

EASTERN IOWA MENTAL HEALTH AND DISABILITY SERVICES REGION

ANNUAL FINANCIAL REPORT

As of and for the Year Ended June 30, 2016

Eastern Iowa Mental Health and Disability Services Region

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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Eastern Iowa Mental Health and Disability Services Region
Davenport, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Eastern Iowa Mental Health and Disability Services Region, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Eastern Iowa Mental Health and Disability Services Region's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Mental Health Funds of Cedar County, Clinton County, Jackson County and Muscatine County, which represent 6.8%, 12.5%, 6.6% and 13.5%, respectively, of the assets, 5.1%, 7.2%, 5.6% and 7.2%, respectively, of the fund balance and 9.4%, 20.0%, 9.0% and 23.3%, respectively, of the revenues included in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances, respectively and 39.4%, 25.0% and 62.0%, respectively of the assets, net position, and revenues of the governmental activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mental Health Funds of Cedar County, Clinton County, Jackson County and Muscatine County, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government 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.

Auditors' Responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 over financial reporting relevant to the Eastern Iowa Mental Health and Disability Services Region's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Eastern Iowa Mental Health and Disability Services 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion on the governmental activities financial statements and our unmodified opinion on the governmental funds financial statements.

Basis for Adverse Opinion on Governmental Activities

As discussed on Note 3 to the financial statements, management has not recorded a liability for compensated absences in governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. 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 the employer and employee be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position and change the expenses of governmental activities. The amount by which this departure affects the liabilities, net position and expenses of governmental activities has not been determined.

As discussed on Note 3 to the financial statements, management has not recorded a liability for other postemployment benefits in governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require annual other postemployment benefit costs based on the annual required contribution, an amount actuarially determined in accordance with GASB Statement No. 45, be accrued as liabilities and expenses, which would increase the liabilities, reduce the net position and change the expenses of governmental activities. The amount by which this departure affects the liabilities, net position and expenses of governmental activities has not been determined.

As discussed on 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 governmental activities and, accordingly, has not recorded pension expense for the current period change in that liability, deferred outflows of resources or deferred inflows of resources. 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 governmental activities. The amount by which this departure affects the liabilities, deferred outflow of resources, deferred inflows of resources, net position and expenses of governmental activities has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matters described in the "Basis for Adverse Opinion on Governmental Activities" paragraphs above, the Statement of Net Position and the Statement of Activities of the governmental activities do not present fairly the financial position of the governmental activities of the Eastern Iowa Mental Health and Disability Services Region, as of June 30, 2016, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, based on our audit and the reports of other auditors, the accompanying Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances present fairly, in all material respects, the respective financial position of each major fund of the Eastern Iowa Mental Health and Disability Services Region, Iowa, as of June 30, 2016 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2017 on our consideration of the Eastern Iowa Mental Health and Disability Services Region's internal control over financial reporting and on 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 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 Eastern Iowa Mental Health and Disability Services Region's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
June 13, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Eastern Iowa Mental Health and Disability Services Region

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2016

It is an honor to present to you the financial picture of the Eastern Iowa Mental Health and Disability Services Region. We offer readers of the Region's financial statements this narrative overview and analysis of the financial activities of the Region for the fiscal year ended June 30, 2016.

Financial Highlights

The assets of the Region exceeded its liabilities and deferred inflows of resources as of June 30, 2016 and 2015 by \$12,771,498, and 13,449,115 (net position), respectively. Of this amount, \$12,771,498 and \$13,449,115, respectively, may be used to meet the Region's ongoing obligations to citizens and creditors.

The Region's total net position decreased by \$677,617 during the year June 30, 2016 and increased by \$13,449,115 during the year ended June 30, 2015. Fiscal year 2016 represents the first year of continuing operations, excluding the start up consolidation of the region. During 2015, \$6,953,613 of the balance is a special item, the recognition of beginning fund balance from each member county into the region. Individual fund balances continue to remain with each member county.

As of June 30, 2016, The Region's governmental fund reported combined ending fund balances of \$12,741,856, a decrease of \$674,022. This is due to the Region's first full year of recurring activity excluding the beginning fund balance special item. \$12,736,243 is available for spending at the Region's discretion (unassigned). Expenditures exceeded revenues by \$674,022, as the individual counties began to match tax levy revenues to the adjusted per capita expenditure level within the region format. Property taxes declined \$666,388 from the prior year, while state tax credits increased \$181,234. Prior year funding of state equalization funding, \$4,817,623 and Social Services Block Grant of \$1,589,175 did not repeat in fiscal year 2016. Direct services to consumers increased from \$7,479,938 to \$9,041,761 as the county increased the service level for crisis services. General Administration decreased from \$2,049,840 to \$758,673, as fiscal year 2015 included \$1,372,539 in Medicaid offset funding which did not reoccur in fiscal year 2016.

As of June 30, 2015, the Region's governmental fund reported combined ending fund balances of \$13,415,878, an increase of \$13,415,878. This is because the Region formally began operations on July 1, 2014. \$13,415,878 is available for spending at the Region's discretion (unassigned). Revenues exceeded expenditures by \$6,462,265. The Region's revenues provided for program services, however \$4,817,623 was state equalization funding which will not be provided in future years. Additionally Social Service Block Grant revenue of \$1,589,175 will also not be funded in future years. Direct administration services, \$2,033,840, include \$1,372,539 in Medicaid offset funding that were required to be paid the Iowa Department of Human Services.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the Region's basic financial statements. The Region's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Region.

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

Eastern Iowa Mental Health and Disability Services Region

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2016

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 that are clearly identifiable with a specific function. The Region does not allocate indirect expenses to functions in the statement of activities. 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Region, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Region utilizes governmental fund accounting.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Region maintains one individual governmental fund, with 6 consolidated sub funds representing the region fiscal agent and a sub fund of each member county. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the consolidated fund.

The basic governmental fund financial statements can be found on pages 13 through 14 of this report.

Notes to basic financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Eastern Iowa Mental Health and Disability Services Region

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2016

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Region's total net position has decreased from \$13,449,115 to \$12,771,498. In fiscal year 2015, the activities increased since inception on July 1, 2014 to \$13,449,115.

Of the Region's net position, 100 percent is restricted for mental health.

Table 1 - Eastern Iowa Mental Health and Disability Region's Net Position

	Governmental Activities	
	2016	2015
Current and other assets	\$ 21,937,914	\$ 22,876,468
Total assets	21,937,914	22,876,468
Current liabilities	832,384	1,146,321
Total liabilities	832,384	1,146,321
Deferred inflows of resources	8,334,032	8,281,032
Net position:		
Restricted	12,771,498	13,449,115
Total net position	\$ 12,771,498	\$ 13,449,115

Net position is reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted through enabling legislation for 2016 of \$12,771,498 and 2015 of \$13,449,115 for mental health.

For 2016, \$13,555,038 of the current assets is liquid cash and investments to provide services to residents. \$8,345,222 is property tax receivable from the five member counties. \$8,334,032 of the property tax receivable is intended to fund FY 17 and is not available for FY 16.

For 2015, \$14,171,140 of the current assets is liquid cash and investments to provide services to residents. \$8,296,026 is property tax receivable from the five member counties. \$8,281,032 of the property tax receivable is intended to fund FY 16 and is not available for FY 15.

Eastern Iowa Mental Health and Disability Services Region

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2016

Table 2 highlights the Region's revenues and expenses for the fiscal year ended June 30, 2016 and June 30, 2015. These two main components are subtracted to yield the change in net position. This table utilizes the accrual method of accounting.

Revenue is further divided into two major components: program revenue and general revenue. Program revenue is defined as charges for services and sales and services, operating grants and contributions and capital grants and contributions. General revenue includes taxes, investment income and other unrestricted revenue sources.

Table 2 - Eastern Iowa Mental Health and Disability Services Region's Changes in Net Position

	Governmental Activities	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 81,386	\$ 210,871
Operating grants and contributions	112,177	6,647,367
General revenues:		
Taxes:		
Property taxes	7,836,430	8,539,650
Other taxes	312,893	352,154
State tax replacement credits	729,843	548,609
Investment earnings	13,377	9,763
Miscellaneous	57,332	108,976
Total revenues	9,143,438	16,417,390
Expenses:		
Mental health	9,821,055	9,921,888
Total expenses	9,821,055	9,921,888
Excess (deficiency) before special item	(677,617)	6,495,502
Special Item	-	6,953,613
Increase (decrease) in net position	(677,617)	13,449,115
Net position, beginning	13,449,115	-
Net position, ending	\$ 12,771,498	\$ 13,449,115

Eastern Iowa Mental Health and Disability Services Region

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2016

The Region's total net position decreased by \$677,617 during the fiscal year 2016. Charges for services represented 1% or \$81,386, of activity. 1% or \$112,177 of region resources were provided through operating grants and contributions. 86% or \$7,836,430 are general tax and miscellaneous revenue to support mental health services. 8% of \$729,843 is state tax replacements credits, unrestricted. It is expected that the above funding allocations will reoccur in similar levels in future years.

The Region's total net position increased by \$13,449,115 during the fiscal year 2015. Charges for services represented 1% or \$210,871, of activity. 28% or \$6,467,357 of region resources were provided through operating grants and contributions, however, it is estimated 96% of operating grants, or \$6,406,798, will not reoccur in future fiscal years due to the change in the funding model by the State of Iowa. 41% or \$9,559,152 are general tax and miscellaneous revenue to support mental health services. This funding will continue in future years. 30% or \$6,953,613 of fiscal 2015 activity is from the special item, recognition of beginning fund balance to the Region.

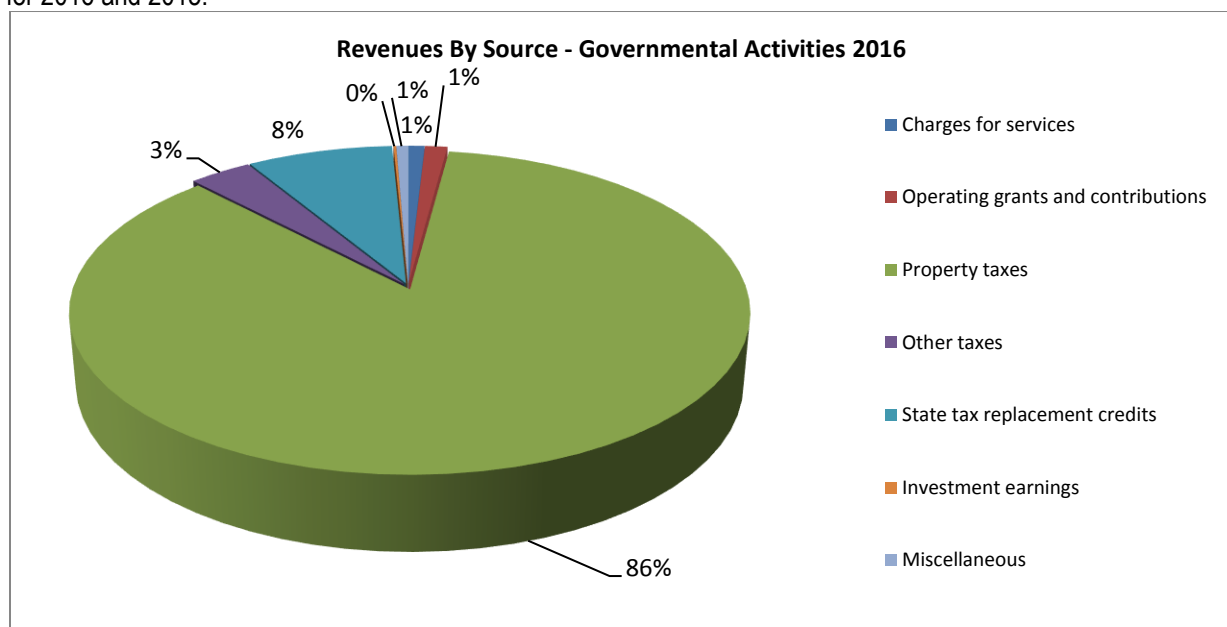
Table 3 below discloses cost of services for governmental activities. The total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Succinctly put, net costs are costs that must be covered by local taxes or other general revenue or transfers.

Table 3 - Eastern Iowa Mental Health and Disability Services's Governmental Activities

Programs	Total Cost of 2016	Total Cost of 2015	Net (Expense) of Services 2016	Net (Expense) of Services 2015
Mental health	\$ 9,821,055	\$ 9,921,888	\$ (9,627,492)	\$ (3,063,650)
Total	\$ 9,821,055	\$ 9,921,888	\$ (9,627,492)	\$ (3,063,650)

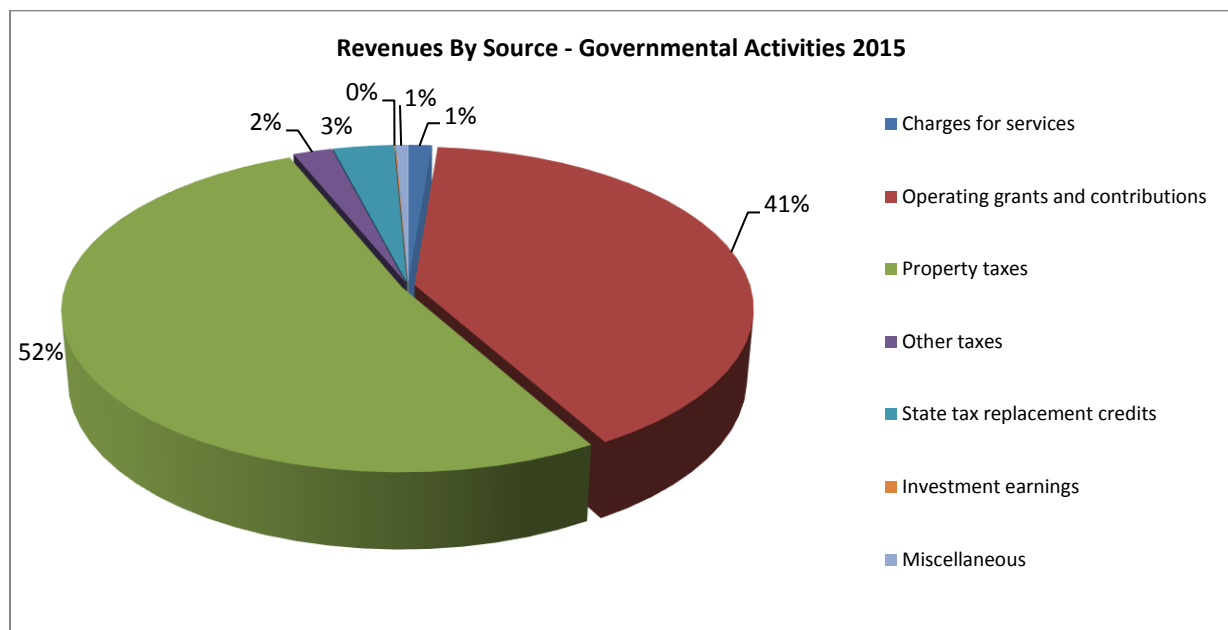
Net cost of services is 99 percent of total cost of services in 2016 and 69 percent of total cost of services in 2015.

The graphs below show the percentage of the total governmental activities revenues allocated by each revenue type for 2016 and 2015.



Eastern Iowa Mental Health and Disability Services Region

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2016



Financial Analysis of the Government's Funds

As noted earlier, the Region of Scott, Iowa uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The Region governmental fund provides the same type of information found in the government-wide financial statements but in more detail. Other factors concerning the finances of these funds have already been addressed in the discussion of the Region's governmental activities.

Economic Factors and Next Year's Budgets and Rates

- The Region primary revenues are derived from property taxes and state credits. All of the counties are capped at the lower of base year expenditures or per capita of \$47.28 for fiscal year 2017. As of May 5, 2017, Senate File 504 was signed into law. The law allows individual counties to recertify the FY 18 budgets to new regional maximum based on the 2015 per capita population and a state wide spending level. Cedar, Clinton, Jackson, and Muscatine Counties will be required to reduce the FY2018 taxing levy to the new maximum, thus reducing the net tax levy of the region by \$1,120,004. The tax levy capacity by these four counties was reduced by \$1,989,500. Scott County is now able to legally raise property taxes an additional \$1,989,500; however, it has chosen not to raise taxes. The region will rely on fund balance for fiscal 2018 to fund the currently planned expenditures.
- Fiscal 2017 will be the third year operating as a mental health region. The Region entered into a contract with a local provider to manage crisis care continuum of services. This contract was renewed for a one year increment of approximately \$2.8 million and began on January 14, 2017.

Eastern Iowa Mental Health and Disability Services Region

Management's Discussion and Analysis (Unaudited) For the Year Ended June 30, 2016

- The new FY 18 maximum levy funding is \$9,254,323, however the fiscal 2018 budget is \$12,646,325, a shortfall of \$3,392,002. It is the intention of the state legislature to require regions to utilize fund balance first with no more than 20% of expenditures plus encumbrances for contracted services within fund balance by fiscal year 2020. It is clearly evident that further legislative changes will be required in the near future, or services will need to be reduced or eliminated. There continues to be a structural deficit spending as currently designed by the state legislature.

All of these factors were considered in preparing the Region's budget for the June 30, 2017 and June 30, 2018 fiscal years.

Requests for Information

These financial statements and discussions are designed to provide our citizens, taxpayers, investors and creditors with a complete disclosure of the Region's finances and to demonstrate a high degree of accountability for the public dollars entrusted to us. If you have questions about this report or need additional information, please write David Farmer, Region Fiscal Agent Administrator, Scott County Administrative Center, 600 West 4th Street, Davenport, Iowa 52801-1003.

BASIC FINANCIAL STATEMENTS

Eastern Iowa Mental Health Disability Services Region

Statement of Net Position

As of June 30, 2016

	Primary Government Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 13,555,038
Receivables:	
Property taxes	8,345,222
Accounts	10,283
Due from other governmental agencies	21,758
Prepays	5,613
Total current assets	21,937,914
 Total assets	 \$ 21,937,914
 Liabilities, Deferred Inflows of Resources, and Net Position	
Liabilities:	
Accounts payable	\$ 701,916
Accrued liabilities	44,191
Due to other governments	86,277
Total liabilities	832,384
Deferred inflows of resources:	
Succeeding year property tax	8,334,032
Total deferred inflows of resources	8,334,032
Net position:	
Restricted for:	
Mental health	12,771,498
Total net position	12,771,498
 Total liabilities, deferred inflows of resources, and net position	 \$ 21,937,914

See Notes to Basic Financial Statements

Eastern Iowa Mental Health Disability Services Region

Statement of Activities

For the year ended June 30, 2016

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government				
Governmental activities:				
Mental health	9,821,055	81,386	112,177	(9,627,492)
Total governmental activities	9,821,055	81,386	112,177	(9,627,492)
General Revenues				
Taxes:				
Property taxes				7,836,430
Other taxes				312,893
State tax replacement credits, unrestricted				729,843
Investment earnings				13,377
Miscellaneous				57,332
Total general revenues				8,949,875
Changes in net position				(677,617)
Net position, beginning of year				13,449,115
Net position, end of year				<u>\$ 12,771,498</u>

See Notes to Basic Financial Statements.

Eastern Iowa Mental Health Disability Services Region

Balance Sheet
Governmental Funds
As of June 30, 2016

	Mental Health Funds		
	Fiscal Agent	Cedar County	Clinton County
Assets			
Cash and investments	\$ 9,181,283	\$ 677,962	\$ 1,147,802
Receivables, net of allowance for uncollectible:			
Property taxes, net of allowance for collection losses	-	815,875	1,592,202
Accounts	-	-	1,915
Due from other governmental agencies	-	-	-
Prepays	5,613	-	-
Total assets	\$ 9,186,896	\$ 1,493,837	\$ 2,741,919
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable	\$ 1,650	\$ 10,903	\$ 158,276
Accrued liabilities	-	1,555	9,089
Due to other governments	-	17,600	65,099
Total liabilities	1,650	30,058	232,464
Deferred inflows of resources:			
Succeeding year property tax	-	815,000	1,579,000
Unavailable revenue	-	829	13,048
Total deferred inflows of resources	-	815,829	1,592,048
Fund balances :			
Nonspendable - Prepays	5,613	-	-
Restricted for mental health purposes	9,179,633	647,950	917,407
Total fund balances	9,185,246	647,950	917,407
Total liabilities, deferred inflows of resources, and fund balances	\$ 9,186,896	\$ 1,493,837	\$ 2,741,919

See Notes to Basic Financial Statements

Mental Health Funds					
Jackson County	Muscatine County	Scott County	Elimination Entries	Total	
\$ 735,633	\$ 1,018,334	\$ 794,024	\$ -	\$ 13,555,038	
715,435	1,905,000	3,316,710	-	8,345,222	
-	8,368	-	-	10,283	
-	21,758	-	-	21,758	
-	-	-	-	5,613	
\$ 1,451,068	\$ 2,953,460	\$ 4,110,734	\$ -	\$ 21,937,914	

\$ 20,440	\$ 101,944	\$ 408,703	\$ -	\$ 701,916	
2,374	5,487	25,686	-	44,191	
1,207	2,371	-	-	86,277	
24,021	109,802	434,389	-	832,384	

715,000	1,917,000	3,308,032	-	8,334,032	
385	7,000	8,380	-	29,642	
715,385	1,924,000	3,316,412	-	8,363,674	

-	-	-	-	5,613	
711,662	919,658	359,933	-	12,736,243	
711,662	919,658	359,933	-	12,741,856	

\$ 1,451,068	\$ 2,953,460	\$ 4,110,734	\$ -		
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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 in the governmental funds.

29,642

Net position of governmental activities

\$ 12,771,498

Eastern Iowa Mental Health Disability Services Region

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2016

	Mental Health Funds		
	Fiscal Agent	Cedar County	Clinton County
Revenues:			
Property taxes	\$ -	\$ 779,814	\$ 1,572,367
Other Tax	-	12,808	106,143
Intergovernmental			
State tax credits	-	65,437	160,524
Payments from regional members	8,241,693	-	-
Other intergovernmental revenues	-	-	-
Total intergovernmental revenues	8,241,693	65,437	160,524
Charges for services	-	-	11,500
Investment earnings	5,499	-	-
Other	-	5,103	-
Total revenues	8,247,192	863,162	1,850,534
Expenditures:			
Services to persons with:			
Mental illness	1,610,400	130,552	1,124,896
Intellectual disability	-	176,887	51,297
Other developmental disabilities	-	18,956	47,535
Brain injury	-	-	4,879
Total direct services to consumers	1,610,400	326,395	1,228,607
Government services to residents			
Direct administration	360	60,367	160,647
Purchased administration	102,102	24,000	-
Fiscal agent reimbursement from member counties	-	455,644	1,657,057
Total general administration	102,462	540,011	1,817,704
County provided services	-	-	-
Total Expenditures	1,712,862	866,406	3,046,311
Excess (deficiency) of revenues over expenditures	6,534,330	(3,244)	(1,195,777)
Fund balances, beginning of year	2,650,916	651,194	2,113,184
Fund balances, end of year	\$ 9,185,246	\$ 647,950	\$ 917,407

See Notes to Basic Financial Statements.

Mental Health Funds					
Muscatine					
Jackson County	County	Scott County	Elimination Entries	Total	
\$ 717,282	\$ 1,740,879	\$ 3,029,683	\$ -	\$ 7,840,025	
14,684	46,229	133,029	-	312,893	
71,669	168,409	263,804	-	729,843	
-	-	-	(8,241,693)	-	
9,396	102,781	-	-	112,177	
81,065	271,190	263,804	(8,241,693)	842,020	
-	67,916	1,970	-	81,386	
-	-	7,878	-	13,377	
13,009	8,218	75,676	(44,674)	57,332	
826,040	2,134,432	3,512,040	(8,286,367)	9,147,033	
107,514	1,031,853	3,385,366	(44,674)	7,345,907	
134,518	408,803	617,020	-	1,388,525	
4,931	70,632	160,094	-	302,148	
302	-	-	-	5,181	
247,265	1,511,288	4,162,480	(44,674)	9,041,761	
83,235	156,451	171,511	-	632,571	
-	-	-	-	126,102	
539,014	1,675,703	3,914,275	(8,241,693)	-	
622,249	1,832,154	4,085,786	(8,241,693)	758,673	
-	-	20,621	-	20,621	
869,514	3,343,442	8,268,887	(8,286,367)	9,821,055	
(43,474)	(1,209,010)	(4,756,847)	-	(674,022)	
755,136	2,128,668	5,116,780	-	13,415,878	
\$ 711,662	\$ 919,658	\$ 359,933	\$ -	\$ 12,741,856	

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

(3,595)

Change in net position of governmental activities

\$ (677,617)

Eastern Iowa Mental Health and Disability Region

Notes to Basic Financial Statements

As of and For the Year Ended June 30, 2016

Note 1. Nature of Operations, Financial Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Significant Accounting Policies

Nature of operations:

The Eastern Iowa Mental Health and Disability Services Region (the "Region") is incorporated and operates under the provisions of the Code of Iowa, as a 28E joint agreement government. The Region includes the following counties: Cedar County, Clinton County, Jackson County, Muscatine County, and Scott County. The member counties entered into this 28E agreement between March 13-25, 2014 by each county to create a mental health and disability service regional administrative entity as described by Chapter 331.389 of the Code of Iowa to provide local access to mental health and disability services for adults and to engage in any other related activity in which an Iowa 28E organization may lawfully be engaged.

The Region governing board is comprised of one board of supervisors' member, from each member county. The governing board also includes one individual who utilizes mental health and disability services or is an actively involved relative of such an individual, serving in a nonvoting, ex officio capacity.

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

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

Financial reporting entity:

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all funds, organizations, agencies, boards, commissions and authorities for which the Region is financially accountable. The Region has also considered all other potential organizations for which the nature and significance of their relationships with the Region are such that exclusion would cause the Region's financial statements to be misleading or incomplete. The primary government is financially accountable if (1) it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, (2) it appoints a voting majority of the organization's governing body and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Certain legally separate, tax exempt organizations should also be reports as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government or its component units, is entitled to, or has the ability to access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by the individual organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Eastern Iowa Mental Health and Disability Region

Notes to Basic Financial Statements

As of and For the Year Ended June 30, 2016

Note 1. Nature of Operations, Financial Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Significant Accounting Policies (Continued)

Component units are reported using one of two methods, discrete presentation or blending. Generally component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the primary government using the blending method if it meets any one of the following criteria: (1) the primary government and the component unit have substantially the same governing body and a financial benefit or burden relationship exists, (2) the primary government and the component unit have substantively the same governing body and management of the primary government has operational responsibility for the component unit, (3) the component unit serves or benefits, exclusively or almost exclusively, the primary government rather than its citizens, or (4) the total debt of the component unit will be paid entirely or almost entirely from the resources of the primary government. There are no entities that qualify as a component unit of the Region.

Basis of presentation:

The Region's basic financial statements consist of government-wide statements including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide financial statements: The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Region.

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

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The Region does not allocate indirect expenses to functions in the statement of activities. 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Separate financial statements are provided for governmental funds. The Region does not have any proprietary or fiduciary activity.

Eastern Iowa Mental Health and Disability Region

Notes to Basic Financial Statements

As of and For the Year Ended June 30, 2016

Note 1. Nature of Operations, Financial Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Significant Accounting Policies (Continued)

Fund financial statements: The accounts of the Region are organized on the basis of major funds. The operations of each fund are accounted for by providing a separate set of self balancing accounts which comprise its assets, liabilities, fund balance, revenues and expenditures, as appropriate.

The Region reports the following major governmental funds:

Special Revenue Funds:

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

Member County Mental Health Funds: Each member county may levy property taxes, receive state tax credits, State Block Grants as well as other revenue activity on their own. Additionally, mental health services may be expended on the local level before any excess fund balance is distributed to the fiscal agent. These funds are individual funds within each county's financial statements. Elimination entries are presented to remove any related activity across member counties or the fiscal agent.

Measurement focus and basis of accounting:

The government-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 taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes are recognized as a receivable at the time an enforceable legal claim is established. This is determined to occur when the budget is certified and approved by the state of Iowa. The current tax levy recognized in revenue was certified by each county in May 2015, based on the 2014 assessed valuations. These taxes are due in two installments, on September 30 and March 31, with a 1.5 percent per month penalty for delinquent payment. All other revenue items are considered to be measurable and available only when cash is received by the Region or member counties.

Eastern Iowa Mental Health and Disability Region

Notes to Basic Financial Statements

As of and For the Year Ended June 30, 2016

Note 1. Nature of Operations, Financial Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Significant Accounting Policies (Continued)

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

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

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

Assets, Liabilities, Deferred Inflows of Resources and Fund Equity/Net Position:

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

Pooled cash and investment account: Separate bank accounts and investments are not maintained for all Region funds, as certain sub funds maintain their cash and investment balances in a pooled account. Accounting records are maintained to show the portion of the pooled account attributable to each participating fund.

Investments: Investments are reported at fair value. Short-term investments are reported at cost which approximates fair value. Securities traded on the national or international exchange are valued at the last reported sales price at current exchange rates.

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

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. All amounts are expected to be collected within one year.

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

Unearned / unavailable revenue: Unearned / unavailable revenues arise from taxes levied in the current year which are for subsequent year's operations. For governmental fund financial statements, unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received before the Region has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Region has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Eastern Iowa Mental Health and Disability Region

Notes to Basic Financial Statements

As of and For the Year Ended June 30, 2016

Note 1. Nature of Operations, Financial Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Significant Accounting Policies (Continued)

Deferred inflows of resources: A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Fund Equity: In accordance with Governmental Accounting Standards Board Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, the County classifies governmental fund balance as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.
- Restricted – Consists of fund balances with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.

The Iowa Code mandates any county fund in excess of 25% of expenditures must remit excess fund balance to the regional fiscal agent level. The Region's governing board has affirmed this position.

Net position: Net position represents the difference between assets, liabilities, deferred outflows of resources, and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Region first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available unless there are legal documents / contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the County would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Budgetary information: The Region did not adopt a budget for the current year.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Eastern Iowa Mental Health and Disability Region

Notes to Basic Financial Statements

As of and For the Year Ended June 30, 2016

Note 2. Deposits and Investments

As of June 30, 2016, the Region's cash and investments were as follows:

Cash on hand and deposits with financial institutions - Fiscal Agent	\$ 9,181,283
Cash on hand and deposits with financial institutions - Member counties	<u>4,373,755</u>
	<u>\$ 13,555,038</u>

The Region follows Scott County, Iowa's Investment Policy as Scott County is the fiscal agent of the region. Individual member county's follow each county's investment policy for their mental health funds.

The Region maintains commingled deposits and investments with the Fiscal Agent and member counties. The custodial credit risk, credit risk, concentration of credit risk, interest rate risk or any other investment risk, as applicable, pertaining specifically to the Region's resources cannot be determined. Please refer to the financial statements of the Fiscal Agent and member counties for information on overall deposit and investment risks.

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

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

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

Note 4. Risk Management and Insurance

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

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COMPLIANCE SECTION

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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*

Independent Auditors' Report

To the Board of Directors
Eastern Iowa Mental Health and Disability Services Region
Davenport, Iowa

We have audited, in accordance with the 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 the governmental activities and each major fund of the Eastern Iowa Mental Health and Disability Services Region, Iowa as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Eastern Iowa Mental Health and Disability Services Region's basic financial statements, and have issued our report thereon dated June 13, 2017. Our report includes an adverse opinion on the financial statements of the governmental activities because of management has not recorded liabilities for compensated absences and other postemployment benefits and the net pension liability, deferred outflows of resources or deferred inflows of resources related to pensions in the governmental activities and, accordingly, has not recorded an expense for the current period change in those liabilities, deferred outflows of resources or deferred inflows of resources. Our report includes a reference to other auditors who audited the financial statements of the Mental Health Funds of Cedar County, Clinton County, Jackson County and Muscatine County, as described in our report on the Eastern Iowa Mental Health and Disability Services 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 the Eastern Iowa Mental Health and Disability Services Region's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Eastern Iowa Mental Health and Disability Services Region's internal control. Accordingly, we do not express an opinion on the effectiveness of the Eastern Iowa Mental Health and Disability Services Region's internal control.

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

To the Board of Directors
Eastern Iowa Mental Health and Disability Services Region

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Eastern Iowa Mental Health and Disability Services Region's financial statements 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 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Eastern Iowa Mental Health and Disability Services Region's operations for the year ended June 30, 2016, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Eastern Iowa Mental Health and Disability Services 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.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Baker Tilly Virchow Krause, LLP". The signature is written in a cursive, flowing style.

Milwaukee, Wisconsin
June 13, 2017

Eastern Iowa Mental Health and Disability Services Region

Schedule of Findings and Responses For the Year Ended June 30, 2016

Other Findings Related to Required Statutory Reporting

2016-I-A Region Minutes

No transactions were found that we believe should have been approved in the Region minutes but were not.

2016-I-B Travel Expense

No disbursements of Region money for travel expenses of spouses of Region officials or employees were noted.

2016-I-C Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and Region's investment policy were noted.

2016-I-D Questionable disbursements

No expenditures were noted that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.