



Financial Statements
June 30, 2020

Mental Health Disability Services of the East Central Region

Mental Health Disability Services of the East Central Region

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Mental Health Disability Services of the East Central Region

Regional Governance Board

June 30, 2020

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Wayne Manternach	Chairperson	Jones County Board of Supervisors
Duane Hildebrandt	Vice Chairperson	Bremer County Board of Supervisors
Gary Bierschenk	Board Member	Benton County Board of Supervisors
Pat Heiden	Board Member	Johnson County Board of Supervisors
Gary Gissel	Board Member	Buchanan County Board of Supervisors
Shirley Helmricks	Board Member	Delaware County Board of Supervisors
Ann McDonough	Board Member	Dubuque County Board of Supervisors
John Gahring	Board Member	Iowa County Board of Supervisors
Ben Rogers	Board Member	Linn County Board of Supervisors
Diane Brecht	Non-Voting Ex-Officio Member	
Mae Hingtgen	Chief Executive Officer	



Independent Auditor's Report

The Regional Governance Board
Mental Health Disability Services of the East Central Region
Iowa City, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of the Mental Health Disability Services of the East Central Region (MHDS-ECR), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the MHDS-ECR'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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Special Revenue, Mental Health Funds of Bremer County, Buchanan County, Delaware County, Iowa County, and Jones County, which represent the following:

<u>Member County</u>	<u>Share of Assets</u>	<u>Share of Fund Balance</u>	<u>Share of Revenues</u>
Bremer	3.28%	2.46%	2.09%
Buchanan	3.72%	6.86%	4.77%
Delaware	2.90%	4.44%	8.65%
Iowa	2.72%	4.56%	1.20%
Jones	2.47%	1.56%	6.12%

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 Bremer County, Buchanan County, Delaware County, Iowa County, and Jones County, is based solely on the reports of the other auditors. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 MHDS-ECR'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 MHDS-ECR's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Adverse
Special Revenue, Mental Health Funds:	
Fiscal Agent	Unmodified
Benton County	Unmodified
Bremer County	Unmodified
Buchanan County	Unmodified
Delaware County	Unmodified
Dubuque County	Unmodified
Iowa County	Unmodified
Johnson County	Unmodified
Jones County	Unmodified
Linn County	Unmodified

Basis for Adverse Opinion on Governmental Activities:

As discussed in Note 3 to the financial statements, 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. Accounting principles generally accepted in the United States of America require compensated absences attributable to employee services already rendered and not contingent on a specific event outside the control of MHDS-ECR and 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 the governmental activities. The amount by which this departure affects the liabilities, net position and expenses of the governmental activities has not been determined.

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

In addition, as discussed in Note 3 to the financial statements, 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. Accounting principles generally accepted in the United States of America 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 liabilities, deferred outflows of resources, 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 Opinion on Governmental Activities” paragraphs above, the financial statements referred to above do not present fairly the financial position of the governmental activities of the MHDS-ECR, as of June 30, 2020, or the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major funds of MHDS-ECR, as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 appropriate operational, economic or historical context. Our opinions on the basic financial statements are not affected by this omitted information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MHDS-ECR's basic financial statements. The listing of Regional Governance Board Members of the MHDS-ECR is presented for purposes of additional analysis and is not a required part of the financial statements. The listing of Regional Governance Board Members of the MHDS-ECR has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 16, 2021 on our consideration of the MHDS-ECR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the MHDS-ECR's 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 the MHDS-ECR's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
June 16, 2021

Mental Health Disability Services of the East Central Region

Statement of Net Position

June 30, 2020

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 17,460,575
Receivables	
Property tax	
Delinquent	153,770
Succeeding year	18,455,676
Accounts	13,236
Due from other governments	101,008
Prepaid expenditures	<u>1,243</u>
Total assets	<u>36,185,508</u>
Liabilities	
Accounts payable	\$ 1,759,618
Salaries and benefits payable	89,206
Due to other funds of the member counties	57
Due to other governments	<u>1,405,811</u>
Total liabilities	<u>3,254,692</u>
Deferred Inflows of Resources	
Unavailable property tax revenue	<u>18,455,676</u>
Net Position	
Restricted for mental health purposes	<u><u>\$ 14,475,140</u></u>

Mental Health Disability Services of the East Central Region

Statement of Activities

For the Year Ended June 30, 2020

		Program Revenues		Net (Expense)
			Operating	Revenue
	Expenses	Charges for	Grants,	and Changes
		Services	Contributions	in Net Position
Governmental Activities				
Mental health	<u>\$ 19,805,209</u>	<u>\$ 346,843</u>	<u>\$ 27,516</u>	<u>\$ (19,430,850)</u>
General Revenues				
Property and other county				
tax levied for mental				
health purposes				\$ 6,839,878
State tax credits				452,211
Investment earnings				<u>114,715</u>
Total general revenues				<u>7,406,804</u>
Change in Net Position				(12,024,046)
Net Position, Beginning of Year				<u>26,499,186</u>
Net Position, End of Year				<u><u>\$ 14,475,140</u></u>

Mental Health Disability Services of the East Central Region

Balance Sheet

June 30, 2020

	Special Revenue, Mental Health Funds											
	Fiscal Agent	Benton County	Bremer County	Buchanan County	Delaware County	Dubuque County	Iowa County	Johnson County	Jones County	Linn County	Elimination Entires	Total
Assets												
Cash and pooled investments	\$ 5,782,910	\$ 859,700	\$ 305,145	\$ 922,134	\$ 566,893	\$ 1,696,056	\$ 628,402	\$ 2,199,139	\$ 159,391	\$ 4,340,805	\$ -	\$ 17,460,575
Receivables												
Property tax												
Delinquent	-	9,808	20	1,214	2,851	15,234	4,089	80,354	4,615	35,585	-	153,770
Succeeding year	-	871,963	833,639	327,568	401,000	2,802,271	330,000	4,703,475	654,000	7,531,760	-	18,455,676
Accounts	12,735	-	-	-	-	-	-	10	-	491	-	13,236
Due from other governments	1,911,115	84,089	47,745	96,597	77,440	123,446	21,351	199,921	73,977	155,646	(2,690,319)	101,008
Prepaid expenditures	-	-	1,123	120	-	-	-	-	-	-	-	1,243
Total assets	<u>\$ 7,706,760</u>	<u>\$ 1,825,560</u>	<u>\$ 1,187,672</u>	<u>\$ 1,347,633</u>	<u>\$ 1,048,184</u>	<u>\$ 4,637,007</u>	<u>\$ 983,842</u>	<u>\$ 7,182,899</u>	<u>\$ 891,983</u>	<u>\$ 12,064,287</u>	<u>\$ (2,690,319)</u>	<u>\$ 36,185,508</u>
Liabilities, Deferred Inflows of Resources and Fund Balances												
Liabilities												
Accounts payable	\$ 1,748,348	\$ 6,912	\$ 24	\$ 21,165	\$ 575	\$ 97	\$ 852	\$ 119	\$ 483	\$ 1,143,733	\$ (1,162,690)	\$ 1,759,618
Salaries and benefits payable	-	3,268	3,086	7,928	10,283	15,220	26	28,217	11,841	9,337	-	89,206
Due to other funds of the member counties	-	-	20	37	-	-	-	-	-	-	-	57
Due to other governments	2,282,314	-	221	-	-	10,233	-	640,672	-	-	(1,527,629)	1,405,811
Total liabilities	<u>4,030,662</u>	<u>10,180</u>	<u>3,351</u>	<u>29,130</u>	<u>10,858</u>	<u>25,550</u>	<u>878</u>	<u>669,008</u>	<u>12,324</u>	<u>1,153,070</u>	<u>(2,690,319)</u>	<u>3,254,692</u>
Deferred Inflows of Resources												
Unavailable revenues												
Succeeding year property tax revenue	-	871,963	833,639	327,568	401,000	2,802,271	330,000	4,703,475	654,000	7,531,760	-	18,455,676
Other	611,393	9,184	20	11,501	2,562	12,568	1,813	91,525	3,474	182,875	(733,128)	193,787
Total deferred inflows of resources	<u>611,393</u>	<u>881,147</u>	<u>833,659</u>	<u>339,069</u>	<u>403,562</u>	<u>2,814,839</u>	<u>331,813</u>	<u>4,795,000</u>	<u>657,474</u>	<u>7,714,635</u>	<u>(733,128)</u>	<u>18,649,463</u>
Fund Balances												
Nonspendable for prepaid expenditures	-	-	1,123	120	-	-	-	-	-	-	-	1,243
Restricted for mental health purposes	3,064,705	934,233	349,539	979,314	633,764	1,796,618	651,151	1,718,891	222,185	3,196,582	733,128	14,280,110
Total fund balances	<u>3,064,705</u>	<u>934,233</u>	<u>350,662</u>	<u>979,434</u>	<u>633,764</u>	<u>1,796,618</u>	<u>651,151</u>	<u>1,718,891</u>	<u>222,185</u>	<u>3,196,582</u>	<u>733,128</u>	<u>14,281,353</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,706,760</u>	<u>\$ 1,825,560</u>	<u>\$ 1,187,672</u>	<u>\$ 1,347,633</u>	<u>\$ 1,048,184</u>	<u>\$ 4,637,007</u>	<u>\$ 983,842</u>	<u>\$ 7,182,899</u>	<u>\$ 891,983</u>	<u>\$ 12,064,287</u>		

Long-term assets are not available to pay current year expenditures are recognized as deferred inflows of resources in the governmental funds

193,787

Net position of governmental activities

\$ 14,475,140

See Notes to Financial Statements 9

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

The Mental Health Disability Services of the East Central Region (MHDS-ECR) is a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. MHDS-ECR includes the following member counties: Benton, Bremer, Buchanan, Delaware, Dubuque, Iowa, Johnson, Jones, and Linn. The member counties entered into this 28E agreement on July 1, 2014 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.

MHDS-ECR's Regional Governance Board is comprised of at least one Board of Supervisors' member, or their designee, from each member county. The Regional Governance Board also includes two individuals who utilize mental health and disability services or are actively involved relative of such individual who serve in a nonvoting ex officio capacity.

MHDS-ECR designated Johnson 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 Auditors Report, MHDS-ECR's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The accompanying financial statements are intended to present the financial position and the changes in financial position of MHDS-ECR, which includes funds held by MHDS-ECR'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.

Reporting Entity

For financial reporting purposes, the MHDS-ECR has included all funds, organizations, agencies, boards, commissions, and authorities. The MHDS-ECR 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 MHDS-ECR are such that exclusion would cause the MHDS-ECR's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) 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 MHDS-ECR 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 MHDS-ECR. MHDS-ECR has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the MHDS-ECR. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by property tax, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Position presents MHDS-ECR's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

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

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead 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.

MHDS-ECR reports the following major governmental funds:

Special Revenue:

- The Mental Health Fund (Fiscal Agent) is used to account for the activity of MHDS-ECR not expended directly from the Special Revenue, Mental Health Funds of the other member counties.
- The Special Revenue, Mental Health Funds of the 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.

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, MHDS-ECR considers revenues to be available if they are collected by MHDS-ECR or a member county within 60 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 MHDS-ECR or a member county.

Expenditures are generally 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, MHDS-ECR 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 MHDS-ECR'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, MHDS-ECR's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity

Cash and Pooled Investments- The cash balances of most MHDS-ECR funds are pooled and invested. Interest earned on investments is recorded either by the fiscal agent or in 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 the 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 the 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, the 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 recorded as a deferred inflow of resources in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes 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, 2018, assessed property valuations; is for the tax accrual period July 1, 2019 through June 30, 2020, and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2019.

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 that applies to a future period(s) and so 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 60 days after year end.

Deferred inflows of resources in the Statements of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue 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.

Note 2 - Cash and Investments

At June 30, 2020, the MHDS-ECR's cash and deposits in banks were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The MHDS-ECR 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 MHDS-ECR; 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.

MHDS-ECR has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

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

In accordance with statements of understanding between MHDS-ECR's Regional Governance Board and each individual member county Board of Supervisors, MHDS-ECR's Chief Executive Officer, the Coordinators of Disability Services and all support staff of MHDS-ECR 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 MHDS-ECR.

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. The accounting principles generally accepted in the United States of America 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. For the year ended June 30, 2020, MHDS-ECR's governmental activities financial statements do not report these amounts.

Note 4 - Risk Management

The MHDS-ECR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The MHDS-ECR assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

Note 5 - Contingency

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



Mental Health Disability Services of the East Central Region



**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***

Regional Governance Board
Mental Health Disability Services of the East Central Region
Iowa City, Iowa

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Mental Health Disability Services of the East Central Region (MHDS-ECR) as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise MHDS-ECR's basic financial statements and have issued our report thereon dated June 16, 2021. 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 the other auditors of Bremer County, Buchanan County, Delaware County, Iowa County, and Jones County as described in our report on MHDS-ECR'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 the MHDS-ECR's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MHDS-ECR's internal control. Accordingly, we do not express an opinion on the effectiveness of the MHDS-ECR's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the MHDS-ECR's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2020-001 and 2020-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the MHDS-ECR are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the MHDS-ECR's operations for the year ended June 30, 2020, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the MHDS-ECR and are reported in Part II of the accompanying Schedule of Findings and Responses. 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.

MHDS-ECR's Responses to the Findings

The MHDS-ECR's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The MHDS-ECR'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 result of that testing, and not to provide an opinion on the effectiveness of the MHDS-ECR'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 MHDS-ECR's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dubuque, Iowa
June 16, 2021

Part I: Findings Related to the Financial Statements

Material Weaknesses

2020-001 Material Audit Adjustments

Criteria – A properly designed system of internal control over financial reporting allows entities to initiate, authorize, record, process and report financial data reliably in accordance with generally accepted accounting principles.

Condition – During the course of our engagement, we proposed material audit adjustments to due from other governments and due to other governments. These adjustments were not identified as a result of the MHDS-ECR's internal controls and, therefore, could have resulted in a material misstatement of Mental Health Disabilities of the East Central Region's financial statements.

Cause – There are numerous parties involved in the cash disbursement and collection processes with varying levels of experience with the reporting requirements. This significantly limits the MHDS-ECR's review procedures.

Effect – The effect of this condition was financial data not in accordance with generally accepted accounting principles.

Recommendation – We recommend that the MHDS-ECR implement additional review procedures surrounding receivables, payables, and deferred balances.

Response – The region will look at the current procedures for reviewing receivables, payables, and deferred balances and will look to improve them in the future.

Part I: Findings Related to the Financial Statements (continued):

2020-002 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition – The MHDS-ECR does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes. In conjunction with completion of our audit, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause – The outsourcing of these services is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial statements in accordance with GAAP, including all necessary disclosures, can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the MHDS-ECR. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting.

Recommendation – It is the responsibility of MHDS-ECR management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – The region will review the resources needed to prepare the financial statements in the coming months and if deemed feasible, may attempt to prepare them in the future.

Mental Health Disability Services of the East Central Region

Schedule of Findings and Responses

Year Ended June 30, 2020

Part II: Other Findings Related to Required Statutory Reporting

2020-IA-A Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. However, all five of the Board proceedings which we selected for testing were not published timely as required by Chapter 28E.6 of the Code of Iowa.

Recommendation- The Region should ensure minutes published timely as required by Chapter 28E.6 of the Code of Iowa.

Response- Procedures are now in place to properly sign and publish the minutes on time.

2020-IA-B Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

2020-IA-C Travel Expense – No expenditures of the MHDS-ECR’s money for travel expenses of spouses of MHDS-ECR officials were noted.

2020-IA-D Deposits – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa or with the MHDS-ECR’s internal policies were noted.

2020-IA-E Restricted Donor Activity – No transactions were noted between the Region, Region officials, Region employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.