

**MENTAL HEALTH AND RECOVERY BOARD
OF ERIE AND OTTAWA COUNTIES**

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2007

Varney, Fink & Associates, Inc.
Certified Public Accountants



Mary Taylor, CPA

Auditor of State

Members of the Board
Mental Health and Recovery Board of Erie and Ottawa Counties
416 Columbus Avenue
Sandusky, Ohio 44870

We have reviewed the *Independent Auditor's Report* of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Mental Health and Recovery Board of Erie and Ottawa Counties is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

October 27, 2008

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MENTAL HEALTH AND RECOVERY BOARD
OF ERIE AND OTTAWA COUNTIES

FOR THE YEAR ENDED
DECEMBER 31, 2007

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Members of the Board
Mental Health and Recovery Board of Erie and Ottawa Counties
416 Columbus Avenue
Sandusky, Ohio 44870

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Mental Health and Recovery Board of Erie and Ottawa Counties as December 31, 2007 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Mental Health and Recovery Board of Erie and Ottawa Counties prepares its financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP would require the Mental Health and Recovery Board of Erie and Ottawa Counties to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2007. Instead of the combined funds the accompanying financial statements present for 2007, the revision requires presenting entity wide statements and also to present larger (i.e. major) funds separately for 2007. While the Mental Health and Recovery Board of Erie and Ottawa Counties does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require certain governments to reformat their statements. The Mental Health and Recovery Board of Erie and Ottawa Counties has elected not to reformat its statements. Since the Mental Health and Recovery Board of Erie and Ottawa Counties does not use GAAP to measure its financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

INDEPENDENT AUDITOR'S REPORT (continued)

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Mental Health and Recovery Board of Erie and Ottawa Counties as of December 31, 2007, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Mental Health and Recovery Board of Erie and Ottawa Counties as of December 31, 2007, and its combined cash receipts and disbursements for the year then ended, on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Mental Health and Recovery Board of Erie and Ottawa Counties to include Management's Discussion and Analysis for the year ended December 31, 2007. The Mental Health and Recovery Board of Erie and Ottawa Counties has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 12, 2008 on our consideration of the Mental Health and Recovery Board of Erie and Ottawa Counties's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations, and is not a required part of the financial statements of the Mental Health and Recovery Board of Erie and Ottawa Counties. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Varney, Fink & Associates
Varney, Fink & Associates, Inc.
Certified Public Accountants

September 12, 2008

Mental Health and Recovery Board of Erie and Ottawa Counties
Erie County
Combined Statement of Cash Receipts, Cash Disbursements and Changes
in Fund Cash Balances - All Governmental Fund Types
For the Year Ended December 31, 2007

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Local Taxes	\$2,544,821	\$0	\$2,544,821
Intergovernmental	5,271,513	667,670	5,939,183
Other Revenue	155,665	5,000	160,665
Total Cash Receipts	<u>7,971,999</u>	<u>672,670</u>	<u>8,644,669</u>
Cash Disbursements:			
Salaries and Benefits	477,712	0	477,712
Supplies	7,647	0	7,647
Equipment	3,380	0	3,380
Contracts - Repair	3,849	0	3,849
Contracts - Services	7,575,084	635,679	8,210,763
Rentals	11,239	0	11,239
Advertising and Printing	6,837	0	6,837
Travel	20,247	0	20,247
Public Employee's Retirement	52,674	0	52,674
Workers' Compensation	827	0	827
Other	89,525	0	89,525
Debt Service	12,239	0	12,239
Total Cash Disbursements	<u>8,261,260</u>	<u>635,679</u>	<u>8,896,939</u>
Total Receipts Over/(Under) Disbursements	(289,261)	36,991	(252,270)
Fund Cash Balances, January 1, 2007 - Restated See Note 2	<u>2,222,217</u>	<u>47,551</u>	<u>2,269,768</u>
Fund Cash Balances - December 31, 2007	<u>\$1,932,956</u>	<u>\$84,542</u>	<u>\$2,017,498</u>
Reserve for Encumbrances, December 31, 2007	<u>\$258,774</u>	<u>\$149,560</u>	<u>\$408,334</u>

The notes to the financial statements are an integral part of this statement.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **DESCRIPTION OF THE ENTITY**

The Mental Health and Recovery Board of Erie and Ottawa Counties, (the Board) is a body politic and corporate 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 an seventeen member board. Eight members of the Board are appointed by the Board of the Erie County Commissioners, three members are appointed by the Board of the Ottawa County Commissioners, three members are appointed by the Ohio Department of Alcohol and Drug Addiction Services, and three members are appointed by the Ohio Department of Mental Health. The Board provides alcohol, drug addiction and mental health services and programs to citizens of Erie and Ottawa Counties. These services are provided primarily through contracts with private and public agencies.

The Board's management believes these financial statements present all activities for which the Board is financially accountable.

B. **BASIS OF ACCOUNTING:**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosures of material matters, as prescribed or permitted by the Auditor of State.

C. **CASH:**

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

D. **FUND ACCOUNTING:**

The Board uses fund accounting to segregate cash and investments that are restricted as to use. The Board classifies its funds into the following types:

General Fund. This fund is the general operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds. These funds are used to account for the proceeds of specific sources (other than from trusts or for capital projects) that are legally restricted to expenditure for specified purposes. The Board has the following significant Special Revenue Funds:

- Teen Institute Block Grant Fund – This fund accounts for grant monies received to provide assistance to underprivileged teenagers.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. **BUDGETARY PROCESS**

The Ohio Revised Code requires that each fund be budgeted annually.

APPROPRIATIONS - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board must annually approve the appropriation measure and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

ESTIMATED RESOURCES - Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

ENCUMBRANCES - The Ohio Revised Code requires the Board to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are cancelled and reappropriated in the following fiscal year.

A summary of the 2007 budgetary activity appears in Note 2.

F. **PROPERTY, PLANT AND EQUIPMENT**

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

G. **UNPAID VACATION AND SICK 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 cash basis of accounting.

H. **TOTAL COLUMNS ON FINANCIAL STATEMENTS**

Amounts in the "Totals (Memorandum Only)" columns on the financial statements represent a summation of the financial statements line items of the fund types and account groups. These amounts are presented for analytical purposes only. This data is not comparable to a consolidation. Interfund type eliminations have not been made in the aggregation of this data.

NOTE 2 – RESTATEMENT OF PRIOR YEAR FUND BALANCE

Fund balances have been restated to correct errors recorded in the 2006 financial statements. In 2006, encumbrances were expensed rather than being reserved and grant activity in 2006 was recorded in the Special Revenue Funds rather than the General Fund.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2007

NOTE 2 – RESTATEMENT OF PRIOR YEAR FUND BALANCE (Continued)

The restatement to the beginning fund balances is as follows:

	General Fund	Special Revenue Funds
Fund Balances as Stated at December 31, 2006	\$2,080,233	\$118,936
Correction of Encumbrances	70,599	0
Correction of Grant Revenues	71,385	(71,385)
Fund Balances as Restated as of January 1, 2007	<u>\$2,222,217</u>	<u>\$47,551</u>

NOTE 3 – BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2007 follows:

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$8,744,443	\$7,971,999	(\$772,444)
Special Revenue	0	672,670	672,670
Total	<u>\$8,744,443</u>	<u>\$8,644,669</u>	<u>(\$99,774)</u>

Fund Type:	Appropriation Authority	Budgetary Expenditures	Variance
General	\$9,123,420	\$8,520,034	\$603,386
Special Revenue	39,000	785,239	(\$746,239)
Total	<u>\$9,162,420</u>	<u>\$9,305,273</u>	<u>\$142,853</u>

NOTE 4 - PROPERTY TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Board. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, 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's district.

Tangible personal property tax is assessed by the property owners, who must file a list of such 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.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 5 – DEBT

A commercial loan was originally obtained in 1998 to finance the purchase of the property used by the Board for its administrative offices. The loan was in the amount of \$135,000; had an interest rate of 8.15%; required monthly payments of \$1,152 through April 2003; and a final estimated payment of \$118,750 due May 2003. The Board had the option of either paying the lump sum balance due at that time, or refinancing this amount. On June 17, 2003, the Board refinanced the loan. The new loan was in the amount of \$118,368, with an interest rate 6.17%, requiring 59 monthly payments of \$1,015 through May 2008, and a final payment estimated at \$86,414 due June 2008, at which time the Board plans to refinance the loan. The outstanding principal at December 31, 2007 was \$88,796.

The aggregate amount of long-term debt maturities are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$88,796	\$2,696	\$91,492

NOTE 6 – PENSION PLAN

Ohio Public Employees Retirement System

All Board full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;
- The Member-Directed Plan (MD) - 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 member and (vested) employer contributions plus any investment earnings;
- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

PERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Attn: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800- 222-7377.

The Ohio Revised Code provides statutory Authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 9.5 percent of their annual covered salary to fund pension obligations.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 6 – PENSION PLAN (Continued)

The employer pension contribution rate for the Board was 13.85 percent of covered payroll. The Board's required contributions to OPERS for the years ended December 31, 2007, 2006, and 2005 were \$52,674, \$50,488 and \$51,561, respectively.

NOTE 7 - POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory Board for employer contributions. The 2007 employer contribution rate was 13.85 percent of covered payroll, 5 percent was the portion that was used to fund health care for the period January 1, 2007 through June 30, 2007 and 6% of covered payroll was the portion used to fund health care for the period July 1, 2007 through December 31, 2007.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.5 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 .50 percent and 6.30 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 percent to 5 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

Ohio Public Employees Retirement System

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, not to exceed a 12% corridor.

At December 31, 2007, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 374,979. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2006 (the latest information available) were \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 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. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 7 - POST-EMPLOYMENT BENEFITS (Continued)

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

NOTE 8 – RISK MANAGEMENT

Commercial Insurance

The Board has obtained commercial insurance for the following risks:

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

NOTE 9 - CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any would not be material.

Mental Health and Recovery Board of Erie and Ottawa Counties
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007

Federal Grantor Pass-Through Grantor/ Program Title	Pass-Through Identifying Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Alcohol and Drug Addiction Services:			
Safe and Drug Free Schools and Communities State Grant	22-06662-00DFSCA-P07-9069	84.186A	\$18,740
	22-06662-00DFSCA-P08-9069	84.186A	13,145
<i>Total Safe and Drug Free Schools and Communities State Grant</i>			<u>31,885</u>
Total U.S. Department of Education			<u>31,885</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Ohio Department of Mental Health:			
Medical Assistance Program	ODMH-06	93.778	5,135
	ODMH-07	93.778	998,207
	ODMH-08	93.778	443,741
Total Medical Assistance Program			<u>1,447,083</u>
Community-Based Child Abuse Prevention Grant	15-CS-07-01	93.590	2,752
Passed Through Ohio Department of Alcohol and Drug Addiction Services:			
Medical Assistance Program	ODADAS-07	93.778	181,999
	ODADAS-08	93.778	65,485
Total Medical Assistance Program			<u>247,484</u>
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	15-T216-07-01 22-00416-SIG-07-0417	93.243 93.243	13,661 24,677
Total Substance Abuse and Mental Health Services - Projects of Regional and National Significance			<u>38,338</u>
Social Service Block Grant	MH-15-07 MH-15-08	93.667 93.667	55,603 19,627
Total Social Service Block Grant			<u>75,230</u>
Block Grants for Community Mental Health Services	BG-07 BG-08	93.958 93.958	29,134 33,833
Total Block Grants for Community Mental Health Services			<u>62,967</u>
Block Grants for Prevention and Treatment of Substance Abuse	FY07-FA/DBG&F/IVBG FY08-FA/DBG&F/IVBG	93.959 93.959	242,674 119,137
Total Block Grants for Prevention and Treatment of Substance Abuse			<u>361,811</u>
Promoting Safe and Stable Families	15CS-07-01 15CS-08-01	93.556 93.556	32,803 13,852
Total Promoting Safe and Stable Families			<u>46,655</u>
Total U.S. Department of Health & Human Services			<u>832,485</u>
U.S. DEPARTMENT OF JUSTICE			
Criminal and Juvenile Justice and Mental Health Collaboration Program	2007-MO-BX-0018	16.745	3,823
Total U.S. Department of Justice			<u>3,823</u>
TOTAL FEDERAL AWARDS EXPENDITURES			<u>2,318,028</u>

The notes to this Schedule are an integral part of this Schedule.

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – SUBRECEIPENTS

The Board passes-through certain Federal assistance received from the Ohio Department of Mental Health and the Ohio Department of Alcohol and Drug Addicton Services to various agencies (subreceptents). As described in Note A, the Board records expenditures of Federal Awards to subreceptents when paid in cash.

The subreceptent agencies have certain compliance responsibilities related to administering these Federal Programs. Under Federal Circular A-133, the Board is responsible for monitoring subreceptents 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-Federally matching funds is not included on the Schedule of Federal Awards Expenditures.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Mental Health & Recovery Board of Erie and Ottawa Counties
416 Columbus Avenue
Sandusky, OH 44870

We have audited the financial statements of the Mental Health & Recovery Board of Erie and Ottawa Counties, as of and for the year ended December 31, 2007, and have issued our report thereon dated September 12, 2008, wherein we noted the Mental Health & Recovery Board of Erie and Ottawa Counties followed accounting practices the Auditor of State prescribes rather than the accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mental Health & Recovery Board of Erie and Ottawa Counties's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mental Health & Recovery Board of Erie and Ottawa Counties's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mental Health & Recovery Board of Erie and Ottawa Counties'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 the normal course of 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 Mental Health & Recovery Board of Erie and Ottawa Counties ability to initiate, authorize, record, process, or report financial data reliably in accordance with the basis of accounting prescribed by the Auditor of State such that there is more than a remote likelihood that a misstatement of the Mental Health & Recovery Board of Erie and Ottawa Counties financial statements that is more than inconsequential will not be prevented or detected by the Mental Health & Recovery Board of Erie and Ottawa Counties internal control. We consider the deficiency described in the accompanying schedule of findings as item 2007-02 to be a significant deficiency in internal control over financial reporting.

Mental Health & Recovery Board of Erie and Ottawa Counties
Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements performed in
Accordance with *Government Auditing Standards*
Page 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Mental Health & Recovery Board of Erie and Ottawa Counties internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of the section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2007-02 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mental Health & Recovery Board of Erie and Ottawa Counties financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompany Schedule of Findings and Responses as item 2007-01.

We noted certain matters that we reported to management of the Mental Health & Recovery Board of Erie and Ottawa Counties in a separate letter dated September 12, 2008.

The Mental Health & Recovery Board of Erie and Ottawa Counties's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Mental Health & Recovery Board of Erie and Ottawa Counties's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.


VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

September 12, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Mental Health & Recovery Board of Erie and Ottawa Counties
416 Columbus Avenue
Sandusky, OH 44870

Compliance

We have audited the compliance of the Mental Health & Recovery Board of Erie and Ottawa Counties with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The Mental Health & Recovery Board of Erie and Ottawa Counties's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Mental Health & Recovery Board of Erie and Ottawa Counties's management. Our responsibility is to express an opinion on the Mental Health & Recovery Board of Erie and Ottawa Counties'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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mental Health & Recovery Board of Erie and Ottawa Counties's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Mental Health & Recovery Board of Erie and Ottawa Counties's compliance with those requirements.

In our opinion, the Mental Health & Recovery Board of Erie and Ottawa Counties complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

**Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over Compliance
In Accordance with OMB CIRCULAR A-133**

Page 2

Internal Control Over Compliance

The management of the Mental Health & Recovery Board of Erie and Ottawa Counties 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 Mental Health & Recovery Board of Erie and Ottawa Counties's internal control over compliance with requirements that could have a direct and material effect on 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 Mental Health & Recovery Board of Erie and Ottawa Counties's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program 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 noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

September 12, 2008

MENTAL HEALTH AND RECOVERY BOARD OF
ERIE AND OTTAWA COUNTIES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the basic financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the basic financial statement level?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the basic financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the basic financial statement level?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

MENTAL HEALTH AND RECOVERY BOARD OF
ERIE AND OTTAWA COUNTIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

(d)(1)(vii)	Major Program:	Medicaid, CFDA #93.778; Block Grants for Prevention and Treatment of Substance Abuse CFDA #93.959
(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 2007-01

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

Budgetary expenditures exceeded appropriations in the Special Revenue Fund by \$746,239.

Corrective Action: Contact Person:
Beth B. Williams, Deputy Director of Finance and Operations

This problem has been corrected in the CY2008 time period. The Official Certificate of Estimated Resources shows the General Fund allocation and various restricted funds distributed in the Special Revenue Funds.

MENTAL HEALTH AND RECOVERY BOARD OF
ERIE AND OTTAWA COUNTIES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)**

Finding 2007-02 Significant Deficiency/Material Weakness

Financial Statements Adjustments

Sound financial reporting is the responsibility of the fiscal officer and the Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. We found the following conditions during our audit:

1. Restated General Fund beginning fund balance from \$2,080,233 to \$2,222,217 and the Special Revenue Fund balance from \$118,936 to \$47,551. In 2006, \$70,599 in encumbrances were recorded as expenditures rather than being reserved, thus understating the December 31, 2006 ending fund balance. Also, \$71,385 of grant activity was recorded in the Special Revenue Fund rather than the General Fund, which understated the General Fund and overstated the Special Revenue Fund.
2. The financial statements originally presented by the Board required audit adjustments, which have been made, in order to properly reflect the activity of the Board in the proper funds and to be consistent with prior audit reports. The Board uses spreadsheets to account for its operating activity and reconciles the spreadsheets to the activity recorded by the Board's fiscal agent, the Erie County Treasurer's office. Discrepancies exist between the two systems in regards to funds, fund balances and fund classifications, but do reconcile in total. The audit adjustments booked were to properly reflect activity between the Board's General Fund and its Special Revenue Fund.

The fiscal officer should review the adjustments and reclassification discussed above to ensure that similar errors are not reported on financial statements in subsequent years. Since the Board presents its financial statements, using the cash basis of accounting as prescribed and permitted by the Auditor of State, the activity presented on its financial statements should agree with the books kept by both Board and its fiscal agent. A review of revenue sources should be made to identify each class of revenue that is required by law to be accounted for within Special Revenue Funds and those that can be accounted for in the General Fund.

MENTAL HEALTH AND RECOVERY BOARD OF
ERIE AND OTTAWA COUNTIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

Corrective Action: Contact Person:
 Beth B. Williams, Deputy Director of Finance and Operations

These findings were the result of adjustments made by the prior audit firm. I was not in complete agreement with the way the encumbrances were handled but I deferred to the expertise of the firm. That will not happen again. After a lengthy and through discussion with the current audit firm I am now clear on what should be included in the Special Revenue Fund. The tracking mechanism used by the Board has been adjusted to reflect the corrected Special Revenue Funds.

3. FINDINGS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES

ERIE 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
NOVEMBER 6, 2008**