has not recorded pension expense for the current year 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 the governmental activities. The amount by which this departure affects the deferred outflows of resources, liabilities, deferred inflows of resources, net position and expenses of the governmental activities has not been determined.

### *Adverse Opinion*

In our opinion, because of the significance of the matters described in the "Basis for Adverse Opinions on the 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 Southwest Iowa MHDS Region as of June 30, 2016, or the changes in its financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

### *Unmodified Opinions*

In our opinion, based on our audit and the reports of the other auditors, 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 Southwest Iowa MHDS 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 basic 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 21, 2017 on our consideration of Southwest Iowa MHDS 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 Southwest Iowa MHDS Region's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

June 21, 2017

## **Basic Financial Statements**

Southwest Iowa MHDS Region

Statement of Net Position

June 30, 2016

	Governmental Activities
<b>Assets</b>	
Cash, cash equivalents and pooled investments	\$ 17,619,786
Receivables:	
Property tax:	
Delinquent	13,406
Succeeding year	4,140,000
Accounts	9,020
Due from other governments	94,164
Prepaid expenses	10
	21,876,386
<b>Liabilities</b>	
Accounts payable	464,167
Salaries and benefits payable	31,148
Due to other governments	61,067
	556,382
<b>Deferred Inflows of Resources</b>	
Unavailable property tax revenue	4,140,000
<b>Net Position</b>	
Restricted for mental health purposes	\$ 17,180,004

See notes to financial statements.

**Southwest Iowa MHDS Region**

Southwest Iowa MHDS 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
<b>Governmental activities:</b>				
Mental health	\$ 6,127,178	150	94,267	(6,032,761)
<b>General Revenues:</b>				
Property and other county tax levied for mental health purposes				5,931,914
State tax credits				465,091
Miscellaneous				133,512
Total general revenues				6,530,517
Change in net position				497,756
Net position beginning of year				16,682,248
Net position end of year				\$ 17,180,004

See notes to financial statements.

Southwest Iowa MHDS Region

Balance Sheet

June 30, 2016

	Special Revenue,			
	Fiscal Agent	Cass County	Fremont County	Harrison County
<b>Assets</b>				
Cash, cash equivalents and pooled investments	\$15,254,669	180,291	215,111	87,736
Receivables:				
Property tax:				
Delinquent	-	475	-	612
Succeeding year	-	301,000	151,000	309,000
Accounts	9,020	-	-	-
Due from other members	179,436	-	-	-
Due from other governments	94,164	-	-	-
Prepaid expenditures	-	-	10	-
<b>Total assets</b>	<b>\$15,537,289</b>	<b>481,766</b>	<b>366,121</b>	<b>397,348</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 408,633	-	141	-
Salaries and benefits payable	-	1,524	350	-
Due to other members	-	-	-	-
Due to other governments	61,067	-	-	-
Total liabilities	469,700	1,524	491	-
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	-	301,000	151,000	309,000
Other	10,979	437	-	571
Total deferred inflows of resources	10,979	301,437	151,000	309,571
Fund balances:				
Nonspendable for prepaid expenditures	-	-	10	-
Restricted for mental health purposes	15,056,610	178,805	214,620	87,777
Total fund balances	15,056,610	178,805	214,630	87,777
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$15,537,289</b>	<b>481,766</b>	<b>366,121</b>	<b>397,348</b>

See notes to financial statements.

Mental Health Funds							
Mills County	Monona County	Montgomery County	Page County	Pottawattamie County	Shelby County	Reclassification/ Elimination Entries	Region Total
346,254	59,725	165,393	260,929	858,086	191,592	-	17,619,786
1,238	160	993	1,422	8,371	135	-	13,406
324,000	194,000	223,000	326,000	2,042,000	270,000	-	4,140,000
-	-	-	-	-	-	-	9,020
-	-	-	-	-	-	(179,436)	-
-	-	-	-	-	-	-	94,164
-	-	-	-	-	-	-	10
<u>671,492</u>	<u>253,885</u>	<u>389,386</u>	<u>588,351</u>	<u>2,908,457</u>	<u>461,727</u>	<u>(179,436)</u>	<u>21,876,386</u>
-	-	-	177	15,201	40,015	-	464,167
4,562	-	-	2,068	22,644	-	-	31,148
179,436	-	-	-	-	-	(179,436)	-
-	-	-	-	-	-	-	61,067
<u>183,998</u>	<u>-</u>	<u>-</u>	<u>2,245</u>	<u>37,845</u>	<u>40,015</u>	<u>(179,436)</u>	<u>556,382</u>
324,000	194,000	223,000	326,000	2,042,000	270,000	-	4,140,000
1,232	160	843	1,399	8,122	135	-	23,878
<u>325,232</u>	<u>194,160</u>	<u>223,843</u>	<u>327,399</u>	<u>2,050,122</u>	<u>270,135</u>	<u>-</u>	<u>4,163,878</u>
-	-	-	-	-	-	-	10
162,262	59,725	165,543	258,707	820,490	151,577	-	17,156,116
<u>162,262</u>	<u>59,725</u>	<u>165,543</u>	<u>258,707</u>	<u>820,490</u>	<u>151,577</u>	<u>-</u>	<u>17,156,126</u>
<u>671,492</u>	<u>253,885</u>	<u>389,386</u>	<u>588,351</u>	<u>2,908,457</u>	<u>461,727</u>	<u>(179,436)</u>	

Amounts reported for governmental activities 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.

	23,878
<b>Net position of governmental activities</b>	<u>\$ 17,180,004</u>

Southwest Iowa MHDS Region  
Statement of Revenues, Expenditures and  
Changes in Fund Balances

Year ended June 30, 2016

	Special Revenue,			
	Fiscal Agent	Cass County	Fremont County	Harrison County
Revenues:				
Property and other county tax	\$ -	417,451	216,304	446,963
Intergovernmental revenues:				
State tax credits	-	41,221	20,199	33,536
Payments from member counties	6,086,498	-	-	-
Mental health equalization	-	-	-	-
Social services block grant	-	-	-	-
Other	15,708	-	-	351
Total intergovernmental revenues	6,102,206	41,221	20,199	33,887
Charges for service	-	150	-	-
Use of money and property	11,926	-	-	-
Miscellaneous	37,399	-	-	-
Total revenues	6,151,531	458,822	236,503	480,850
Expenditures:				
Services to persons with:				
Mental illness	3,380,242	14,361	1,565	-
Intellectual disabilities	1,387,484	-	-	-
Other developmental disabilities	74,532	-	-	-
Total direct services to consumers	4,842,258	14,361	1,565	-
General administration:				
Direct administration	40,844	31,772	12,192	-
Purchased administration	198,735	-	-	-
Distribution to MHDS regional fiscal agent	-	471,688	196,286	463,101
Total general administration	239,579	503,460	208,478	463,101
Total mental health, intellectual disabilities and developmental disabilities expenditures	5,081,837	517,821	210,043	463,101
Net change in fund balances	1,069,694	(58,999)	26,460	17,749
Fund balances beginning of year	13,986,916	237,804	188,170	70,028
Fund balances end of year	\$ 15,056,610	178,805	214,630	87,777

See notes to financial statements.



Mental Health Funds							
Mills County	Monona County	Montgomery County	Page County	Pottawattamie County	Shelby County	Reclassification/ Elimination Entries	Region Total
470,601	281,898	321,367	478,310	2,939,735	369,342	-	5,941,971
26,460	22,458	27,743	39,554	229,717	24,203	-	465,091
-	-	-	-	-	-	(6,086,498)	-
-	-	-	12,338	-	-	55,113	67,451
11	-	-	-	42,954	-	-	59,024
26,471	22,458	27,743	51,892	272,671	24,203	(6,031,385)	591,566
-	-	-	-	-	-	-	150
-	-	-	-	-	-	-	11,926
-	-	-	196,447	-	4,933	(105,267)	133,512
497,072	304,356	349,110	726,649	3,212,406	398,478	(6,136,652)	6,679,125
-	177	-	-	376,288	-	-	3,772,633
-	-	-	-	-	-	-	1,387,484
-	-	-	-	-	-	-	74,532
-	177	-	-	376,288	-	-	5,234,649
86,347	-	-	71,949	221,989	207,856	-	672,949
-	-	-	10,845	10,000	-	-	219,580
404,725	300,815	321,464	943,520	2,861,639	228,527	(6,191,765)	-
491,072	300,815	321,464	1,026,314	3,093,628	436,383	(6,191,765)	892,529
491,072	300,992	321,464	1,026,314	3,469,916	436,383	(6,191,765)	6,127,178
6,000	3,364	27,646	(299,665)	(257,510)	(37,905)	55,113	551,947
156,262	56,361	137,897	558,372	1,078,000	189,482	(55,113)	16,604,179
162,262	59,725	165,543	258,707	820,490	151,577	-	17,156,126

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

<b>Change in fund balance</b>	551,947
Amounts reported in the Statement of Activities are different because some revenues will not be collected for several months after year end and, therefore, are not considered available revenues in the governmental funds.	
	(54,191)
<b>Change in net position of governmental activities</b>	<u>\$ 497,756</u>

**Southwest Iowa MHDS Region**

Southwest Iowa MHDS Region

Notes to Financial Statements

June 30, 2016

**(1) Summary of Significant Accounting Policies**

Southwest Iowa MHDS Region is a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa which became effective July 1, 2014. The Region includes the following member counties: Cass, Fremont, Harrison, Mills, Monona, Montgomery, Page, Pottawattamie and Shelby. 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 a 28E organization may lawfully be engaged.

The Regional Governance Board is comprised of at least one Board of Supervisors' member, or their designees, from each member county. The Regional Governance Board also includes one individual who utilizes mental health and disability services or is an actively involved relative of such an individual and one individual representing service providers in the Southwest Iowa MHDS Region service area, both serving in a nonvoting, ex officio capacity.

Southwest Iowa MHDS Region designated Pottawattamie 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, Southwest Iowa MHDS 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 Southwest Iowa MHDS Region are intended to present the financial position and the changes in financial position of Southwest Iowa MHDS Region, which includes funds held by Southwest Iowa MHDS 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, Southwest Iowa MHDS Region has included all funds, organizations, agencies, commissions and authorities. The Southwest Iowa MHDS 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 Southwest Iowa MHDS Region are such that exclusion would cause Southwest Iowa MHDS 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 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 Southwest Iowa MHDS Region. Southwest Iowa MHDS 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 Southwest Iowa MHDS Region.

The Statement of Net Position presents the 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 are 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.

Southwest Iowa MHDS Region reports the following major governmental funds:

Special Revenue:

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

The Mental Health Funds of the individual member counties 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, Southwest Iowa MHDS Region considers revenues to be available if they are collected by Southwest Iowa MHDS Region or a member county 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 Southwest Iowa MHDS Region or a 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, Southwest Iowa MHDS 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 are both restricted and unrestricted net position available to finance the program. It is Southwest Iowa MHDS 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, Southwest Iowa MHDS 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 Southwest Iowa MHDS Region funds are pooled and invested. Interest earned on investments is recorded either by the fiscal agent or a member county Special Revenue, 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 deferred in both the entity-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 from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Due to Other Governments – Due to other governments represents payments for services which will be remitted to other governments.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position which applies to a future year(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measureable, 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 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.

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**

Southwest Iowa MHDS 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.

Southwest Iowa MHDS 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 Southwest Iowa MHDS 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.

Southwest Iowa MHDS 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 Southwest Iowa MHDS Region's Governance Board and each member county Board of Supervisors, Southwest Iowa MHDS Region's Chief Executive Officer, the Coordinators of Disability Services and all support staff of Southwest Iowa MHDS 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 by the Southwest Iowa MHDS Region.

The individual member county employees 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 also 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 in the governmental activities financial statements. Southwest Iowa MHDS Region's governmental activities financial statements do not report these amounts.

**(4) Risk Management**

Southwest Iowa MHDS 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 and 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.

Southwest Iowa MHDS 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. Southwest Iowa MHDS Region's contributions to the Pool for the year ended June 30, 2016 were \$8,844.

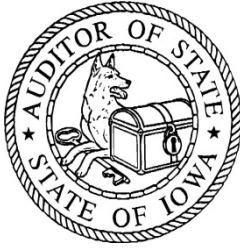
The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by Southwest Iowa MHDS 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 Southwest Iowa MHDS 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 Southwest Iowa MHDS 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 loss was incurred.

Southwest Iowa MHDS 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 Southwest Iowa MHDS 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.





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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 Southwest Iowa MHDS 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 Southwest Iowa MHDS Region as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, and have issued our report thereon dated June 21, 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. Our report includes a reference to other auditors who audited the Special Revenue, Mental Health Funds of Cass and Shelby Counties, as described in our report on Southwest Iowa MHDS Region's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwest Iowa MHDS 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 Southwest Iowa MHDS Region's internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest Iowa MHDS 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 a material weakness and other deficiencies we consider to be significant deficiencies.

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 Southwest Iowa MHDS Region's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

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 of those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (B) and (C) to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Iowa MHDS 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 immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Southwest Iowa MHDS 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 Southwest Iowa MHDS 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.


#### Southwest Iowa MHDS Region's Responses to the Findings

Southwest Iowa MHDS Region's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Southwest Iowa MHDS 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 Southwest Iowa MHDS 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 Southwest Iowa MHDS 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 Southwest Iowa MHDS 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 21, 2017

Southwest Iowa MHDS Region

Schedule of Findings

Year ended June 30, 2016

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Region’s financial statements.

Condition – An independent person is not reconciling the revenue per the Region’s receipt book to the amount remitted for deposit with the fiscal agent.

Cause – The Region has not adopted procedures designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Region’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Region should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response – The Region will implement an Administrative Policy around the reconciliation between the CSN monthly reports and the fiscal agency auditor’s monthly report. The Financial Coordinator will be increasing region hours July 1, so she will be able to take the lead in reconciliation duties as well as review of financial transactions and other financial reports. The Region CEO is ultimately responsible for the region budget and finance, so oversight will continue through her as well as others from the administrative leadership team. These processes, including the documentation of such controls, will be defined no later than August 2017.

Conclusion – Response accepted.

(B) Timely Deposit

Criteria – An effective internal control system provides for internal controls relating to securing receipts in a timely manner.

Condition – Certain receipts tested were not deposited with the fiscal agent timely.

Cause – Policies and procedures have not been established to require timely deposit.

Southwest Iowa MHDS Region

Schedule of Findings

Year ended June 30, 2016

Effect – Lack of policies and procedures to deposit receipts with the fiscal agent in a timely manner could result in the opportunity for misappropriation.

Recommendation – Procedures should be established to require receipts be deposited with the fiscal agent timely.

Response – The Financial Coordinator along with Administrative Assistant have been instructed to deposit all checks within a day of receipt. There is also a plan to securely lock such deposits if they are received at a time where a deposit cannot be made. While the Community Services Department already had such a policy, the policy was not specific to the Region. A policy will be written that describes such procedures by August 2017.

Conclusion – Response accepted.

(C) Cancellation of Invoices

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity's governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

Condition – The Region does not properly cancel paid invoices or other documentation after payment.

Cause – No policies or procedures exist requiring invoices or other supporting documentation be canceled.

Effect – Lack of written policies and procedures to properly cancel paid invoices could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – The Region should adopt procedures to ensure all invoices or other appropriate documentation are canceled to help prevent duplicate payments.

Response – A policy will be established no later than August 2017 to address proper cancellation of paid invoices. Within the CSN system, there are also safeguards to prevent duplication of payment, so this should not occur. The Region has also streamlined the process for payments utilizing fewer staff since the last audit, so this should help prevent any duplicate payments.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Southwest Iowa MHDS Region

Schedule of Findings

Year ended June 30, 2016

**Other Findings Related to Required Statutory Reporting:**

- (1) Southwest Iowa MHDS Minutes – No transactions were found that we believe should have been approved in the Regional Governance Board minutes.

However, the Region did not properly publish the proceedings in accordance with Chapter 28E.6 of the Code of Iowa.

In addition, the Region minutes did not contain sufficient information to indicate the vote of each member present in accordance with Chapter 21.3 of the Code of Iowa.

Recommendation – The Region should ensure all board proceedings and claims are properly published and the minutes contain sufficient information to indicate the vote of each member present, as required.

Response – The Region plans to continue to publish minutes of meetings through use of its website as it is more far reaching and more fiscally responsible than utilizing newspapers throughout the region. We believe this should be updated in the Iowa Code to allow for such website publication. The Region has already changed its procedures for documenting the vote of each member present since the last audit and this is now included and recorded properly in the minutes.

Conclusion – Response acknowledged. The Region should publish meeting minutes in a newspaper of general circulation within the Region, as required by the Code of Iowa.

- (2) Travel Expense – No disbursements of Southwest Iowa MHDS Region money for travel expenses of spouses of Southwest Iowa MHDS 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 Southwest Iowa MHDS Region’s investment policy were noted.

- (4) Questionable Expenditures – An expenditure that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented was noted. The expenditure is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Suzanne Watson	Cookies and water for Local Advisory Committee meeting	<u>\$ 11</u>

Recommendation – According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

The Region Governing Board should determine and document the public purpose served by this expenditure before authorizing any further payments. If this practice is continued, the Region should establish written policies and procedures, including the requirement for proper documentation.

Southwest Iowa MHDS Region

Schedule of Findings

Year ended June 30, 2016

Response – The Governing Board is currently in the process of finalizing a policy and procedure for utilizing public funds on occasions that may call for expenses such as the one cited above.

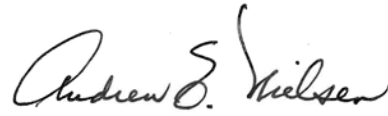
Conclusion – Response accepted.

Southwest Iowa MHDS Region

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Katherine L. Rupp, CPA, Manager  
Adjoa S. Adanledji, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State