



**Auditor of State
Betty Montgomery**

**MENTAL HEALTH AND RECOVERY BOARD
BELMONT COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Mental Health and Recovery Board
Belmont County
99 North Sugar Street
St. Clairsville, Ohio 43950

To the Members of the Board:

We have audited the accompanying financial statements of the governmental activities and the major fund of the Mental Health and Recovery Board, Belmont County, Ohio (the Board), as of and for the year ended December 31, 2004, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Board prepares financial statements on the basis of cash receipts and disbursements, which is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and major fund of the Mental Health and Recovery Board, Belmont County, Ohio, as of December 31, 2004, and the respective changes in cash basis financial position and the respective budgetary comparison thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

For the year ended December 31, 2004, the Board revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2005, on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Board's basic financial statements. The Federal Awards Expenditures Schedule presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the financial statements. We subjected this schedule to the auditing procedures applied in our audit of the Board's basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 6, 2005

Mental Health and Recovery Board
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The discussion and analysis of the Mental Health and Recovery Board's (the Board) financial performance provides an overall review of the Board's financial activities for the year ended December 31, 2004, within the limitations of the Board's cash basis of accounting. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Board's financial performance.

Financial Highlights

Key financial highlights for the year 2004 are as follows:

- Net assets increased \$253,490.
- General receipts accounted for \$3,414,196 in receipts or 37 percent of all receipts. Program specific receipts in the form of operating grants and contributions accounted for \$5,900,099 or 63 percent of total receipts of \$9,314,295.
- The Board had \$9,060,805 in disbursements related to governmental activities; only \$5,900,099 of these disbursements were offset by program specific operating grants and contributions. General receipts of \$3,414,196 were adequate to provide for these programs.
- The Board's major fund had \$9,314,295 in receipts and \$9,060,805 in disbursements. The cash fund balance increased \$253,490.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Mental Health and Recovery Board as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions on a cash basis of accounting.

The Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis provide information about the activities of the whole Board, presenting both an aggregate view of the Board's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending.

Reporting the Board as a Whole

Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis

While this document contains information used by the Board to provide programs and services for its service area, the view of the Board as a whole looks at all financial transactions and asks the question, "How did we do financially during calendar year 2004?" The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis answer this question. These two statements report the Board's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Board as a whole, the financial position of the Board has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis, all of the Board's activities are considered to be Governmental Activities.

- Governmental Activities – The Board's only program and associated services are reported here.

Mental Health and Recovery Board
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Reporting the Board's Fund Financial Statements

Fund Financial Statements

Fund financial statements provide detailed information about the Board. The Board's activities are reported in the fund financial statements, which focus on how money flows and the balance left at year end available for spending in future periods. These fund financial statements are reported on a cash basis of accounting. The fund financial statements provide a detailed short-term view of the Board's mental health and dependency rehabilitation operations and the services they provide. Governmental information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance mental health and dependency rehabilitation programs.

The Board as a Whole

Recall that the Statement of Net Assets – Cash Basis provides the perspective of the Board as a whole. Table 1 provides a summary of the Board's net assets for 2004 compared to 2003.

Table 1
Net Assets – Cash Basis

| | Governmental Activities | |
|--------------------------|--------------------------------|-------------|
| | 2004 | 2003 |
| Cash Basis Assets | | |
| Cash Equivalents | \$2,137,388 | \$1,883,898 |
| Net Assets | | |
| Unrestricted | 2,137,388 | 1,883,898 |
| Total Net Assets | \$2,137,388 | \$1,883,898 |

Total assets increased \$253,490. The increase is due primarily to an increase in the Federal Medical Assistance Percentage (FMAP) published by the Department of Health and Human Services in the June 17, 2003 Federal Register. This applied to Medicaid claims paid in the last two calendar quarters of Federal Fiscal Year 2003 and the first three calendar quarters of Federal Fiscal Year 2004. In November 2004, the Board received this increased FMAP from the Ohio Department of Alcohol and Drug Addiction Services and the Ohio Department of Mental Health.

Table 2 shows the changes in net assets for the year ended December 31, 2004. Since this is the first year the Mental Health and Recovery Board has prepared financial statements following GASB Statement 34, receipt and disbursement comparisons to year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Mental Health and Recovery Board
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Table 2
Changes in Net Assets

| | Governmental Activities 2004 |
|---|---|
| Receipts | |
| Program Cash Receipts | |
| Operating Grants and Contributions | \$5,900,099 |
| Total Program Cash Receipts | 5,900,099 |
| | |
| General Receipts | |
| Property Taxes Levied for General Purposes | 971,705 |
| Entitlements – Unrestricted | 2,355,274 |
| Other Receipts | 87,217 |
| Total General Receipts | 3,414,196 |
| Total Receipts | 9,314,295 |
| | |
| Disbursements: | |
| Mental Health and Dependency Rehabilitation | 9,060,805 |
| Total Disbursements | 9,060,805 |
| | |
| Change in Net Assets | \$253,490 |

In 2004, 37 percent of the Board's total receipts were from general receipts, consisting mainly of property taxes and unrestricted state entitlements. Program cash receipts accounted for 63 percent of the Board's total receipts in year 2004. These receipts consist primarily of Medicaid and its matching funds, and federal operating grants.

The Statement of Activities – Cash Basis shows the cost of program services and the operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by property tax receipts and unrestricted state entitlements. Comparisons to 2003 have not been made since they are not available.

Table 3
Governmental Activities

| | Total Cost of Services 2004 | Net Cost of Services 2004 |
|--|--|--------------------------------------|
| Mental Health and Dependency Rehabilitation: | | |
| Salaries | \$235,509 | \$235,509 |
| Supplies | 5,867 | 5,867 |
| Equipment | 600 | 600 |
| Contracts – Repairs | 7,219 | 7,219 |
| Contracts – Services | 8,450,863 | 2,550,764 |
| Advertising and Printing | 255 | 255 |
| Travel and Expenses | 14,622 | 14,622 |
| Public Employee's Retirement | 30,623 | 30,623 |
| Worker's Compensation | 3,009 | 3,009 |
| Medicare | 2,586 | 2,586 |
| Other Expenses | 309,652 | 309,652 |
| | | |
| Total Disbursements | \$9,060,805 | \$3,160,706 |

Mental Health and Recovery Board
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The dependence upon state entitlements for governmental activities is apparent as 35 percent of mental health and dependency rehabilitation costs are supported through unrestricted state entitlements and other general receipts.

The Board's Fund Financial Statements

The Board's fund financial statements are accounted for using the cash basis of accounting. The fund financial statements had total receipts of \$9,314,295 and disbursements of \$9,060,805. The financial statements had an increase in the cash balance of \$253,490, mainly due to an increased FMAP.

Budgeting Highlights

The Board's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

During the course of 2004, the Board amended its appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were no significant changes between the original and the final budget.

Economic Factors

The receipts of the Board remain stagnant. The Board contracts with six provider agencies to deliver mental health and substance abuse services to the residents of Belmont, Harrison, and Monroe Counties.

The Board will be challenged to maintain the current level of services and programs due to a stagnant receipts base and ordinary inflation. The Board and its administration must maintain careful financial planning and prudent fiscal management in order to balance the budget annually.

Contacting the Board's Financial Management

This financial report is designed to provide our citizens, taxpayers, and providers with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sandra Kelner, Fiscal Officer, at Mental Health and Recovery Board, 99 North Sugar Street, St. Clairsville, Ohio 43950.

Mental Health and Recovery Board
Statement of Net Assets - Cash Basis
December 31, 2004

| | <u>Governmental Activities</u> |
|-------------------------|------------------------------------|
| Assets | |
| Cash Equivalents | <u>\$2,137,388</u> |
| <i>Total Assets</i> | <u>2,137,388</u> |
| Net Assets | |
| Unrestricted | <u>2,137,388</u> |
| <i>Total Net Assets</i> | <u><u>\$2,137,388</u></u> |

See accompanying notes to the basic financial statements

Mental Health and Recovery Board
Statement of Activities - Cash Basis
For the Year Ended December 31, 2004

| | Cash Disbursements | Program Cash Receipts Operating Grants and Contributions | Net (Disbursements) Receipts and Changes in Net Assets Governmental Activities |
|--|-----------------------|--|---|
| Governmental Activities | | | |
| Mental Health and Dependency Rehabilitation: | | | |
| Salaries | \$235,509 | | (\$235,509) |
| Supplies | 5,867 | | (5,867) |
| Equipment | 600 | | (600) |
| Contracts - Repairs | 7,219 | | (7,219) |
| Contracts - Services | 8,450,863 | 5,900,099 | (2,550,764) |
| Advertising and Printing | 255 | | (255) |
| Travel and Expenses | 14,622 | | (14,622) |
| Public Employee's Retirement | 30,623 | | (30,623) |
| Worker's Compensation | 3,009 | | (3,009) |
| Medicare | 2,586 | | (2,586) |
| Other Expenses | 309,652 | | (309,652) |
| | <u>\$9,060,805</u> | <u>\$5,900,099</u> | <u>(3,160,706)</u> |
| General Receipts | | | |
| Property Taxes Levied for General Purposes | | | 971,705 |
| Entitlements - Unrestricted | | | 2,355,274 |
| Other Receipts | | | 87,217 |
| | | | <u>3,414,196</u> |
| <i>Total General Receipts</i> | | | <u>3,414,196</u> |
| Change in Net Assets | | | 253,490 |
| <i>Net Assets Beginning of Year</i> | | | <u>1,883,898</u> |
| <i>Net Assets End of Year</i> | | | <u>\$2,137,388</u> |

See accompanying notes to the basic financial statements

Mental Health and Recovery Board
Statement of Cash Basis Assets and Cash Basis Fund Balance - Governmental Fund
For the Year Ended December 31, 2004

| | Mental Health and Recovery Fund |
|--------------------------------------|--|
| Cash Basis Assets | |
| Cash Equivalents | \$2,137,388 |
| <i>Total Cash Basis Assets</i> | \$2,137,388 |
| Cash Basis Fund Balance | |
| Reserved for Encumbrances | 109,640 |
| Unreserved, Undesignated | 2,027,748 |
| <i>Total Cash Basis Fund Balance</i> | 2,137,388 |
| <i>Total Cash Basis Fund Balance</i> | \$2,137,388 |

See accompanying notes to the basic financial statements

Mental Health and Recovery Board
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balance
Governmental Fund
For the Year Ended December 31, 2004

| | Mental Health and Recovery Fund |
|--|--|
| Receipts | |
| Taxes | \$971,705 |
| Grants | 8,255,373 |
| Other Receipts | 87,217 |
| <i>Total Cash Receipts</i> | 9,314,295 |
| Disbursements | |
| Current: | |
| Salaries | 235,509 |
| Supplies | 5,867 |
| Equipment | 600 |
| Contracts - Repairs | 7,219 |
| Contracts - Services | 8,450,863 |
| Advertising and Printing | 255 |
| Travel and Expenses | 14,622 |
| Public Employee's Retirement | 30,623 |
| Worker's Compensation | 3,009 |
| Medicare | 2,586 |
| Other Expenses | 309,652 |
| <i>Total Cash Disbursements</i> | 9,060,805 |
| <i>Excess of Cash Receipts Over/(Under) Cash Disbursements</i> | 253,490 |
| <i>Cash Basis Fund Balance Beginning of Year</i> | 1,883,898 |
| <i>Cash Basis Fund Balance End of Year</i> | \$2,137,388 |

See accompanying notes to the basic financial statements

Mental Health and Recovery Board
*Statement of Cash Receipts, Cash Disbursements, and Changes
 In Cash Basis Fund Balance - Budget and Actual (Budget Basis)
 Mental Health and Recovery Fund
 For the Fiscal Year Ended December 31, 2004*

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|---|--------------------|--------------------|--------------------|-------------------------------|
| | Original | Final | | |
| Receipts | | | | |
| Property Taxes | \$860,000 | \$860,000 | \$971,705 | \$111,705 |
| Grants | 5,930,000 | 7,430,000 | 8,255,373 | 825,373 |
| Other Receipts | 10,000 | 10,000 | 87,217 | 77,217 |
| <i>Total Cash Receipts</i> | <u>6,800,000</u> | <u>8,300,000</u> | <u>9,314,295</u> | <u>1,014,295</u> |
| Disbursements | | | | |
| Current: | | | | |
| Salaries | 238,017 | 238,017 | 235,509 | 2,508 |
| Supplies | 6,000 | 11,000 | 7,867 | 3,133 |
| Equipment | 7,500 | 7,500 | 600 | 6,900 |
| Contracts - Repairs | 13,785 | 13,785 | 9,909 | 3,876 |
| Contracts - Services | 8,096,284 | 9,496,284 | 8,550,863 | 945,421 |
| Rentals | 500 | 500 | 0 | 500 |
| Advertising and Printing | 1,750 | 1,750 | 255 | 1,495 |
| Travel and Expenses | 19,000 | 19,000 | 18,122 | 878 |
| Public Employee's Retirement | 32,252 | 32,252 | 30,623 | 1,629 |
| Worker's Compensation | 3,500 | 3,500 | 3,009 | 491 |
| Unemployment Compensation | 1,000 | 1,000 | 0 | 1,000 |
| Medicare | 2,633 | 2,633 | 2,586 | 47 |
| Other Expenses | 240,333 | 335,333 | 311,102 | 24,231 |
| <i>Total Cash Disbursements</i> | <u>8,662,554</u> | <u>10,162,554</u> | <u>9,170,445</u> | <u>992,109</u> |
| Excess of Cash Receipts Over/(Under) Cash Disbursements | <u>(1,862,554)</u> | <u>(1,862,554)</u> | <u>143,850</u> | <u>2,006,404</u> |
| <i>Cash Fund Balance Beginning of Year</i> | 1,684,295 | 1,684,295 | 1,684,295 | 0 |
| Prior Year Encumbrances Appropriated | 199,603 | 199,603 | 199,603 | 0 |
| <i>Cash Fund Balance End of Year</i> | <u>\$21,344</u> | <u>\$21,344</u> | <u>\$2,027,748</u> | <u>\$2,006,404</u> |

See accompanying notes to the basic financial statements

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Mental Health and Recovery Board
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2004

Note 1 - Description of the Reporting Entity

The Mental Health and Recovery Board, Belmont County (the Board), is a body politic and corporate established to exercise the rights and privileges the constitution and laws of the State of Ohio convey to it.

The Board is directed by an eighteen-member Board. Members shall be residents of the district. The Director of the Ohio Department of Mental Health shall appoint four members, the Director of the Ohio Department of Alcohol and Drug Addiction Services shall appoint four members, and the remaining ten members shall be appointed by the County Commissioners of Belmont, Harrison, and Monroe counties proportionate to population. The Board provides alcohol, drug addiction, and mental health services and programs to citizens of the Board area. These services are provided primarily through contracts with not-for-profit agencies.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations included ensuring that the basic financial statements are not misleading. The primary government of the Board consists of all funds, departments, boards and agencies that are not legally separate from the Board.

Component units are legally separate organizations for which the Board is financially accountable. Component units may also include organizations that are fiscally dependent on the Board in that the Board approves their budget, the issuance of their debt or the levying of their taxes.

Note 2 - Summary of Significant Accounting Policies

These financial statements and notes are presented on a cash basis of accounting. The Board recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Government Accounting Standards Board (GASB) pronouncements.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

A. Fund Accounting

The Board uses a special revenue fund to report its financial position and results of operation of operations. The special revenue fund is an independent fiscal and accounting entity with a self-balancing set of accounts. The special revenue fund is established to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

B. Basis of Presentation

The Board's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and Governmental Fund financial statements providing more detailed financial information.

Government-wide Financial Statements: The Statement of Net Assets presents the financial condition of the governmental activities of the Board at year-end. The Statement of Activities compares disbursements with program receipts for each function or program of the Board. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Board is responsible. The Board only has one function, Mental Health and Dependency Rehabilitation with associated objects. Program receipts include grants and contributions restricted to meeting the operational

Mental Health and Recovery Board
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2004

requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of disbursements with program receipts identifies the extent to which the function is self-financing on the cash basis or draws from the Board's general receipts.

Fund Financial Statements: Fund financial statements report more detailed information about the Board. The focus of governmental fund financial statements is on major funds. Fund statements present each major fund in a separate column.

C. Basis of Accounting

The Government-wide Statement of Net Assets and Statement of Activities and the Fund Financial Statements are presented using the cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, receipts, and disbursements when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the cash basis of accounting, certain assets and their related receipts and certain liabilities and their disbursements are not recorded in these financial statements. If the Board utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting.

D. Cash, Cash Equivalents and Investments

As required by Ohio Revised Code, the Belmont County Treasurer is custodian for the Board's cash. The Board's cash is held in the County's cash and investment pool, and is valued at the County Treasurer's carrying amount.

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less. The Board values investments and cash equivalents at cost.

D. Fund Balance Reserves

The Board reserves those portions of fund balance which are legally segregated for a specific future use or which are not available for appropriation or expenditure. Fund reserves have been established for encumbrances.

E. Budgetary Data

Ohio law requires all funds, other than agency funds, to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board uses the function as its legal level of control.

The certificate of estimated resources may be amended during the year if the Board fiscal officer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

Mental Health and Recovery Board
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2004

The Board may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

Note 3 – Change in Format

The Board has adopted a new financial statement format prescribed by GASB Statement No. 34 and the related disclosures.

Note 4 - Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board adopts rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Grants. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Board.

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Board.

Note 5- Deposits and Investments

Ohio law restricts deposits and investments to the following:

1. Commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts;
2. Money market deposits;
3. Savings accounts or certificates of deposit;
4. United States Treasury securities, or securities of its agencies or instrumentalities the federal government guarantees;
5. No-load money market mutual funds consisting exclusively of obligations described in (4) above and repurchase agreements secured by such obligations;
6. Bonds and obligations of the State of Ohio or Ohio local governments;
7. The State Treasurer's investment pool (STAROhio, a Rule 2-a7-like pool);
8. Certain bankers' acceptances and commercial paper notes;
9. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

An investment must mature within five years from the purchase date unless matched to a specific obligation or debt of the Board and must be purchased with the expectation it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits. The Belmont County Treasurer serves as the fiscal agent for the Board and the investments of the County funds, including the Board's cash. The Board maintains no control over the investment of its cash. At year-end, the carrying amount of the Board's deposits was \$2,137,388.

The Board's deposits maintained by the Belmont County Treasurer are either insured by the Federal Deposit

Mental Health and Recovery Board
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2004

Insurance Corporation or were considered collateralized by securities held by the pledging institutions' trust departments in Belmont County's name and all State statutory requirements for the deposit of money had been followed.

Note 6 - Risk Management

Commercial Insurance

The Board has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Errors and omissions.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Board participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional pension plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6701 or 800-222-7377.

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Board's contribution rate for pension benefits for 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

Note 8- Postemployment Benefits

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional pension or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of

Mental Health and Recovery Board
Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2004

return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional pension and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$191,134. Actual contribution and actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Note 9 - Contingencies

A. Grants

The Board receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the special revenue fund. However, in the opinion of management, any such disallowed claims could have a material adverse effect on the overall financial position of the Board at December 31, 2004.

B. Litigation

The Board is a defendant in a lawsuit. Although management cannot presently determine the outcome of this suit, counsel believes the resolution of this matter will not materially affect the Board's financial condition.

The Board management is of the opinion that ultimate disposition of these claims will not have a material effect on the financial condition of the Board.

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**MENTAL HEALTH AND RECOVERY BOARD
BELMONT COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2004**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Pass Through Entity Number | Federal CFDA Number | Disbursements |
|---|----------------------------------|---------------------------|----------------------------|
| U.S. DEPARTMENT OF EDUCATION: | | | |
| <i>Passed Through Ohio Department of Alcohol and Drug Addiction Services</i> | | | |
| Safe and Drug-Free Schools and Communities - State Grants | COME-ADA-WP03MM | 84.186B | \$ 4,190 |
| | COME-ADA-WP041Z | 84.186B | <u>82,175</u> |
| Total Safe and Drug-Free Schools and Communities - State Grants | | | <u>86,365</u> |
| Total U.S. Department of Education | | | <u>86,365</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| <i>Passed Through Ohio Department of Mental Health Services:</i> | | | |
| Social Services Block Grant (Title XX) | N/A - FY04 | 93.667 | 77,415 |
| | N/A - FY05 | 93.667 | <u>25,805</u> |
| Total Social Services Block Grant (Title XX) | | | 103,220 |
| Medical Assistance Program (Title XIX) | N/A | 93.778 | 2,867,594 |
| Block Grants for Community Mental Health Services: | | | |
| Community Plan Block Grant | N/A - FY04 | 93.958 | 50,698 |
| | N/A - FY05 | 93.958 | <u>16,899</u> |
| Total Community Plan Block Grant | | | 67,597 |
| Children/Adolescent Block Grant Core | N/A - FY04 | 93.958 | 22,391 |
| | N/A - FY05 | 93.958 | <u>14,927</u> |
| Total Children/Adolescent Block Grant Core | | | 37,318 |
| Rapid Infusion Block Grant | N/A | 93.958 | <u>500</u> |
| Total Block Grants for Community Mental Health Services | | | <u>105,415</u> |
| <i>Total Passed Through Ohio Department of Mental Health Services</i> | | | <u>3,076,229</u> |
| <i>Passed Through Ohio Department of Alcohol and Drug Addiction Services:</i> | | | |
| Substance Abuse and Mental Health Services - Projects of Regional and National Significance | COME-ADA-WP03JL | 93.243 | 94,083 |
| Medical Assistance Program (Title XIX) | N/A | 93.778 | 254,724 |
| Block Grants for Prevention and Treatment of Substance Abuse: | | | |
| Substance Abuse Prevention Treatment Block Grant | COME-ADA-WP03KO | 93.959 | 160,577 |
| | COME-ADAW-P041Z | 93.959 | <u>153,491</u> |
| Total Substance Abuse Prevention Treatment Block Grant | | | 314,068 |
| Residential Treatment for Women | COME-ADA-WP03KO | 93.959 | 123,545 |
| | COME-ADA-WP041Z | 93.959 | <u>122,910</u> |
| Total Residential Treatment for Women | | | <u>246,455</u> |
| Total Block Grants for Prevention and Treatment of Substance Abuse | | | <u>560,523</u> |
| <i>Total Passed Through Ohio Department of Alcohol and Drug Addiction Services</i> | | | <u>909,330</u> |
| Total U.S. Department of Health and Human Services | | | <u>3,985,559</u> |
| Total Federal Awards Expenditures | | | <u>\$ 4,071,924</u> |

The accompanying Notes to the Federal Awards Expenditures Schedule is an integral part of this Schedule.

**MENTAL HEALTH AND RECOVERY BOARD
BELMONT COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Board's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – SUBRECIPIENTS

The Board passes-through certain Federal assistance received from the Ohio Department of Mental Health and the Ohio Department of Alcohol and Drug Addiction Services to not-for-profit agencies (subrecipients). As described in Note A, the Board records expenditures of Federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under Federal Circular A-133, the Board is responsible for monitoring subrecipients to help assure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved.

NOTE C – MATCHING REQUIREMENTS

Certain Federal programs require that the Board contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Board has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Mental Health and Recovery Board
Belmont County
99 North Sugar Street
St. Clairsville, Ohio 43950

To the Members of the Board:

We have audited the financial statements of the governmental activities and the major fund of the Mental Health and Recovery Board, Belmont County, Ohio (the Board), as of and for the year ended December 31, 2004, which collectively comprise the Board's basic financial statements and have issued our report thereon dated June 6, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Board's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Mental Health and Recovery Board
Belmont County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 6, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mental Health and Recovery Board
Belmont County
99 North Sugar Street
St. Clairsville, Ohio 43950

To the Members of the Board:

Compliance

We have audited the compliance of the Mental Health and Recovery Board, Belmont County, Ohio (the Board) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to its major federal program for the year ended December 31, 2004. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Board's major federal program. The Board's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The Board's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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www.auditor.state.oh.us

Mental Health and Recovery Board
Belmont County
Independent Accountants' Report on Compliance with Requirements
Applicable to the Major Federal Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 6, 2005

**MENTAL HEALTH AND RECOVERY BOARD
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|--|---|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Medical Assistance Program (Medicaid: Title XIX) CFDA #93.778 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | Yes |

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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MENTAL HEALTH AND RECOVERY BOARD

BELMONT COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 5, 2005**