



Mary Taylor, CPA
Auditor of State

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

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Mary Taylor, CPA

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INDEPENDENT ACCOUNTANTS' REPORT

Mental Health and Recovery Services Board of
Allen, Auglaize and Hardin Counties
1541 Allentown Road, Suite B
Lima, Ohio 45805

To the Board of Directors:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mental Health and Recovery Services Board of Allen, Auglaize and Hardin Counties, (the Board), as of and for the year ended December 31, 2006, 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 an opinion 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 opinion.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mental Health and Recovery Services Board of Allen, Auglaize and Hardin Counties, as of December 31, 2006, and the respective changes in cash financial position and the respective budgetary comparisons for the General, Community Mental Health Services State, Mental Health Systems State, and Medicaid Mental Health funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007, 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* requires presenting a schedule of federal awards expenditures. The schedule is not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures schedule to the auditing procedures applied in the audit of the 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

October 31, 2007

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

As management of the Mental Health and Recovery Services Board of Allen, Auglaize and Hardin Counties (the Board), we are providing this overview of the Board's financial activities for the year ended December 31, 2006. Please read this overview in conjunction with the Board's basic financial statements, which follow.

The Board is included within the Allen County Annual Financial Report as an agency fund. The Board uses its general fund to report its financial position and results of operations. We believe these financial statements present all activities for which the Board is financially responsible.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2006 are as follows:

- Net assets increased \$83,964. This was due in part to an increase in operating and capital grants as well as an increase in property tax receipts.
- General tax receipts accounted for \$1,548,260 in receipts or 15 percent of all receipts. Program specific receipts in the form of charges for services, grants and contributions accounted for \$8,467,561 or 83 percent of total receipts of \$10,257,579.
- The Board had \$10,173,615 in disbursements related to governmental activities; only \$8,467,561 of these disbursements was offset by program specific grants and contributions. General receipts of \$1,790,018 were adequate to provide for these programs.
- As of the close of 2006, the Board's governmental funds reported combined ending fund balances of \$4,400,518
- At the close of the 2006, unrestricted fund balance was \$2,390,706.
- As of the close of 2006, the Board had accumulated deposit amounts totaling \$4,400,518.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Board's cash basis of accounting.

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 Board as a financial whole or as 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 assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Board has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Board's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE BOARD AS A WHOLE

The statement of net assets and the statement of activities reflect how the Board did financially during 2006, within the limitations of the cash basis of accounting. The Statement of Net Assets – Cash Basis presents the cash balances of the governmental activities of the Board at year end. The Statement of Activities – Cash Basis compares disbursements with program receipts for each governmental activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of disbursements with program receipts identifies how each governmental function draws from the Board's general receipts.

These statements report the Board's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Board's financial health. Over time, increases or decreases in the Board's cash position is one indicator of whether the Board's financial health is improving or deteriorating. When evaluating the Board's financial condition, you should also consider other nonfinancial factors as well such as the Board's property tax base, the condition of the Board's capital assets, the reliance on non-local financial resources for operations and the need for continued growth.

In the Statement of Assets and Fund Balances – Cash Basis and the Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances – Cash Basis, the Board's major programs are reported. Charges for services and state and federal grants finance most of these activities. To a significant extent, benefits provided through the governmental activities are being paid for by the people receiving them.

REPORTING THE BOARD'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial statements provide detailed information about the Board's major funds – not the Board as a whole. The Board establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. All of the operating funds of the Board are governmental.

Governmental Funds

The Board's activities are reported in governmental funds. The governmental fund financial statements provide a detailed short-term view of the Board's governmental operations and the services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Board's service programs.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The Board's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column.

The Board's major governmental funds are the General Fund, Mental Health Systems State Fund, Community Mental Health Services State Fund, and the Medicaid Mental Health Fund. The programs reported in the governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

The Board maintains 29 individual governmental funds. 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 all four major funds. The basic governmental fund financial statements can be found starting on page 11 of this report.

Notes To The 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. The notes to the financial statements can be found starting on page 17 of this report.

THE BOARD AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the Board as a whole. Table 1, below, provides a summary of the Board's net assets for 2006 compared to 2005.

**Table 1
Net Assets – Cash Basis**

	Governmental Activities	
	2006	2005
Assets		
Equity in Pooled Cash and Cash Equivalents	\$4,400,518	\$4,316,554
Net Assets		
Designated for Contract Commitments	\$1,661,060	
Restricted for:		\$ 945,159
Other Purposes	293,486	111,978
Capital Outlay	55,266	749,948
Unrestricted	2,390,706	2,509,469
Total Net Assets	\$4,400,518	\$4,316,554

Total assets increased \$83,964.

Table 2 shows the changes in net assets for the year ended December 31, 2006.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

**Table 2
Changes in Net Assets**

	Governmental Activities	
	2006	2005
Receipts		
Program Cash Receipts		
Operating Grants and Contributions	\$8,133,916	\$8,035,364
Capital Grants	270,000	
Charges for Services	63,645	57,382
Total Program Cash Receipts	8,467,561	8,092,746
General Receipts		
Property Taxes	1,548,260	1,045,421
Intergovernmental	125,109	112,755
Contributions	7,563	
Other Receipts	109,086	88,774
Total General Receipts	1,790,018	1,246,950
Total Receipts	10,257,579	9,339,696
Disbursements		
General Government	1,721,001	481,340
Health Services	8,308,793	8,470,840
Employee Benefits	143,821	116,139
Total Disbursements	10,173,615	9,068,319
Change in Net Assets	83,964	271,377
Net Assets Beginning of Year	4,316,554	4,045,177
Net Assets End of Year	\$4,400,518	\$4,316,554

In 2006, 17 percent of the Board's total receipts were from general receipts which consist mainly of property taxes and intergovernmental revenue. Program cash receipts accounted for 83 percent of the Board's total receipts in year 2006. In 2005, 13 percent of the Board's total receipts were from general receipts which consist mainly of property taxes and intergovernmental revenue. Program cash receipts accounted for 87 percent of the Board's total receipts in year 2005. Medicaid and its matching funds, federal operating grants, and state funds awarded for specific programs or purposes primarily make up these receipts.

Total Cost versus Net Cost of Services

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. The "net cost" amount represents the cost of those services supported by property tax receipts and intergovernmental revenues. Comparisons to 2005 have been presented.

Table 3

Functions/Program	2006 Total Cost of Services	2006 Net Cost of Services	2005 Total Cost of Services	2005 Net Cost of Services
Governmental Activities:				
Health Services	\$8,308,793	\$1,006,544	\$8,470,840	\$874,991
General Government	1,721,001	699,510	481,340	100,582
Employee Benefits	143,821		116,139	
Total Governmental Activities	<u>\$10,173,615</u>	<u>\$1,706,054</u>	<u>\$9,068,319</u>	<u>\$975,573</u>

The Board's reliance upon intergovernmental revenues, property tax receipts, and other general revenues is apparent as 17 percent of governmental activities are supported through general receipts for 2006.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

THE BOARD'S FUNDS

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

As of the end of 2006, the Board's governmental funds reported combined ending fund balances of \$4,400,518, an increase of \$83,964.

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2006:

	Fund Balance 12/31/2006	Fund Balance 12/31/2005	Increase (Decrease)
General	\$4,490,886	\$3,634,891	\$855,995
Mental Health State Fund	38,953	6,274	32,679
Community Mental Health State Fund	(250,858)	4,862	(255,720)
Medicaid Mental Health	(188,262)	(180,263)	(7,999)
Other Governmental	309,799	850,790	(540,991)
Total	<u>\$4,400,518</u>	<u>\$4,316,554</u>	<u>\$83,964</u>

The general fund is the chief operating fund of The Board. The remaining fund balances of the Special Revenue funds will be paid to provider and other governmental agencies once requests for reimbursement are submitted.

GENERAL FUND BUDGETARY INFORMATION

The Board's budget is prepared in accordance with Ohio law and is based on the budgetary basis of accounting, utilizing cash receipts, disbursements and encumbrances.

During the course of 2006, The Board amended its general fund budget throughout the year. For the general fund, original budgeted receipts were \$1,632,657 and final budgeted receipts were \$1,665,155. Actual receipts for fiscal year 2006 were \$1,827,769. This represents a \$162,614 increase over final budgeted receipts.

General fund final appropriations (appropriated expenditures) of \$2,615,209 were amended during 2006. The actual budget basis expenditures 2006 totaled \$971,774, which was \$1,643,435 less than the final budget appropriations.

CAPITAL RENOVATIONS

The Board has been awarded Capital funding in the form of two grants directly from the Ohio Department of Mental Health for property renovations in Kenton and St. Mary's in the amount of \$150,000 per facility. The amount of \$270,000 of these funds was received during 2006.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

CONDITIONS EXPECTED TO AFFECT FUTURE OPERATIONS

Changes in the insurance market will accelerate the shift costs from the private to public market, which will increase demand for services, and change consumer expectations for types of services.

An increase in the proportion of consumers who are Medicaid eligible will continue to require payments for services that are not optional and may increase the number of contract agencies who are targeting Medicaid consumers. This would impact the availability of funding for non-Medicaid consumers.

Current tax reform legislation introduced by the Governor's Office and being considered by the General Assembly may negatively impact future levy collections. Specifically revenues received from the tangible personal property tax may be reduced materially impacting revenues.

The Board passed a replacement tax levy in May of 2005. Collections on this levy are estimated to increase by \$500,000 and have begun as of February 2006.

The demand for services is expected to increase in terms of quality and complexity, while resources may decrease. In addition, expectations of new and emerging populations may increase the need for additional culturally competent services.

Discretionary revenues are expected to diminish over the next few years. The Board will be challenged to maintain current levels of service and programs, but will attempt to do so through the most efficient uses of financial resources possible.

The uncertainty surrounding the economy may have an impact on our community and the demand for services.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide an overview of Board's finances and it's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Chris W. Karcz, CPA, Chief Financial Officer, Mental Health and Recovery Services Board of Allen, Auglaize and Hardin Counties, 1541 Allentown Rd., Suite B, Lima, OH 45805.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE, AND HARDIN COUNTIES
ALLEN COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2006**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$4,400,518
Total Assets	4,400,518
Net Assets	
Designated for Contract Commitments	1,661,060
Restricted for:	
Other Purposes	293,486
Capital Outlay	55,266
Unrestricted	2,390,706
Total Net Assets	\$4,400,518

See accompanying notes to the basic financial statements.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE, AND HARDIN COUNTIES
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Functions/Programs</u>	<u>Expenditures</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants/ Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
Health Services:					
Contract - Services	\$8,308,793	\$63,645	\$7,238,604		(\$1,006,544)
General Government:					
Salaries	309,316		309,316		
Advertising and Printing	35,634		35,634		
Professional Services	156,851		156,851		
Supplies	9,150		9,150		
Postage and Shipping	3,930		3,930		
Communications	12,914		12,914		
Dues	17,466		17,466		
Rentals	34,633		34,633		
Utilities	18,290		18,290		
Maintenance	12,908		12,908		
Insurance	11,623		11,623		
Travel and Training	21,916		21,916		
Buildings/Equipment	971,255		1,745	\$270,000	(699,510)
Other	105,115		105,115		
Employee Benefits:					
Public Employee's Retirement	69,438		69,438		
Health Insurance	6,449		6,449		
Life Insurance	59,389		59,389		
Medicare	4,467		4,467		
Workers' Compensation	4,078		4,078		
Total Governmental Activities	\$10,173,615	\$63,645	\$8,133,916	\$270,000	(1,706,054)
General Revenues:					
					1,548,260
					125,109
					7,563
					109,086
					<u>1,790,018</u>
					83,964
					<u>4,316,554</u>
					<u>\$4,400,518</u>

See accompanying notes to the basic financial statements.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE, AND HARDIN COUNTIES
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	Governmental Fund Types				Total Governmental Funds	
	General	Mental Health Systems	Community Mental Health Services	Medicaid Mental Health		Other Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$4,490,886	\$38,953	(\$250,858)	(\$188,262)	\$309,799	\$4,400,518
Total Assets	<u>4,490,886</u>	<u>38,953</u>	<u>(250,858)</u>	<u>(188,262)</u>	<u>309,799</u>	<u>4,400,518</u>
Liabilities and Fund Balance						
Designated for Contract Commitments	1,661,060					1,661,060
Reserve for Encumbrances			53,891		54,341	108,232
Reported In:						
General Fund	2,829,826					2,829,826
Special Revenue Funds		38,953	(304,749)	(188,262)	200,192	(253,866)
Capital Project Fund					55,266	55,266
Total Fund Balances	<u>\$4,490,886</u>	<u>\$38,953</u>	<u>(\$250,858)</u>	<u>(\$188,262)</u>	<u>\$309,799</u>	<u>\$4,400,518</u>

See accompanying notes to the basic financial statements.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE, AND HARDIN COUNTIES
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Fund Types					Totals (Memorandum Only)
	General	Mental Health Systems	Community Mental Health Services	Medicaid Mental Health	Other Governmental Funds	
Receipts:						
Taxes	\$1,548,260					\$1,548,260
Grants	4,827	\$1,352,543	\$2,852,037	\$1,560,728	\$2,633,781	8,403,916
Intergovernmental Revenue	125,109					125,109
Charges for Services	63,645					63,645
Contributions	7,563					7,563
Other	78,365				30,721	109,086
Total Cash Receipts	1,827,769	1,352,543	2,852,037	1,560,728	2,664,502	10,257,579
Disbursements:						
Current Operations:						
Health Services:						
Contract - Services	866,887	797,144	3,053,251	1,547,173	2,044,338	8,308,793
General Government:						
Salaries		217,258			92,058	309,316
Advertising and Printing	21,231	5,726			8,677	35,634
Professional Services	12,672	40,390	53,313		50,476	156,851
Supplies	559	7,348			1,243	9,150
Postage and Shipping		3,930				3,930
Communications	2,700	7,514			2,700	12,914
Dues	1,000	16,466				17,466
Rentals	347	34,286				34,633
Utilities	180	3,620			14,490	18,290
Maintenance		12,108			800	12,908
Insurance		7,045			4,578	11,623
Travel and Training	840	18,663	1,193		1,220	21,916
Buildings/Equipment		1,745			969,510	971,255
Other Exp.	65,358	2,800		21,554	15,403	105,115
Employee Benefits:						
Public Employee's Retirement		69,438				69,438
Life Insurance		6,449				6,449
Health Insurance		59,389				59,389
Medicare		4,467				4,467
Workers' Comp.		4,078				4,078
Total Cash Disbursements	971,774	1,319,864	3,107,757	1,568,727	3,205,493	10,173,615
Net Change in Fund Balance	855,995	32,679	(255,720)	(7,999)	(540,991)	83,964
Fund Balances, January 1, 2006	3,634,891	6,274	4,862	(180,263)	850,790	4,316,554
Fund Balances, December 31, 2006	\$4,490,886	\$38,953	(\$250,858)	(\$188,262)	\$309,799	\$4,400,518

See accompanying notes to the basic financial statements

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE, AND HARDIN COUNTIES**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Receipts				
Taxes	\$1,504,250	\$1,504,250	\$1,548,260	\$44,010
Grants			4,827	4,827
Intergovernmental Revenue			125,109	125,109
Charges for Services	56,272	56,272	63,645	7,373
Contributions			7,563	7,563
Other	72,135	104,633	78,365	(26,268)
Total Receipts	<u>1,632,657</u>	<u>1,665,155</u>	<u>1,827,769</u>	<u>162,614</u>
Disbursements				
Contract - Services	2,195,641	2,510,109	866,887	1,643,222
Board Administration	105,550	105,100	104,887	213
Total Disbursements	<u>2,301,191</u>	<u>2,615,209</u>	<u>971,774</u>	<u>1,643,435</u>
Net Change in Fund Balance	(668,534)	(950,054)	855,995	1,806,049
Fund Balance, January 1, 2006	3,368,704	3,368,704	3,368,704	
Prior Year Encumbrances Appropriated	<u>266,187</u>	<u>266,187</u>	<u>266,187</u>	
Fund Balance, December 31, 2006	<u><u>\$2,966,357</u></u>	<u><u>\$2,684,837</u></u>	<u><u>\$4,490,886</u></u>	<u><u>\$1,806,049</u></u>

See accompanying notes to the basic financial statements.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE, AND HARDIN COUNTIES**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
MENTAL HEALTH SYSTEMS STATE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>			Variance with Final Budget Over/(Under)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
Receipts				
Grants	\$1,352,543	\$1,352,543	\$1,352,543	
Total Receipts	<u>1,352,543</u>	<u>1,352,543</u>	<u>1,352,543</u>	
Disbursements				
Contract - Services	904,843	902,243	797,144	105,099
Board Administration	447,700	450,300	522,720	(72,420)
Total Disbursements	<u>1,352,543</u>	<u>1,352,543</u>	<u>1,319,864</u>	<u>32,679</u>
Net Change in Fund Balance			32,679	32,679
Fund Balances, January 1, 2006	<u>6,274</u>	<u>6,274</u>	<u>6,274</u>	
Fund Balances, December 31, 2006	<u><u>\$6,274</u></u>	<u><u>\$6,274</u></u>	<u><u>\$38,953</u></u>	<u><u>\$32,679</u></u>

See accompanying notes to the basic financial statements.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE, AND HARDIN COUNTIES**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
COMMUNITY MENTAL HEALTH SERVICES STATE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>			Variance with Final Budget Over/(Under)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
Receipts				
Grants	\$2,799,177	\$2,799,177	\$2,852,037	\$52,860
Total Receipts	<u>2,799,177</u>	<u>2,799,177</u>	<u>2,852,037</u>	<u>52,860</u>
Disbursements				
Contract - Services	2,799,177	2,799,177	3,161,648	(362,471)
Total Disbursements	<u>2,799,177</u>	<u>2,799,177</u>	<u>3,161,648</u>	<u>(362,471)</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements			(309,611)	(309,611)
Fund Balances, January 1, 2006	<u>4,862</u>	<u>4,862</u>	<u>4,862</u>	
Fund Balances, December 31, 2006	<u><u>\$4,862</u></u>	<u><u>\$4,862</u></u>	<u><u>(\$304,749)</u></u>	<u><u>(\$309,611)</u></u>

See accompanying notes to the basic financial statements.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE, AND HARDIN COUNTIES**

**STATEMENTS OF RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
MEDICAID MENTAL HEALTH FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Receipts				
Grants	\$1,780,263	\$1,780,263	\$1,560,728	(\$219,535)
Total Receipts	<u>1,780,263</u>	<u>1,780,263</u>	<u>1,560,728</u>	<u>(219,535)</u>
Disbursements				
Contract - Services	1,600,000	1,600,000	1,568,727	31,273
Total Disbursements	<u>1,600,000</u>	<u>1,600,000</u>	<u>1,568,727</u>	<u>31,273</u>
Net Change in Fund Balance	180,263	180,263	(7,999)	(188,262)
Fund Balance, January 1, 2006	<u>(180,263)</u>	<u>(180,263)</u>	<u>(180,263)</u>	<u> </u>
Fund Balance, December 31, 2006	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>(\$188,262)</u></u>	<u><u>(\$188,262)</u></u>

See accompanying notes to the basic financial statements.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. REPORTING ENTITY

The Mental Health and Recovery Services of Allen, Auglaize and Hardin Counties (the Board) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Board is directed by a fifteen-member Board. Board members are appointed by the Board's Director and the legislative authorities of the political subdivisions making up the Board. The Board includes members from those legislative authorities as well as citizens of the Board. Those subdivisions are Allen, Auglaize and Hardin Counties, the Ohio Department of Mental Health and the Ohio Department of Alcohol and Drug Addiction Services. The Board provides alcohol, drug addiction and mental health services and programs to citizens of the three counties. These services are provided primarily through contracts with private and public agencies.

Component units are legally separate organizations for which the Board is financially accountable. The Board is financially accountable for an organization if the Board appoints a voting majority of the organizations' government board and (1) the Board is able to significantly influence the programs or services performed or provided by the organization; or (2) the Board is legally entitled to or can otherwise access to organizations' resources; or (3) the Board is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Board is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Board in that the Board approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criterion, the Board has no component units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. 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 Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Board's accounting policies.

A. Basis of Presentation

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

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Board as a whole. These statements include the financial activities of the primary government.

The statement of net assets presents the cash balance of the governmental activities of the Board at year end. The statement of activities compares disbursements and program receipts for each program or function of the Board's governmental activities. 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.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Board. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing on a cash basis or draws from the general receipts of the Board.

2. Fund Financial Statements

During the year, the Board segregates transactions related to the Board's activities in separate funds in order to aid financial management and demonstrate legal compliance. Fund financial statements report detailed information about the Board. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

B. Fund Accounting

The Board uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Board are presented as governmental.

1. Governmental Funds

Governmental funds are those through which most governmental functions of the Board are financed. The following are the Board's major governmental funds:

General Fund -The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those resources required to be accounted for in another fund.

Mental Health Systems State Fund – Used to account for proceeds received from the State of Ohio to support general community mental health services to all Ohioans, to support community mental health services for adults and children who meet Ohio Department of Mental Health criteria for severe mental disabilities or emotional disturbances and to support systematic improvements in service delivery.

Community Mental Health Services State Fund – Used to account for proceeds received from the State of Ohio to provide services to persons with severe mental/emotional disabilities and for the promotion and support of their recovery and resilience.

Medicaid Mental Health Fund – Used to account for federal financial participation amounts for Medicaid eligible mental health clients.

The other governmental funds of the Board account for grants and other resources whose use is restricted for a particular purpose.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

The Board's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Board's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on 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 amount the Board may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board members. The legal level of control has been established by the Board at the fund level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Board. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

E. Cash and Investments

As required by the Ohio Revised Code, the County Treasurer is the custodian for the Board's cash and investments. The County's cash and investment pool holds the Board's cash and investments, which are reported at the County Treasurer's carrying amount. Deposits and investments disclosures for the County as a whole may be obtained from the County. For information regarding deposit and investment disclosures of the Mental Health and Recovery Services Board, the Treasurer of Allen County, Rhonda Eddy, may be contacted at 301 North Main Street, Lima, Ohio 45801.

F. Inventory and Prepaid Items

On the cash basis of accounting, inventories of supplies are reported as disbursements when purchased.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Board's basis of accounting.

I. Fund Balance Reserves

The Board reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

J. Interfund Activity

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

K. Employer Contributions to Cost-Sharing Pension Plans

The Board recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Net Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

3. ACCOUNTABILITY AND COMPLIANCE

During 2006, several funds received revenues in excess of estimates and an amended certificate was not obtained although the additional revenue was expended. In addition, several funds had expenditures that exceeded appropriations. At December 31, 2006, the following funds had deficit balances: Medicaid Mental Health (\$188,261); Community Mental Health Systems (\$250,857), Title XX (\$34,386), Medicaid Alcohol/Drug (\$36,458), UMADAOP SAPT Block Grant (\$13,686), Circle for Recovery (\$5,500), and Criminal Justice and Prevention Treatment Collaborative (\$34,167) which contrary to Ohio law, indicates that revenues from other funds were used to meet the expenses of those funds.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING

The budget basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Change in Fund Balance – Budget and Actual – Budget Basis presented for the general fund and each major special revenue fund is prepared on the budget basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budget basis) amounted to:

Community Mental Health Fund	<u>\$53,891</u>
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5. EQUITY IN POOLED CASH

The Allen County Auditor acts as the fiscal agent for the Board and the County Treasurer maintains a cash and investment pool used by all County funds. Because of the nature of the pool all County funds are commingled, the risk involved and the preferential claim of the Board cannot be determined.

The Allen County Auditor's records indicated the Board's cash balance as of December 31, 2006, was \$4,400,518.

6. PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the County. Real property tax receipts received in 2006 represent the collection of 2005 taxes. Real property taxes received in 2006 were levied after October 1, 2005, on the assessed values as of January 1, 2005, the lien date.

Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility personal property tax received in 2006 represent the collection of 2005 taxes. Public utility tangible personal property taxes received in 2006 became a lien on December 31, 2004, were levied after October 1, 2005, and are collected in 2006 with real property taxes. Public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after on the true value as of December 31, 2005. Tangible personal property is currently being phased out over a four year period and is currently assessed at 18.75 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

6. PROPERTY TAXES (Continued)

The Board receives property taxes from Allen, Auglaize, and Hardin Counties. Each County Treasurer collects property taxes on behalf of all taxing districts within their County. Each County Auditor periodically remits to the taxing districts their portion of the taxes collected.

The full tax rate for the Mental Health and Recovery Services Board operations for the year ended December 31, 2006, was .50 mills per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

	<u>Allen</u>	<u>Auglaize</u>	<u>Hardin</u>
Real Property			
Residential/Agriculture			
Commercial/Industrial/Mineral	\$1,506,075,210	\$750,166,780	\$377,301,150
Public Utilities	86,569,560	272,570	537,910
Tangible Personal Property	<u>277,524,850</u>	<u>130,741,637</u>	<u>62,494,601</u>
Total Assessed Value	<u>\$1,870,169,620</u>	<u>\$881,180,987</u>	<u>\$440,333,661</u>

7. RISK MANAGEMENT

A. Commercial Insurance

The Board has obtained commercial insurance for the following risks:

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

The Board also participates in the County Employee Health Insurance Plan established by Allen County to account for and finance employee health benefits. The employee Health Care Plan is responsible for the first \$90,000 in aggregated claims each year. After that, stop-loss covers up to a lifetime maximum of \$2,000,000 per covered person. Further information may be obtained by contacting the Allen County Administrator, 301 North Main Street, Lima, Ohio 45801.

8. DEFINED BENEFIT PENSION PLAN

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 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

8. DEFINED BENEFIT PENSION PLAN (Continued)

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 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 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans were required to contribute 9 percent of their annual covered salaries; however, the Board picked up 100 percent of employee contributions. The employer contribution rate for pension benefits for 2006 was 13.70 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Board's required contributions for pension obligations, including the employee portion, to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$55,517, \$58,400, and \$49,738 respectively; 100 percent has been contributed for all years.

9. POSTEMPLOYMENT BENEFITS

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 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 the retirement system is considered an Other Postemployment Benefit 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 2006 local government employer contribution rate was 13.70 percent of covered payroll; 4.5 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, 2005, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5 to 6 percent annually for the next nine years and 4 percent annually after nine years.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

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 and combined plans was 369,214 at December 31, 2006. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$13,921.

The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to HCPP, OPERS has taken additional action to improve solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2007, which will allow additional funds to be allocated to the health care plan.

10. CONTINGENT LIABILITIES

A. Grants

The Board has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the Board believes such disallowances, if any, will be immaterial.

B. Fund Designation

In recognition of the risk inherent in its operations, the Board has designated a portion of its general fund balance (analogous in the insurance industry to a catastrophe fund) to absorb financial shortfalls, whether temporary or permanent. The designation exists to help the Board meet its statutory and contractual responsibilities in the event that the cost for client related services exceed available revenues. These shortfalls can come about because of discontinued funding for a specific program, reductions in funding from selected services or over-runs in cost.

The recommended fund balance designation requirement was developed as equal to two months of the total operating budget (2/12). This percentage is then converted to a dollar amount for the current operating year identifying a minimum level. At December 31, 2006 the Board had designated \$1,661,060 for possible future financial shortfalls for contract commitments.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Program Title	Federal CFDA Number	Project Number	Receipts	Disbursements
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Passed Through Ohio Department of Mental Health)				
Block Grants for Community Mental Health Services	93.958	01-BG01PLAN-06 01-BG01PLAN-07	\$70,373 70,372	\$65,010
Suicide Prevention	93.958	FY06	5,000	5,000
Total Block Grants for Community Mental Health Services			<u>145,745</u>	<u>70,010</u>
Public Health and Social Services Emergency Fund	93.003	FY06	3,029	3,029
Promoting Safe and Stable Families	93.556	FY06 FY07	48,569 21,896	71,327 14,362
Total Promoting Safe and Stable Families			<u>70,465</u>	<u>85,689</u>
Community Based Child Abuse Prevention	93.590	FY06 FY07	43,383	15,516 13,822
Total Community Based Child Abuse Prevention			<u>43,383</u>	<u>29,338</u>
Social Services Block Grant-Title XX	93.667	FY 06 FY 07	101,345 36,964	43,331
Total Social Services Block Grant			<u>138,309</u>	<u>43,331</u>
Medical Assistance Program	93.778	FY 06 FY 07	816,232 744,325	1,066,253 486,919
Sub-total Medical Assistance Program			<u>1,560,557</u>	<u>1,553,172</u>
(Passed Through Ohio Depart of Alcohol and Drug Addiction Services)				
Medical Assistance Program	93.778	FY 06 FY 07	156,376 168,150	223,939 113,802
Total Medical Assistance Program			<u>1,885,083</u>	<u>1,890,913</u>
Block Grants for Prevention and Treatment of Substance Abuse	93.959	01-BGD-FY06 01-BGD-FY07	339,840 287,690	312,192 245,419
UMADAOP		0205004-00-UMP-06 0205004-00-UMP-07	96,213 99,019	68,722 112,705
Total Block Grants for Prevention and Treatment of Substance Abuse			<u>822,762</u>	<u>739,038</u>
Total Federal Assistance - U.S. Department of Health and Human Services			<u>\$3,108,776</u>	<u>\$2,861,348</u>

See accompanying Notes to the Schedule of Federal Awards.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
OF ALLEN, AUGLAIZE AND HARDIN COUNTIES
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Award Expenditures (the Schedule) summarizes activity of the Mental Health and Recovery Services Board's, (the Board), federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – SUBRECIPIENTS

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

The sub recipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under Federal Circular A-133, the Board is responsible for monitoring sub recipients 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 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.



Mary Taylor, CPA

Auditor of State

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

Mental Health and Recovery Services Board of
Allen, Auglaize and Hardin Counties
1541 Allentown Road, Suite B
Lima, Ohio 45805

To the Board of Directors:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mental Health Recovery Services Board of Allen, Auglaize and Hardin Counties, (the Board), as of and for the year ended December 31, 2006, which collectively comprise the Board's basic financial statements and have issued our report thereon dated October 31, 2007. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Board's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Board's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-003.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Board's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted a certain internal control matter that we reported to the Board's management in a separate letter dated October 31, 2007.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-003.

The Board's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Board's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the management, Board of Directors, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 31, 2007



Mary Taylor, CPA

Auditor of State

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

Mental Health and Recovery Services Board of
Allen, Auglaize and Hardin Counties
1541 Allentown Road, Suite B
Lima, Ohio 45805

To the Board of Directors:

Compliance

We have audited the compliance of the Mental Health Recovery Services Board of Allen, Auglaize and Hardin Counties, (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, 2006. 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 Mental Health Recovery Services Board of Allen, Auglaize and Hardin Counties complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2006.

Internal Control over Compliance

The Board's management is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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**Internal Control over Compliance
(Continued)**

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the Board's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be a significant deficiency, as defined above.

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



Mary Taylor, CPA
Auditor of State

October 31, 2007

**MENTAL HEALTH RECOVERY SERVICES BOARD OF
ALLEN, AUGLAIZE AND HARDIN COUNTIES**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2006-001

Material Noncompliance and Significant Deficiency

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Section 5705.36(A)(3) requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.

The Board received new sources of funding during 2006 for which they did not obtain increased amended certificates of estimated resources; however, they did expend these monies during 2006. There were also several other funds that could have had an increase/decrease in the amended certificate based on the amounts received, appropriated and spent.

The following table represents the amounts for which an amended certificate was not obtained and the revenue was expended:

**FINDING NUMBER 2006-001
 (Continued)**

<u>Fund</u>	<u>Estimated Receipts 12/31/06</u>	<u>2006 Actual Receipts</u>	<u>Variance</u>
Community Mental Health	\$2,799,177	\$2,852,037	\$(52,860)
Circle for Recovery	33,000	66,000	(33,000)
Medicaid AOD	271,015	324,567	(53,552)
Recovery Healthcare System		6,750	(6,750)

The chief financial officer should request amended certificates of estimated resources from the county budget commission throughout the year as actual revenues increase or decrease. This analysis should also encompass a review of appropriations versus estimated resources.

Officials' Response:

The Board has since purchased and is in the process of implementing a new accounting system that will help to track budgetary changes in an attempt to correct these problems.

FINDING NUMBER 2006-002

Material Noncompliance and Significant Deficiency

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

During 2006, the following expenditures exceeded appropriations by fund:

<u>Fund</u>	<u>Total Appropriations 12/31/06</u>	<u>2006 Actual Expenditures</u>	<u>12/31/06 Encumbrances</u>	<u>Variance (Unfavorable)</u>
State Per Capita	\$387,090	\$400,072		(\$12,982)
Community Mental Health	2,799,177	3,107,757	\$53,891	(362,471)
Women's State	35,043	64,509		(29,466)
TANF MOE Fund	47,073	61,169		(14,096)
Circle for Recovery	33,000	71,500		(38,500)
FAST	97,315	114,252		(16,937)
Medicaid AOD	250,000	340,010		(90,010)
Criminal Justice and Prevention		34,167		(34,167)
Recovery Healthcare System		6,750		(6,750)

The failure to monitor appropriations versus expenditures could result in expenditures exceeding available resources and possibly result in deficit spending. Budget versus actual reports should be monitored by the Board and modifications approved when necessary.

Officials' Response:

The Board has since purchased and is in the process of implementing a new accounting system that will help track budgetary changes in an attempt to correct these problems.

**FINDING NUMBER 2006-002
 (Continued)**

Officials' Response: (Continued)

The Board fees that due to the nature of their business, this finding may be difficult to nearly impossible to eliminate each year. In order for the Board to get a revised budget to the Board of Directors for approval, it is necessary to estimate up to two months worth of revenues and expenses. Coupled with the fact that agency billings are unpredictable and out of our control, expenses could end up over the budgeted amount by the end of the year. This problem is especially difficult to control in relation to Medicaid funding since agencies throughout the state could do catch up billings in the last couple months of a year and the board will be required to pay this within 30 days driving up expenses for the year.

FINDING NUMBER 2006-003

Material Noncompliance and Significant Deficiency

Ohio Revised Code Section 5705.10 states that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose. Money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, deficit fund balances indicate that money from one fund was used to cover the expenses of other funds. The following funds had deficit fund balances at year end:

Fund	Deficit Amount
Medicaid Mental Health	\$188,261
Community Mental Health State Funds	250,857
Circle for Recovery	5,500
Medicaid Alcohol/Drug	36,458
Community Plan Block Grant	34,386
Criminal Justice and Prevention Funds	34,167
UMADAOP SAPT Block Grant	13,686
Total Deficit Fund Balances	\$563,315

A cash advance could be a desirable method to resolve cash flow problems resulting from grants that are allocated on a reimbursement basis. An advance is intended to temporarily reallocate cash from one fund to another and involves an expectation of repayment. However, advances are subject to the following requirements:

- a) Any advance must be clearly labeled as such, and must be distinguished from a transfer, which is intended to reallocate money permanently from one fund to another;
- b) In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- c) The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- d) Advances must be approved by a formal resolution of the taxing authority of the subdivision and must include: a specific statement that the transaction is an advance of cash and an indication of the fund from which it is expected that repayment will be made.

Advances from the General Fund to other funds should be considered to prevent deficit fund balances. Guidance for approving and accounting for advances is included in Auditor of State Bulletin 97-003.

**FINDING NUMBER 2006-003
(Continued)**

Officials' Response:

The Board will consider advancing funds to prevent negative balance, but feels that the negative balances for reimbursing grants are short-term and advancing to cover these negative balances would be cumbersome and confusing.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**MENTAL HEALTH RECOVERY SERVICES BOARD OF
ALLEN, AUGLAIZE AND HARDIN COUNTIES**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Rev. Code Section 5705.10, Deficit Fund Balances	No	The Board has considered advancing funds to prevent negative fund balances, but feels that the negative balances for reimbursing grants are short term, and advancing to cover these negative balances would be cumbersome and confusing. Repeated as Finding 2006-003



Mary Taylor, CPA
Auditor of State

**MENTAL HEALTH AND RECOVERY SERVICES BOARD OF
ALLEN, AUGLAIZE AND HARDIN COUNTIES**

ALLEN 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
DECEMBER 4, 2007**