HAMILTON COUNTY MENTAL HEALTH AND RECOVERY SERVICES BOARD

Basic Financial Statements

From October 19, 2006 (Date of Inception), to June 30, 2007

With

Independent Auditors' Report

Mary Taylor, CPA
Auditor of State

Board of Trustees
Hamilton County Mental Health and Recovery Services Board
2350 Auburn Avenue
Cincinnati, Ohio 45219

We have reviewed the *Independent Auditors' Report* of the Hamilton County Mental Health and Recovery Services Board, prepared by Clark, Schaefer, Hackett & Co., for the audit period October 19, 2006 (date of inception) through June 30, 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.

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 Hamilton County Mental Health and Recovery Services Board is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 11, 2009

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HAMILTON COUNTY MENTAL HEALTH AND RECOVERY SERVICES BOARD

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
Hamilton County Mental Health and Recovery Services Board:

We have audited the accompanying financial statements of the governmental activities and the major fund of the Hamilton County Mental Health and Recovery Services Board (the Board), of the County of Hamilton, Ohio, as of June 30, 2007 and for the period from inception (October 19, 2006) to June 30, 2007, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Board and do not purport to, and do not, present fairly the financial position of the County of Hamilton, Ohio, as of June 30, 2007, the changes in its financial position, or, where applicable, its cash flows for the period then ended in conformity with 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 financial position of the governmental activities and the major fund of the Hamilton County Mental Health and Recovery Services Board as of June 30, 2007 and the respective changes in financial position thereof for the period from inception (October 19, 2006) to June 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the dissolution of the Hamilton County Alcohol and Drug Addiction Services Board and the Hamilton County Community Mental Health Board occurred on October 19, 2006, with the simultaneous creation of the Hamilton County Mental Health and Recovery Services Board.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2008 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. 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 should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 3 through 13 and pages 33 through 34, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 28, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The Hamilton County Commissioners voted on September 13, 2006 to dissolve The Hamilton County Community Mental Health Board (HCCMHB) and the Hamilton County Alcohol and Drug Addiction Services Board (HCADASB) and simultaneously establish the new Hamilton County Mental Health and Recovery Services Board (HCMHRSB) on October 19, 2006. All property and obligations of or belonging to the two dissolved boards were transferred into the newly formed HCMHRSB on October 19, 2006.

These financial statements represent the partial reporting year of October 19, 2006 to the period ended June 30, 2007 for the HCMHRSB. The normal fiscal year (FY) will be from July 1st through June 30th. This consolidation and partial reporting year along with the former HCCMHB reporting on an audited accrual basis and the former HCADASB reporting through Hamilton County on a cash basis will limit our ability to report on significant variances from FY 2006 to FY 2007.

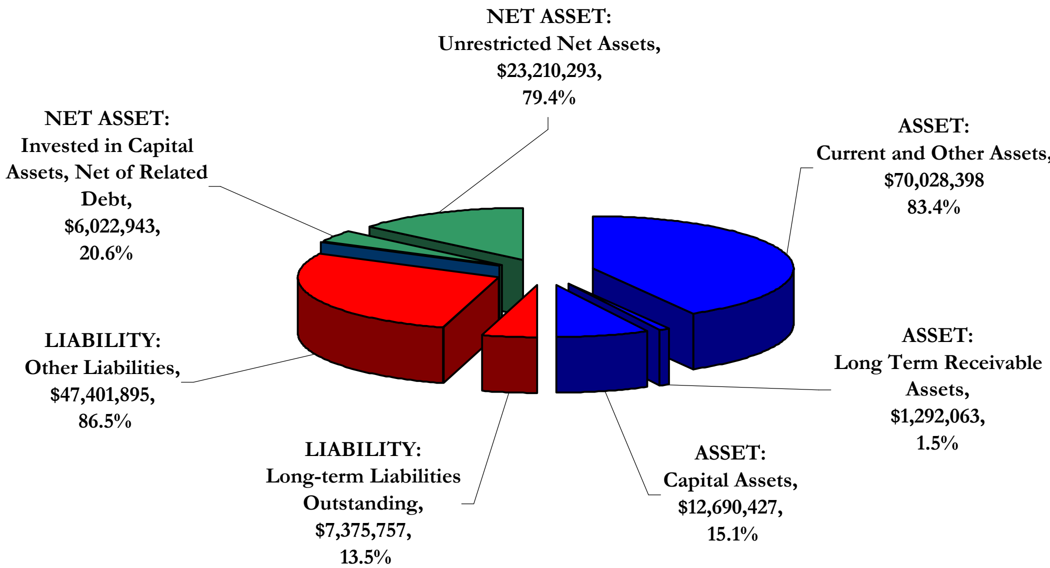
This discussion and analysis provides key information from management highlighting the overall financial performance of the HCMHRSB for the period ended June 30, 2007. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the HCMHRSB's financial statements.

Financial Highlights

Major financial highlights for the period ended June 30, 2007 are listed below and detailed in the chart on the next page:

- The Total net assets found on the HCMHRSB "Statement of Net Assets" at year-end were $29.2 million. Of this amount, $23.2 million is unrestricted and may be used to meet the HCMHRSB's ongoing obligations to consumers and creditors.
- The Mental Health and Recovery Services Fund balance was $19.2 million at the period ended June 30, 2007. This fund balance equals approximately 2.2 months of Total Government Fund Expenditures.
- The Net Change in Fund Balance at year-end was a decrease of $9.1 million. This was expected due to the receipt of Mental Health (MH) Levy Funds ($12.4 million) by the predecessor HCCMHB just before the HCCMHB was dissolved. The MH providers submitted claims for services against the $12.4 million to the new HCMHRSB after October 19, 2006.

HAMILTON COUNTY MENTAL HEALTH AND RECOVERY SERVICES BOARD
STATEMENT OF NET ASSETS FOR THE PERIOD ENDED JUNE 30, 2007
TOTAL ASSETS: $84,010,888
TOTAL LIABILITIES: $54,777,652
NET ASSETS: $29,233,236



OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the HCMHRSB's basic financial statements. The HCMHRSB's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements are designed to provide readers with a broad overview of the HCMHRSB's finances in a manner similar to a private-sector business.

The Statement of Net Assets – This presents information on all of the HCMHRSB's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the HCMHRSB is improving or deteriorating.

The Statement of Activities – This presents information showing how the HCMHRSB's net assets changed during the most recent period. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

Expenses – As a single purpose government, the HCMHRSB's expenses are for the provision of community mental health and alcohol and drug addiction services. These expenses include Agency Provider Contracts, Building Management – SAMAD, HCMHRSB Salaries, Benefits, Taxes and Operating Expenses, Depreciation, Auditor and Treasurer Fees, and State Direct Payments.

Program Revenues – These revenues include Drake, Health and Hospital Indigent Care, Medicaid, State and Federal Grants, Title XX, Inter-County and State Direct Payments.

General Revenue – These revenues include, Property Taxes Levied for Mental Health, Grants and Contributions Not Restricted to Specific Programs, Capital & Rental Income and Miscellaneous.

Fund Financial Statements The accounts of the HCMHRSB are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Governmental Fund Types - Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the HCMHRSB's near-term financing requirements.

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

The HCMHRSB accounts for its activities using one governmental fund and that is the Mental Health and Recovery Services Fund. This fund is used to account for all financial resources relating to the operations of the community-wide mental health and alcohol and drug addiction systems.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information concerning the Mental Health and Recovery Services Fund budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Closeout of Governmental Activities for the HCCMHB and HCADASB

The beginning balances on the HCMHRSB Balance Sheet are the result of the combination and carrying forward of the ending balances of the dissolved HCCMHB and the HCADASB. See Note 2 to the financial statements for the details on the assets and liabilities transferred to the HCMHRSB by the HCCMHB and HCADASB on October 19, 2006.

B. Net Assets at year-end

The table (below) and discussion (next page) of the Net Assets at Year End presents a condensed summary of the HCMHRSB's overall financial position as of October 19, 2006 and the period ended June 30, 2007.

Assets/ Liabilities/ Net assets	Statement of Net Assets October 19, 2006	Statement of Net Assets June 30, 2007	Statement of Net Assets Var. Incr. (Decr.)	State. Of N.A. % of Variance Incr. (Decr.)
Current assets	$ 58,949,287	$ 70,028,398	$ 11,079,111	18.8%
Long term receivables	818,905	1,292,063	473,158	57.8%
Capital assets	12,032,818	12,690,427	657,609	5.5%
Total Assets	**71,801,010**	**84,010,888**	**12,209,878**	17.0%
Other liabilities	27,365,493	47,401,895	20,036,402	73.2%
Long-term liabilities outstanding	7,821,260	7,375,757	(445,503)	-5.7%
Total Liabilities	**35,186,753**	**54,777,652**	**19,590,899**	**55.7%**
Net Assets:				
Invested in capital assets, net of related debt	5,143,601	6,022,943	879,342	17.1%
Unrestricted	31,470,656	23,210,293	(8,260,363)	-26.2%
Total Net Assets	**$ 36,614,257**	**$ 29,233,236**	**$ (7,381,021)**	**-20.2%**

Total Assets - $12.2 million Increase:

Primary cause of the increase in Assets is:

1. Taxes receivable increase of $17.6 million reflects a full year of MH Levy funds accrued for the period ended June 30, 2007 but not received from the County Auditor until FY 2008,
2. Due from other governments decrease of $1.9 million recognizes the decrease in revenue from ODMH and ODADAS received after the period ended June 30, 2007 caused by the State implementation of the OAKS System,
3. Prepaid contract services decrease of $1.3 million primarily representing the submission of claims by AOD agencies causing the decrease in the balance remaining on FY 2007 AOD agency prepayments at the period ended June 30, 2007.

Total Liabilities - $19.6 million Increase:

Primary cause of the increase in Liabilities is:

1. Unearned revenue increase of $14.3 million reflects a full year of MH Levy funds accrued for the period ended June 30, 2007 but not received from the County Auditor until FY 2008,
2. Contracts payable increase of $5.7 million representing payments to MH and AOD agencies made after the period ended June 30, 2007 for FY 2007 services.

Total Net Assets – ($7.4 million) Decrease:

Primary cause of the decrease in Net Assets was the expected decrease in Unrestricted Net Assets related to receipt of Mental Health (MH) Levy Funds ($12.4 million) by the predecessor HCCMHB just before the HCCMHB was dissolved. The MH providers submitted claims for services against the $12.4 million to the new HCMHRSB after October 19, 2006.

C. Governmental Activities during the period ended June 30, 2007

The table on the next page and subsequent analysis presents a condensed summary of the HCMHRSB's activities during the period ended June 30, 2007 and the resulting change in net assets.

In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Revenues/ Program Expenses/ Change in Net Assets		Statement of Activities Period Ended 6/30/07
Revenues		
Total Program Revenue	**$**	**24,837,548**
Total General Revenue		**39,808,980**
Total Revenues:		**64,646,528**
Program Expenses:		
Total Program Expenses		**72,027,549**
Decrease in Net Assets		**(7,381,021)**
Net Assets, Date of Inception		**36,614,257**
Net Assets, End of Year	**$**	**29,233,236**

Total Program Revenues – $24.8 million:

1. Program Revenues are primarily composed of:
   a. Medicaid ($14.0 million),
   b. State and federal grants ($4.6 million),
   c. Inter-County revenue ($3.5 million),
   d. Health and hospital indigent care levy ($1.4 million),
   e. Drake levy ($626 thousand).

Total General Revenues – $39.8 million:

2. General Revenues are primarily comprised of:
   a. Property taxes levied for mental health ($22.5 million),
   b. Grants and contributions not restricted to specific programs ($16.3 million).

Total Program Expenses – $72.0 million:

3. Program Expenses are made up of:
   a. Agency provider contract payments ($67.5 million),
   b. Salaries, benefits & taxes ($2.0 million),
   c. Building management – SAMAD ($752 thousand),
   d. Operating Expenditures ($655 thousand),
   e. County auditor and treasurer fees ($413 thousand).

FINANCIAL ANALYSIS OF THE MAJOR FUND

Governmental Funds

The focus of the HCMHRSB's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the HCMHRSB's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the HCMHRSB's net resources available for spending at the period ended June 30, 2007. The HCMHRSB has one government fund and that is the Mental Health and Recovery Services Fund. All activity of the HCMHRSB is reported in this fund.

- ***Mental Health and Recovery Services Fund*** – The fund balance for the period ended June 30, 2007 was $19.2 million including $12.1 million of unreserved funds. The Mental Health and Recovery Services fund balance equals approximately 2.2 months of Total Government fund expenditures.

MENTAL HEALTH AND RECOVERY SERVICES FUND BUDGETARY HIGHLIGHTS

The HCMHRSB's original and final budgets were the same since the HCMHRSB did not amend its Mental Health and Recovery Services Fund budget for the period ended June 30, 2007. Please see Page 33 of this report for the Required Supplemental Information Schedule detailing the Original Budget, Final Budget, Actual Revenues and Expenditures and the Variance from Final Budget.

An analysis of significant variances between the Final Budget versus Actual Revenues & Expenditures is as follows:

State Block Grant Funds – ($1.5 million) & (32.9%) Variance:

- The implementation of the OAKS payment system by the State of Ohio delayed the payment of submitted State Block Grant draw requests.

Medicaid – ($10.8 million) & (40.7%) Variance:

- The variance is caused by:
  - The implementation of the OAKS payment system by the State of Ohio delayed the payments related to Medicaid claims submitted.
  - The slow submission of Medicaid claims for the period ended June 30, 2007 by both the MH and AOD agencies.

Title XX – ($357 thousand) & (52.1%) Variance:

- The implementation of the OAKS payment system by the State of Ohio delayed the payment of submitted Title XX draw requests.

Federal Grant – ($157 thousand) & (34.3%) Variance:

- The AOD agencies were slow to bill for the Housing and Urban Development – Homeless Housing and Residential Treatment (HUD-HHRT) services prior to the cut off for audit period. We have since reconciled the FY 2007 services and carried over $19 thousand in available budget funds into FY 2008

Inter-County Revenue – ($555 thousand) & (16.1%) Variance:

- The delay in signing the Memorandum of Understanding (MOU) between the Hamilton County Department of Job and Family Services (HCDJFS) for the Family Access Program (FAP) caused $955 thousand of the variance, which was partially offset by additional funding associated with the IMPACT Program.

Drake Levy Revenue – ($202 thousand) & (24.4%) Variance:

- The Drake Levy funding is based on a calendar year and the flow of calendar year claims caused the variance.

Health and Hospital Indigent Care Levy Revenue – $299 thousand & 27.7% Variance:

- The Health and Hospital Indigent Care Levy funding is based on a calendar year and the flow of calendar year claims caused the variance.

Capital & Rental – $77 thousand & 11.7% Variance:

- The original budget did not reflect the receipt of parking fees ($20 thousand) and rent increases ($28 thousand) causing the majority of the variance.

Miscellaneous – $51 thousand & 25.6% Variance

- The primary cause of the variance is the early receipt of funding of the Health Foundation of Greater Cincinnati grants for Improving Access to Mental Health and Behavioral Health Services for School-Age Children ($21 thousand) and the Recovery Center ($16 thousand).

EXPENDITURES:

Agency & Provider – $10.4 million & 13.4% Variance:

- The primary cause of the variance is the MH ($10.2 million) and AOD ($250 thousand) agencies' slow submission of claims for the period ended June 30, 2007.

Salaries, Benefits & Taxes – $170 thousand & 7.9% Variance:

- The variance was caused by the HCMHRSB having an actual average headcount of 35.3 positions versus a budget of 40 positions.

Operating Expenses – $112 thousand & 14.7% Variance:

- The Property Tax refund ($129 thousand) by the Hamilton County Auditor for the HCMHRSB owned property at 2350 Auburn Ave is the primary cause of the variance.

Capital Exp. – ($790 thousand) & (639.1%) Variance:

- The recognition of work in progress at the ADAS Center ($901 thousand) is the primary cause of the variance. Prior to 10/19/2006 the HCADASB received the "proceeds" (the funds became available) of the forgivable mortgage from ODADAS. In the period ended June 30, 2007, we need to account for the amounts paid out on our behalf by ODADAS. Keep in mind that on the Government Funds Financial Statements, purchases of capital assets are expensed while on the Statement of Activities; capital assets are not expensed but capitalized. This is one of the primary reasons for the significant difference ($1.7 million) between the "Net Change in Fund Balance" ($9,062,413) on the Government Funds Financial Statements and the "Decrease in Net Assets" ($7,381,021) on the Statement of Activities. This also is one of the primary causes of the Net Change in Fund Balance ($2.2 million) variance found on the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Mental Health and Recovery Services Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the period ended June 30, 2007, the HCMHRSB had $12.7 million invested in a broad range of capital assets, including land, buildings and equipment. See Note 5 to the financial statements for more detail.

Capital Assets at Year-End
(Net of Depreciation)

Capital Assets At Year-End Net of Depreciation	Capital Asset Activities Period Ended 6/30/2007	
Land	$	1,719,837
Construction in progress		1,105,426
Buildings		9,847,877
Furniture and equipment		17,287
Total Capital Assets	**$**	**12,690,427**

The major capital asset event during the period ended June 30, 2007 was the recognition of the construction in progress related to the ongoing renovation of the ADAS Center.

Debt

A summary of long-term obligations is located in Note #9.

The primary long-term debt of the HCMHRSB is related to its mortgage payable obligations. The mortgage payable of the HCMHRSB consists of loan contracts made with the ODMH ($5.0 million), the ODADAS ($1.4 million) and the Ohio Department of Administrative Services (ODAS) ($203 thousand). These loan contracts are for the purchase and/or improvement of various properties in the County for use in providing mental health and/or alcohol and drug addiction services.

Required payments for accrued vacation and sick leave in the event of employee retirement or layoff, as well as, accrued vacation in the event of employee resignation, constitutes $708 thousand of the HCMHRSB's long-term obligations.

ECONOMIC FACTORS

- The abolishment of the HCCMHB and the HCADASB on October 18, 2006 and the subsequent creation of the HCMHRSB on October 19, 2006 caused changes in the service delivery and financing of mental health and alcohol and drug addiction services in Hamilton County for FY 2007 and beyond. The desired outcome of the consolidation of the two Boards is a reduction of administrative expenses with the savings going back into the service system.

- The Mental Health Levy, which was 35.0% ($22.5 million) of total revenue for the period ended June 30, 2007, was on the ballot in November 2007 and was approved by the voters of Hamilton County. The new MH Levy will generate $37.4 million per year, for CY 2008 through CY 2012.

- The budget for the State of Ohio is a major area of economic concern. The State of Ohio continues to experience shortfalls in tax revenue collections and has revised its FY 2008 budget reducing it revenue projections and expenditures.

    - ODMH will take a significant budget reduction of $9 million dollars in FY 2008, and a reduction of $22.6 million dollars in FY 2009. ODMH is looking at a 20% reduction in force through the elimination of vacancies, early retirement buy outs, and staff layoffs. Additionally ODMH plans to close two State Psychiatric Hospitals, one in Cambridge and one in Dayton. ODMH is closing 4 units in these two hospitals and is planning to absorb the clients by opening 3.5 units in other existing hospitals; 1 at Columbus, 1 at Athens, 1 at Heartland, and an additional ½ unit at Summit (Cincinnati). ODMH is looking to internally absorb the entire two-year budget reduction.

    - ODADAS will take a 5% budget reduction which equals about $3.8 million in FY 2008. ODADAS will absorb the entire budget reduction internally through staff hiring freezes, restrictions on travel, spending and one-time projects.

- The FY 2007 ODMH State Hospital per-diem of $481.00 did not change from FY 2006. The annual cost to serve a consumer in one of ODMH's State Hospitals is $175,565. With the previously mentioned State budget reductions and the consolidation of State Hospitals, the per-diem for FY 2009 is of major concern to the HCMHRSB.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, consumers, and creditors with a general overview of the HCMHRSB's finances and to show the HCMHRSB's accountability for the money it receives. If you have questions about this report or need additional financial information about the HCMHRSB, contact Patrick Tribbe, President/CEO at 2350 Auburn Avenue, Cincinnati, Ohio 45219.

HAMILTON COUNTY MENTAL HEALTH AND RECOVERY SERVICES BOARD

Statement of Net Assets

June 30, 2007

ASSETS:	
Equity in pooled cash and investments with County Treasurer	$ 21,432,719
Taxes receivable	36,401,003
Due from other governments	6,697,710
Prepaid contract services	5,496,966
Long-term receivables:	
Contract agencies	686,170
Mortgage receivable due from ODADAS	605,893
Nondepreciable capital assets	2,825,263
Depreciable capital assets, net of accumulated depreciation	9,865,164
Total assets	84,010,888
LIABILITIES:	
Contracts payable	13,945,124
Accrued other	360,914
Unearned revenue	33,095,857
Long-term liabilities:	
Due within one year	537,004
Due in more than one year	6,838,753
Total liabilities	54,777,652
NET ASSETS:	
Invested in capital assets, net of related debt	6,022,943
Unrestricted	23,210,293
Total net assets	$ 29,233,236

The accompanying notes are an integral part of the financial statements.

HAMILTON COUNTY MENTAL HEALTH AND RECOVERY SERVICES BOARD

Statement of Activities

From October 19, 2006 (date of inception) to June 30, 2007

Program expenses:		
Community Mental Health and Recovery Services:		
Agency provider contracts	$	67,536,992
Building management - SAMAD		751,540
Salaries, benefits and taxes		2,029,342
Operating expenses		654,746
Depreciation		247,318
County auditor and treasurer fees		413,034
ODMH direct payments		394,577
Total program expenses		72,027,549
Program revenues:		
Operating grants and contributions restricted to specific programs:		
Drake		625,634
Health and hospital indigent care		1,377,336
Medicaid		13,985,967
State and federal grants		4,631,986
Title XX		328,539
Inter-County		3,493,509
ODMH direct payments		394,577
Total program revenues		24,837,548
Net program expenses		47,190,001
General revenues:		
Property taxes levied for mental health		22,515,380
Grants and contributions not restricted to specific programs		16,286,431
Capital and rental income		720,908
Miscellaneous		286,261
Total general revenues		39,808,980
Decrease in net assets		(7,381,021)
Net assets, at date of inception		36,614,257
Net assets, end of year	$	29,233,236

The accompanying notes are an integral part of the financial statements.

HAMILTON COUNTY MENTAL HEALTH AND RECOVERY SERVICES BOARD

Balance Sheet

June 30, 2007

		Mental Health and Recovery Services Fund
ASSETS		
Equity in pooled cash and investments with County Treasurer	$	21,432,719
Taxes receivable		36,401,003
Due from other governments		6,697,710
Prepaid contract services		5,496,966
Long-term receivables:		
Contract agencies		686,170
Mortgage receivable due from ODADAS		605,893
Total assets		71,320,461
LIABILITIES AND FUND BALANCES		
Liabilities:		
Contracts payable		13,945,124
Accrued other		360,914
Deferred revenue		37,835,735
Total liabilities		52,141,773
Fund balances:		
Unreserved		12,094,640
Reserved for encumbrances		295,019
Reserved for prepaid contract services		5,496,966
Reserved for long-term receivables		1,292,063
Total fund balances		19,178,688
Amounts reported for governmental activities in the statement of net assets are different because:		
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		4,739,878
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		12,690,427
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Mortgage payable		(6,667,484)
Compensated absences		(708,273)
Total		(7,375,757)
Net Assets of Governmental Activities	$	29,233,236

The accompanying notes are an integral part of the financial statements.

HAMILTON COUNTY MENTAL HEALTH AND RECOVERY SERVICES BOARD

Statement of Revenues, Expenditures and Change in Fund Balance

From October 19, 2006 (date of inception) to June 30, 2007

		Mental Health and Recovery Services Fund
Revenues:		
Taxes	$	19,558,203
Intergovernmental:		
State general revenue funds - ODMH		14,955,953
State general revenue funds - ODADAS		3,424,746
State block grant funds - ODMH		865,949
State block grant funds - ODADAS		2,150,670
Medicaid - ODMH		15,108,984
Medicaid - ODADAS		668,726
Title XX		328,539
Federal grants		301,033
Inter-county revenues-mental health		470,295
Inter-county revenues-alcohol and drug addiction		2,422,536
Drake		625,634
Health and hospital indigent care		1,377,336
Other revenues:		
Capital and rental income		734,270
Miscellaneous		250,293
Direct payments		394,577
Total revenues		63,637,744
Expenditures:		
Agency provider contracts		67,536,992
Building management - SAMAD		751,540
Direct payments		394,577
Salaries, benefits and taxes		1,998,180
Operating expenses		652,090
Capital outlay		913,244
County auditor and treasurer fees		413,034
Debt service:		
Principal retirement		221,733
Forgiveness by ODMH & ODADAS		(181,233)
Total expenditures		72,700,157
Net change in fund balance		(9,062,413)
Fund balance, at date of inception		28,241,101
Fund balance, end of year	$	19,178,688

The accompanying notes are an integral part of the financial statements.

HAMILTON COUNTY MENTAL HEALTH AND RECOVERY SERVICES BOARD

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance to the Statement of Activities

From October 19, 2006 (date of inception) to June 30, 2007

Net Change in Fund Balance	$	(9,062,413)
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		833,212
Governmental funds report capital outlays as expenditures. However, in the statement activities, the cost of those assets is allocated over their estimated useful lives depreciation expense.		
Capital asset additions		910,588
Depreciation expense		(247,318)
Retirement of mortgage principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		221,733
The cost of disposed capital assets is removed from capital assets acccount on the statement of net assets resulting in a loss on disposal of capital assets on the statement of activities.		(5,661)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(31,162)
Change in Net Assets of Governmental Activities	$	(7,381,021)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As authorized by Ohio Revised Code § 340.021, the Hamilton County Board of Commissioners voted on September 13, 2006 to dissolve the Hamilton County Alcohol and Drug Addiction Services (ADAS) Board and the Hamilton County Community Mental Health (MHB) Board on October 19, 2006, and simultaneously established the new Hamilton County Community Mental Health & Recovery Services Board ("the Board"). All property and obligations of or belonging to the two dissolved boards were transferred into the newly formed Board on October 19, 2006. The assets and liabilities transferred to the Board are disclosed in Note 2.

The newly formed Board operates as an administrative arm of the County of Hamilton, Ohio (the "County") government, but has its own policy making Board of Trustees. The Board acts as an umbrella agency that has responsibility for a community-wide mental health, alcohol and drug addiction services system that is accessible to those in need of or desiring such services and who do not have the financial means to purchase this care from the private health care market. The Board plans, funds, coordinates, monitors, and evaluates a network of services, which are provided through contract agencies to Hamilton County residents, both children and adults, who need and seek care for mental or emotional illness or alcohol and drug addiction.

B. Basis of Presentation

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 statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities. The Board has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Board.

Fund Financial Statements – 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.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present sources and uses of current financial resources.

C. Fund Accounting

The Board uses a single fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The one fund of the Board is a governmental fund.

Governmental funds focus on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Board's major governmental fund:

Mental Health and Recovery Services Fund - This fund is used to account for all financial resources relating to the operations of the community-wide mental health and alcohol and drug addiction systems.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made.

The modified accrual basis of accounting is used by the governmental funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year. The available period for the Board is sixty days after fiscal year end.

The measurement focus of governmental fund accounting is on decrease in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable except for unmatured principal and interest on general long-term debt which is recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Government-wide financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Revenues – Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Board receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes were levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Board must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue **-** Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes measurable as of June 30, 2007 which are intended to finance fiscal year 2008 operations have been recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

E. Cash and Cash Equivalents

The Hamilton County Treasurer acts as custodian of funds for the Board. Cash of the Board is shown on the balance sheet as equity in pooled investments with the County Treasurer and includes cash, demand deposits, and short-term investments with original maturities of three months or less, stated at cost. State statute authorizes the County Treasurer to invest in obligations of the U.S. Treasury, certificates of deposits and repurchase agreements.

F. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The Board defines capital assets as those with an individual cost of more than $5,000 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The Board does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	40 years
Building improvements	15 years
Furniture and fixtures	3 years

G. Compensated Absences

The Board maintains a liability for unpaid vacation, sick and compensatory time relating to the payment of the obligation when earned by the employee. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that has matured, for example, as a result of employee resignations and retirements.

H. Fund Balance Reserves

The Board records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, prepaid contract services and long-term receivables.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Board applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. TRANSFER OF NET ASSETS

As required by resolution of the Hamilton County Board of County Commissioners, the ADAS and MHB boards transferred the following into the newly formed Board on October 19, 2006:

	ADAS	MHB	Total
Assets:			
Equity in pooled investments with the County Treasurer	$ 514,205	22,672,019	23,186,224
Taxes receivable	-	18,787,314	18,787,314
Due from other governments	1,150,655	7,472,654	8,623,309
Prepaid service contracts	6,308,731	536,896	6,845,627
Long-term receivables from contract agencies	-	818,905	818,905
Mortgage receivable due from ODADAS	1,506,813	-	1,506,813
Nondepreciable capital assets	337,717	1,576,958	1,914,675
Depreciable capital assets, net of accumulated depreciation	1,188,210	8,929,933	10,118,143
Total assets	11,006,331	60,794,679	71,801,010
Liabilities:			
Contracts payable	134,466	8,136,342	8,270,808
Accrued other	148,343	159,028	307,371
Unearned revenue	-	18,787,314	18,787,314
Long-term liabilities:			
Mortgage payable	1,725,037	5,164,180	6,889,217
Compensated absences	138,424	793,619	932,043
Total liabilities	2,146,270	33,040,483	35,186,753
Net Assets:			
Invested in capital assets, net of related debt	(199,110)	5,342,711	5,143,601
Unrestricted	9,059,171	22,411,485	31,470,656
Total net assets	$ 8,860,061	27,754,196	36,614,257

3. POOLING OF CASH AND INVESTMENTS

Statutes require the classification of monies held by the County into three categories. Category 1 consists of "active" monies, those monies are required to be kept in a "cash or near cash" status for immediate use by the County. Such monies must be maintained either as cash in the County treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" monies, those monies which are not needed for immediate use but will be needed before the end of the current period of designations. Interim monies may be invested or deposited in the following securities:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;

2. Bonds, notes, debentures, or other obligations or securities issued by any federal agency;

3. Repurchase agreements in the securities enumerated above;

4. Bonds and other obligations of the state of Ohio; and

5. The State Treasurer's investment pool (STAROhio).

Public depositories must give collateral for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities the face value of which is at least 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be collateralized by the specific government securities upon which repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require that collateral for public deposits and investments be maintained in the name of the County.

During 2007, the County monitored its compliance with the provisions of these statutes pertaining to the types of investments held and institutions in which deposits were made as well as collateral requirements. The County will continue to monitor compliance with applicable statutes in the future pertaining to public deposits and investments.

4. PROPERTY TAXES

Property taxes include amounts levied against real, public utility and tangible property. The assessed value upon which the 2007 tax collection was based as follows:

Real Property:	
Residential/Agricultural	$ 13,981,804,000
Commercial/Industrial/Public Utilities	4,944,252,590
Public Utilities	718,505,270
Tangible Personal Property:	
General	1,337,915,100
Total Valuation	$ 20,982,476,960

Real Property taxes are levied each October on the assessed values of the preceding January 1st, the lien date. Assessed values are established the preceding year by the County Auditor at 35% of appraised market value. A revaluation of real property is required to be completed no less than every six years, with a statistical update every third year. The most recent revaluation was a full physical revaluation in 2005 for taxes collected in 2006. Public Utility property taxes are assessed on tangible personal property, as well as land improvements at true value, which is, in general, net book value. Tangible personal property is assessed at 25% of true value except for inventories, which are assessed at 25% of average value. In 2007, each business was eligible to receive a ten thousand dollar exemption in assessed value, which was reimbursed by the state.

The County Auditor periodically remits to the taxing districts their portions of the taxes collected. The final settlements of real and public utility property taxes are made in April and September and tangible taxes in July and November for the first and second halves of the year, respectively. Collections of the taxes and remittance of them to the taxing districts are accounted for in agency funds of the County. The County Treasurer collects property tax on behalf of all taxing districts within the County, including the Board. The County Auditor periodically remits to the Board its portion of the taxes collected.

5. CAPITAL ASSETS

Capital assets activity from October 19, 2006 (date of inception) to June 30, 2007 was as follows:

		Balance 10/19/06	Additions	Disposals	Balance 6/30/07
Governmental Activities					
Capital assets not being depreciated:					
Land	$	1,719,837	-	-	1,719,837
Construction in progress		194,838	910,588	-	1,105,246
Total not being depreciated		1,914,675	910,588	-	2,825,263
Capital assets being depreciated:					
Building and building Improvements		12,801,212	-	6,439	12,794,773
Furniture and fixtures		190,739	-	-	190,739
Total being depreciated		12,991,951	-	6,439	12,985,512
Less accumulated depreciation:					
Building and building Improvements		2,708,846	238,828	778	2,946,896
Furniture and fixtures		164,962	8,490	-	173,452
Total accumulated depreciation		2,873,808	247,318	778	3,120,348
Capital assets, net	$	12,032,818	663,270	5,661	12,690,427

6. DEFINED BENEFIT PENSION PLAN

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

- The Traditional Pension Plan – a cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
- The Combined Plan – a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the OPERS to provide a formula retirement benefit similar in nature to the Traditional 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.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Plan and Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits. The 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 that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for member and employer contributions. Member and employer contribution rates were consistent across all three plans. The employee contribution rates were 9%. The Board was required to contribute 13.70% of covered payroll for employees in 2007. The Board's required contributions to OPERS from October 19, 2006 (date of inception) to June 30, 2007 were approximately $252,000. All of the required contributions were paid within the fiscal year.

7. POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to qualifying members of both the Traditional and Combined Plans; 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.

In order to qualify for post-retirement health care coverage, age and service retirees must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment 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 postretirement health care based on authority granted by State statute. The 2006 employer contribution rate was 13.70% of covered payroll for employees of which 4.5% was the portion that was used to fund health care.

Actuarial Review. The assumptions and calculations below were based on the System's Actuarial Review performed as of December 31, 2005 (latest information available).

Funding Method. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method. All investments are carried at fair value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

Investment Return. The investment assumption rate for 2005 was 6.5%.

Active Employee Total Payroll. An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health Care. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50% to 6% for the next 9 years. In subsequent years, (10 and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

The OPEB's are advance-funded on an actuarially determined basis. At December 31, 2006, the number of active contributing participants in the Traditional and Combined Plans totaled 369,214. The portion of the Board's contributions that were used to fund postemployment benefits was approximately $83,000. At December 31, 2005 (latest information available), the actuarial value of the Retirement System's net assets available for OPEB was $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $31.3 billion and $20.2 billion, respectively.

8. OTHER EMPLOYEE BENEFITS

Employees earn vacation at differing rates based upon length of service. An employee may accumulate no more vacation leave than the amount earned in one and a half years of service, at the applicable rate. Upon separation from the Board, an employee (or estate) is paid for his or her accumulated unused vacation leave balance. Sick time not taken by a Board Employee may be accumulated until retirement. Upon retirement from the Board an eligible employee may receive one half of sick leave accrued while employed at the Board up to a maximum of 675 hours. Monetary compensation is at employee's hourly rate of compensation at the time of retirement or separation.

As of June 30, 2007, the Board's liability for compensated absences was $708,273.

9. LONG-TERM OBLIGATIONS

The changes in the Board's long-term obligations from October 19, 2006 (date of inception) to June 30, 2007 were as follows:

		Principal Outstanding 10/19/06	Additions	Disposals	Principal Outstanding 6/30/07	Amounts Due in One Year
Governmental Activities						
Mortgage payable-ODMH	$	5,164,180	-	135,980	5,028,200	192,533
Mortgage payable-ODADAS		1,482,037	-	45,253	1,436,784	67,880
Mortgage payable-DAS		243,000	-	40,500	202,500	40,500
Compensated absences		932,043	31,162	254,932	708,273	236,091
Total long-term obligations	$	7,821,260	31,162	476,665	7,375,757	537,004

The Board has a mortgage payable that consists of loan contracts made with the Ohio Department of Mental Health (ODMH), for the purchase of and improvement to various properties in the County for use in providing mental health services. The loan contracts between the Board and ODMH provide that the property must be used to provide mental health services for a specified period of time. The terms of the contract are essentially equivalent to a mortgage on the property, with the Board being obligated to provide mental health services for a period of 40 years from the inception of the contract. Should the Board discontinue mental health services at a particular facility, the balance of the contract would become due immediately. The balance due is reduced on a month-by-month basis over the term of the contract as a forgiveness of debt, as long as the facility is used for mental health services.

The Board has two mortgage payables on their alcohol and other drug facility. One of the mortgage payables consists of a loan contract made with the State of Ohio Department of Administrative Services (DAS) for the purchase of the facility. The balance due is being paid on an annual basis over a period of 10 years.

The other mortgage payable consists of a loan contract made with the Ohio Department of Alcohol and Drug Addiction Services (ODADAS), for the improvements to a facility. The loan contract between the Board and ODADAS provides that the property must be used to provide alcohol and other drug services for a specified period of time. The terms of the contract are essentially equivalent to a mortgage on the property, with the Board being obligated to provide alcohol and other drug services for a period of 25 years from the inception of the contract. Should the Board discontinue alcohol and other drug services at this particular facility, the balance of the contract would become due immediately. The balance due is reduced on a month-by-month basis over the term of the contract as a forgiveness of debt, as long as the facility is used for alcohol and other drug services. The Board has a related receivable of $605,893 that is held by ODADAS to cover continued future improvements to the alcohol and other drug facility.

There is no interest is charged on these obligations. Annual commitments under these mortgage payables, assuming no forgiveness by either ODMH or ODADAS, as of June 30, 2007, are as follows:

Year Ended June 30		ODMH Principal	ODADAS Principal	DAS Principal	Total
2008	$	192,533	67,880	40,500	300,913
2009		192,533	67,880	40,500	300,913
2010		192,533	67,880	40,500	300,913
2011		192,533	67,880	40,500	300,913
2012		192,533	67,880	40,500	300,913
2013 – 2017		962,665	339,398	-	1,302,063
2018 – 2022		962,665	339,398	-	1,302,063
2023 – 2027		962,665	339,398	-	1,302,063
2028 – 2032		815,976	79,190	-	895,166
2033 – 2037		240,454	-	-	240,454
2038 – 2042		78,318	-	-	78,318
2043 – 2046		42,792	-	-	42,792
Total	$	5,028,200	1,436,784	202,500	6,667,484

10. RISK MANAGEMENT

The Board is covered by the County for various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health claims; unemployment compensation claims; and environmental damage. The County purchases commercial insurance to cover losses due to theft of, damage to or destruction of assets and purchases general liability insurance for specific operations and professional liability insurance for certain operations. All other risks of loss are self-insured by the County. There has been no reduction in insurance coverage from the prior year. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in any of the past three years. The County is self-insured for court judgments resulting from tort and general liability claims of County officials and employees.

The County accounts for and finances its risk of loss due to workers' compensation claims through an internal service fund entitled "Workers' Compensation Reserve". The County reimburses the Bureau of Ohio Workers' Compensation for injured workers' claims. All departments of the County, including the Board, participate in the program and make payments to the internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a long-term liability for future claims.

11. LEASES WITH CONTRACTUAL AGENCIES

As of June 30, 2007, the Board leases 56 scattered-site housing facilities to Excel Development Company, a non-profit organization responsible for renting the units to the mentally disabled of the County. These leases contain terms of 20 years contingent upon Excel fulfilling the agreed upon programmatic and reporting responsibilities as required by the Board. Annual lease payments to the Board are at the rate of $1 per year, per unit. The cost of these leased housing facilities at June 30, 2007 is approximately $5,830,000 and accumulated depreciation on these assets is approximately $1,525,000.

In addition, the Board owns a housing facility that is leased to various community social service agencies under operating leases. The agencies are required, by the lease agreement, to provide mental health services to County residents; if such services cease, the lease agreement is terminated. Minimum rentals receivable under the existing lease as of June 30, 2007, were as follows:

Year Ended June 30	Operating Leases
2008	$ 36,225
2009	36,225
2010	36,225
2011	36,225
2012	36,225
Total	$ 181,125

12. CONTINGENCIES

Grants

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

As part of the financial reporting entity of the County of Hamilton, Ohio, the Board is included in the financial statements of the County. The annual audit of the County is performed in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Thus, since the Board is included in the scope of the County audit, the Board has elected to not have its separate audit performed in accordance with the audit requirement noted above.

Litigation

The Board is party to legal proceedings and is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the Board.

13. RELATED PARTIES

The County provides various administrative functions for the Board such as payroll, research and budgeting. Operating expenses include approximately $71,300 of fees paid for these services.

14. STATE DIRECT PAYMENTS

During the year ended June 30, 2007, the Ohio Department of Mental Health made direct payments to providers totaling $394,577 for contracts entered into by the Board. These payments have been recorded as intergovernmental revenue with a corresponding contract expense.

HAMILTON COUNTY MENTAL HEALTH AND RECOVERY SERVICES BOARD

Required Supplementary Information

Schedule of Revenues, Expenditures and Change in Fund Balance -
Budget and Actual - Mental Health and Recovery Services Fund

From October 19, 2006 (date of inception) to June 30, 2007

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Taxes	$ 18,787,314	18,787,314	19,558,203	770,889
Intergovernmental:				
State general revenue funds - ODMH	15,293,178	15,293,178	14,955,953	(337,225)
State general revenue funds - ODADAS	2,852,668	2,852,668	3,424,746	572,078
State block grant funds - ODMH	1,218,682	1,218,682	865,949	(352,733)
State block grant funds - ODADAS	3,277,779	3,277,779	2,150,670	(1,127,109)
Medicaid - ODMH	24,470,742	24,470,742	15,108,984	(9,361,758)
Medicaid - ODADAS	2,155,258	2,155,258	668,726	(1,486,532)
Title XX	685,463	685,463	328,539	(356,924)
Federal grants	458,227	458,227	301,033	(157,194)
Inter-county revenues - mental health	1,425,000	1,425,000	470,295	(954,705)
Inter-county revenues - alcohol and drug addiction	2,022,397	2,022,397	2,422,536	400,139
Drake	827,164	827,164	625,634	(201,530)
Health and hospital indigent care	1,078,166	1,078,166	1,377,336	299,170
Other revenues:				
Capital and rental income	657,265	657,265	734,270	77,005
ODMH direct payments	394,577	394,577	394,577	-
Miscellaneous	199,213	199,213	250,293	51,080
Total revenues	75,803,093	75,803,093	63,637,744	(12,165,349)
Expenditures:				
Agency provider contracts	77,985,006	77,985,006	67,536,992	10,448,014
Building management - SAMAD	785,581	785,581	751,540	34,041
Salaries, benefits and taxes	2,168,479	2,168,479	1,998,180	170,299
Operating expenses	764,211	764,211	652,090	112,121
Capital outlay	123,562	123,562	913,244	(789,682)
County auditor and treasurer fees	398,614	398,614	413,034	(14,420)
ODMH direct payments	394,577	394,577	394,577	-
Debt service:				
Principal retirement	-	-	221,733	(221,733)
Forgiveness by ODMH	-	-	(181,233)	181,233
Total expenditures	82,620,030	82,620,030	72,700,157	9,919,873
Net change in fund balance	(6,816,937)	(6,816,937)	(9,062,413)	(2,245,476)
Fund balance at date of inception	28,241,101	28,241,101	28,241,101	
Fund balance at end of year	$ 21,424,164	21,424,164	19,178,688	

1. BUDGETARY PROCESS

The Board prepared its initial budget for internal use covering the period October 19 through June 30. This budget was prepared on a modified accrual basis of accounting in conjunction with the Board's internal financial statements.

The Board is also required by Ohio law to adopt an annual calendar year budget under the direction of the County Administrator. This budgetary process begins six months prior to the calendar year for which the budget is to be adopted with the Board certifying the proposed tax budget to the County Auditor by July 20. By April 1, the County Commissioners must adopt an annual appropriation resolution. Modifications were made to the original budget during the year. These changes were approved by the Board of County Commissioners throughout the year as allowed by state statute. The budgeted figures included in the financial statements reflect the adjusted totals.

The encumbrance budgetary system of accounting is required by Ohio law. Encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent year expenditures. Unencumbered and unexpended appropriations lapse at year-end.

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

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*

To the Board of Trustees of the
Hamilton County Mental Health and Recovery Services Board:

We have audited the financial statements of the governmental activities, and the major fund of Hamilton County Mental Health and Recovery Services Board, Ohio (the Board) as of June 30, 2007 and for the period from inception (October 19, 2006) to June 30, 2007, which collectively comprise the Board's basic financial statements and have issued our report thereon dated February 28, 2008. 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 Board's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the Board's internal control over financial reporting.

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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements 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 a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Board's 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Finance Committee, management and the Board of Trustees, and is not intended to be and should not be used by anyone other than those specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 28, 2008

Mary Taylor, CPA
Auditor of State

MENTAL HEALTH AND RECOVERY SERVICES BOARD

HAMILTON 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
MARCH 24, 2009

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