



**Auditor of State
Betty Montgomery**

**ALCOHOL, DRUG ADDICTION, AND MENTAL HEALTH SERVICES BOARD OF
ADAMS, LAWRENCE, AND SCIOTO COUNTIES
SCIOTO COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – Cash Basis	7
Statement of Activities – Cash Basis.....	8
Governmental Financial Statements:	
Statement of Cash Basis Assets and Cash Basis Fund Balance – Governmental Fund	9
Statement of Cash Receipts, Cash Disbursements, and Change in Cash Basis Fund Balance – Governmental Fund	10
Statement of Cash Receipts, Cash Disbursements, and Change in Cash Basis Fund Balance - Budget and Actual (Budget Basis)	11
Notes to the Basic Financial Statements	13
Schedule of Federal Awards Expenditures.....	21
Notes to the Schedule of Federal Awards Expenditures	22
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23
Independent Accountants' Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	25
Schedule of Findings – <i>OMB Circular A-133 § .505</i>	27

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Alcohol, Drug Addiction, and Mental Health Services
Board of Adams, Lawrence, and Scioto Counties
Scioto County
802 Chillicothe Street
Portsmouth, Ohio 45662

To the Members of the Board:

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

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

As discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2005, on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

October 5, 2005

ADAMHS Board of Adams, Lawrence and Scioto Counties

Management's Discussion and Analysis For the Year Ended December 31, 2004 Unaudited

This discussion and analysis provides key information from management highlighting the overall financial performance of the ADAMHS Board of Adams, Lawrence and Scioto Counties (the Board) for the year ended December 31, 2004. 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 Board's financial statements.

Financial Highlights

Major financial highlights for 2004 are as follows:

- Net assets of governmental activities decreased by \$49,254 or less than two percent.
- The Board's major fund had \$12,016,015 in receipts and \$12,065,269 in disbursements. The fund balance decreased by \$49,254.
- General receipts accounted for \$5,956,538 in receipts or 50 percent of total receipts. Program specific receipts in the form of operating grants and contributions accounted for \$6,059,477 or 50 percent of total receipts of \$12,016,015.
- The Board had \$12,065,269 in disbursements related to governmental activities; only \$6,059,477 of these disbursements were offset by program specific operating grants and contributions. General receipts of \$5,956,538 were adequate to provide for these programs.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The Board'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.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Board as a whole.

Fund financial statements provide a greater level of detail. The fund is created and maintained on the financial records of the Board, in which its use is restricted to a particular specified purpose. These statements present financial information for the fund.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Board has elected to present its financial statements on a cash basis of accounting. This basis of

ADAMHS Board of Adams, Lawrence and Scioto Counties

**Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited**

accounting is a basis of accounting other than generally accepted accounting principles. Under the Board's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Board as a Whole

The statement of net assets and the statement of activities reflect how the Board did financially during 2004, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the Board at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Board's general receipts.

These statements report the Board's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Board's financial health. Over time, increases or decreases in the Board's cash position is one indicator of whether the Board's financial health is improving or deteriorating.

In the statement of net assets and the statement of activities, the Board has one type of activity:

Governmental activity - All of the Board's basic services are reported here. State and federal grants finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Board's Major Fund

Fund financial statements provide detailed information about the Board's major fund.

The Board as a Whole

Table 1 reflects the changes in net assets in 2004. Since the Board did not prepare financial statements in this format for 2003, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

ADAMHS Board of Adams, Lawrence and Scioto Counties

Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Table 1
Net Assets – Cash Basis
Governmental Activities - 2004

Cash Basis Assets	
Cash Equivalents	<u>\$2,025,354</u>
Net Assets	
Unrestricted	<u>\$2,025,354</u>
Total Net Assets	<u>\$2,025,354</u>

Total net assets decreased by \$49,254. This decrease is primarily due to a timing difference related to new contracts recognized and received.

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

Table 2
Changes in Net Assets - 2004

Receipts

Program Cash Receipts	
Operating Grants and Contributions	<u>\$ 6,059,477</u>
Total Program Cash Receipts	<u>6,059,477</u>
General Receipts	
Entitlements – Unrestricted	5,829,991
Other Receipts	<u>126,547</u>
Total General Receipts	<u>5,956,538</u>
Total Receipts	<u>12,016,015</u>

Disbursements

Mental Health and Dependency Rehab	<u>12,065,269</u>
Total Disbursements	<u>12,065,269</u>
Change in Net Assets	<u>\$ (49,254)</u>

In 2004, 50 percent of the Board's total receipts were from general receipts, consisting mainly of unrestricted state entitlements. Program cash receipts accounted for 50 percent of the Board's total receipts in 2004. These receipts consist primarily of Medicaid and federal operating grants.

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

ADAMHS Board of Adams, Lawrence and Scioto Counties

**Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited**

**Table 3
Governmental Activities**

	<u>Total Cost of Services 2004</u>	<u>Net Cost of Services 2004</u>
Alcohol, Drug Addiction, & Mental Health Services		
Agency Provider Contracts	\$ 11,070,820	(\$5,011,343)
Salaries & Benefits	500,167	(500,167)
Supplies	21,874	(21,874)
Equipment	51,746	(51,746)
Advertising and Printing	472	(472)
Travel	19,101	(19,101)
PERS	80,197	(80,197)
Workers Comp	9,551	(9,551)
Other	<u>311,341</u>	<u>(311,341)</u>
Total Disbursements	<u>\$ 12,065,269</u>	<u>\$6,005,792</u>

The dependence upon state and federal grants for governmental activities is apparent as 49% percent of alcohol, drug addiction and mental health services costs are supported through these entitlements.

The Board's Fund

Total major fund had revenue of \$12,016,015 and expenditures of \$12,065,269. The fund balance decreased \$49,254 as the result of a timing difference related to new contracts recognized and received.

General Fund Budgeting Highlights

The Board's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. During 2004, the Board amended its budget several times to reflect changing circumstances.

Economic Factors

The receipts of the Board remain stagnant. The Board contracts with seven provider agencies to deliver alcohol, drug addiction and mental health services to the residents of Adams, Lawrence, and Scioto Counties. The Board will be challenged to maintain the current level of services and programs due to a stagnant receipts base and ordinary inflation. The Board and its administration must maintain careful financial planning and prudent fiscal management in order to balance the budget annually.

Contacting the Board's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to reflect the Board's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Melissa Sites, Chief of Fiscal/MACSYS/EDI Operations, ADAMHS Board of Adams, Lawrence Scioto Counties, 802 Chillicothe Street, Portsmouth, Ohio 45662.

ADAMHS BOARD OF ADAMS, LAWRENCE AND SCIOTO COUNTIES

**STATEMENT OF NET ASSETS - CASH BASIS
December 31, 2004**

ASSETS:	
Cash Equivalents	<u>\$ 2,025,354</u>
Total assets	<u><u>\$ 2,025,354</u></u>
NET ASSETS:	
Unrestricted	<u>\$ 2,025,354</u>
Total Net Assets	<u><u>\$ 2,025,354</u></u>

See accompanying notes to the basic financial statements.

ADAMHS BOARD OF ADAMS, LAWRENCE AND SCIOTO COUNTIES

STATEMENT OF ACTIVITIES - CASH BASIS
Year ended December 31,2004

	<u>Cash</u>	<u>Program Cash Receipts</u>	<u>Net (Disbursements) Receipts</u> <u>and Changes in Net Assets</u>
	<u>Disbursements</u>	<u>Operating Grants</u> <u>and Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental Activities			
Mental Health and Dependency Rehabilitation:			
Salaries and Benefits	\$ 500,167	\$	(\$500,167)
Supplies	21,874		(21,874)
Equipment	51,746		(51,746)
Agency Provider Contracts	11,070,820	6,059,477	(5,011,343)
Advertising and Printing	472		(472)
Travel	19,101		(19,101)
Public Employee's Retirement	80,197		(80,197)
Worker's Compensation	9,551		(9,551)
Other	311,341		(311,341)
Total Governmental Activities	<u>\$ 12,065,269</u>	<u>\$6,059,477</u>	<u>(6,005,792)</u>
General Receipts			
Entitlements - Unrestricted			5,829,991
Other Receipts			126,547
Total General Receipts			<u>5,956,538</u>
Change in Net Assets			(49,254)
Net Assets - Beginning of Year			<u>2,074,608</u>
Net Assets - End of Year			<u><u>\$2,025,354</u></u>

See accompanying notes to the basic financial statements.

ADAMHS BOARD OF ADAMS, LAWRENCE AND SCIOTO COUNTIES
STATEMENT OF CASH BASIS ASSETS AND CASH BASIS FUND BALANCE
GOVERNMENTAL FUND
December 31, 2004

CASH BASIS ASSETS:	
Cash Equivalents	<u>\$ 2,025,354</u>
 Total Cash Basis Assets	 <u><u>\$ 2,025,354</u></u>
 CASH BASIS FUND BALANCE:	
Reserved for Encumbrances	\$ 15,844
Unreserved, Undesignated	<u>2,009,510</u>
 Total Cash Basis Fund Balance	 <u><u>\$ 2,025,354</u></u>

See accompanying notes to the basic financial statements.

ADAMHS BOARD OF ADAMS, LAWRENCE AND SCIOTO COUNTIES

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGE IN CASH
BASIS FUND BALANCE
GOVERNMENTAL FUND
Year ended December 31, 2004**

Receipts	
Grants	\$ 11,889,468
Other Revenues	<u>126,547</u>
Total Revenues	<u>12,016,015</u>
Disbursements	
Salaries and Benefits	500,167
Supplies	21,874
Equipment	51,746
Agency provider contracts	11,070,820
Advertising and Printing	472
Travel	19,101
Public Employee's Retirement	80,197
Worker's Compensation	9,551
Other	<u>311,341</u>
Total Disbursements	<u>12,065,269</u>
Excess of Receipts Over(Under) Disbursements	<u>(49,254)</u>
Fund Balance Beginning of Year	<u>2,074,608</u>
Fund Balance End of Year	<u><u>\$2,025,354</u></u>

See accompanying notes to the basic financial statements.

ADAMHS BOARD OF ADAMS, LAWRENCE AND SCIOTO COUNTIES

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGE IN CASH BASIS FUND BALANCE -
BUDGET AND ACTUAL (BUDGET BASIS)
Year ended December 31, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Grants	\$ 12,032,000	\$ 11,933,815	\$ 11,889,468	\$ (44,347)
Other Revenues	68,000	82,200	126,547	44,347
Total Receipts	12,100,000	12,016,015	12,016,015	-
Disbursements				
Salaries and Benefits	540,000	544,800	500,168	44,632
Supplies	15,400	23,000	22,504	496
Equipment	25,400	54,000	51,792	2,208
Agency provider contracts	11,687,055	11,787,155	11,070,820	716,335
Advertising and Printing	-	600	472	128
Travel	21,905	25,905	20,701	5,204
Public Employee's Retirement	134,300	92,800	84,961	7,839
Worker's Compensation	12,000	9,600	9,551	49
Other Expenses	338,468	372,868	320,144	52,724
Total Disbursements	12,774,528	12,910,728	12,081,113	829,615
Excess of Receipts Over (Under) Disbursements	(674,528)	(894,713)	(65,098)	829,615
Fund Balance Beginning of Year	1,400,080	1,400,080	1,400,080	-
Prior Year Encumbrances Appropriated	674,528	674,528	674,528	-
Fund Balance End of Year	\$ 1,400,080	\$ 1,179,895	\$ 2,009,510	\$ 829,615

See accompanying notes to the basic financial statements

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ADAMHS Board of Adams, Lawrence, and Scioto Counties
Notes to the Basic Financial Statements
Year Ended December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Alcohol, Drug Addiction and Mental Health Services Board (the Board) of Adams, Lawrence and Scioto Counties is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Board is required to be directed by an eighteen-member Board. Board members are appointed by the Director of Mental Health, the Director of Alcohol and Drug Addiction Services and the legislative authorities of the political subdivisions making up the Board. The Board includes members from those legislative authorities as well as citizens of the Board. Those subdivisions are Adams County, Lawrence County and Scioto County. The Board provides alcohol, drug addiction and mental health services and programs to citizens of the Board. These services are provided primarily through contracts with private and public agencies. The Board is associated with the Southern Consortium for Children, which is defined as a jointly governed organization. This organization is described in Note 7.

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

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

Component units are legally separate organizations for which the Board is financially accountable. Component units may also include organizations that are fiscally dependent on the Board in that the Board approves their budget, the issuance of their debt or the levying of their taxes. The ADAMHS Board has no component units.

B. Basis of Presentation

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

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

ADAMHS Board of Adams, Lawrence, and Scioto Counties
Notes to the Basic Financial Statements
Year Ended December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 statement of net assets presents the financial condition of the governmental activities of the Board at year-end. 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.

C. Fund Accounting

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

D. Basis of Accounting

The government-wide statement of net assets and statement of activities and the fund financial statements are presented using the cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, receipts, and disbursements when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the cash basis of accounting, certain assets and their related receipts and certain liabilities and their disbursements are not recorded in these financial statements. If the

ADAMHS Board of Adams, Lawrence, and Scioto Counties
Notes to the Basic Financial Statements
Year Ended December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Board utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting.

E. Budgetary Basis Fund Balances

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

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

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

Differences between the budgetary basis fund balances and fund cash balances are due to encumbrances. The table below present those difference for the Board's Major Fund:

	<u>General Fund</u>
Budgetary Basis Fund Balance	\$ 2,009,510
Encumbrances	<u>15,844</u>
Fund Cash Balance	<u>\$ 2,025,354</u>

F. Cash and Cash Equivalents

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

G. Property, Plant, and Equipment

The Board records disbursement for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

ADAMHS Board of Adams, Lawrence, and Scioto Counties
Notes to the Basic Financial Statements
Year Ended December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

I. Fund Balance Reserves

The Board records reservations for portions of fund balance 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 balance that is available for appropriation in future periods. Fund balance reserves are established for encumbrances.

J. Net Assets

Net assets represent the difference between assets and liabilities.

2. CHANGE IN REPORTING FORMAT

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

3. DEPOSITS AND INVESTMENTS

Ohio law restricts deposits and investments to the following:

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

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

ADAMHS Board of Adams, Lawrence, and Scioto Counties
Notes to the Basic Financial Statements
Year Ended December 31, 2004

3. DEPOSITS AND INVESTMENTS (Continued)

Deposits - The Scioto County Treasurer serves as the fiscal agent for the Board and the investments of the County funds, including the Board's cash. The Board maintains no control over the investment of its cash. At year-end, the carrying amount of the Board's deposits was \$2,025,354

The Board's deposits maintained by the Scioto County Treasurer are either insured by the Federal Deposit Insurance Corporation or were considered collateralized by securities held by the pledging institutions' trust departments in Scioto County's name and all State statutory requirements for the deposit of money had been followed.

4. DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS

A. Defined Benefit Pension Plan

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

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

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

ADAMHS Board of Adams, Lawrence, and Scioto Counties
Notes to the Basic Financial Statements
Year Ended December 31, 2004

4. DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS
(Continued)

B. Postemployment Benefits

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

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional pension and combined plans was 369,885. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively. The Board has paid all contributions required through December 31, 2004.

5. RISK MANAGEMENT

Commercial Insurance

The Board has obtained commercial insurance for the following risks:

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

ADAMHS Board of Adams, Lawrence, and Scioto Counties
Notes to the Basic Financial Statements
Year Ended December 31, 2004

5. RISK MANAGEMENT (Continued)

The Board also provides health insurance and dental and vision coverage to full-time employees through a private carrier.

6. CONTINGENCIES

Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. 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.

Litigation

The Board is co-defendant in a lawsuit. Although the outcome of the suit is not presently determinable, counsel believes that the resolution of this matter will not materially adversely affect the Board's financial condition.

7. JOINTLY GOVERNED ORGANIZATIONS

Adams, Lawrence and Scioto Counties Alcohol, Drug Addiction and Mental Health Services Board is currently a member of the Southern Consortium for Children (SCC) and formerly a member of the Southern Consortium for Rural Care (SCRC) until it was dissolved in March, 2005. Both SCC and SCRC are Regional Councils of Governments, authorized by Chapter 167 of the Ohio Revised Code. The SCC serves as a program planner, developer and coordinator for services for youth who are severely emotionally disturbed within the members' service area, and the SCRC served as a program planner, developer and coordinator for behavioral health services for residents of the members' service area. The members include the Alcohol, Drug Addiction and Mental Health Services Boards of Gallia, Jackson and Meigs Counties; Athens Hocking and Vinton Counties; and Adams, Lawrence and Scioto Counties; and the Washington County Mental Health and Addiction Recovery Board.

The SCC operates under an appointed four member board, consisting of the Executive Director of each of the above named Alcohol, Drug Addiction and Mental Health Services Boards. The SCC served as the fiscal agent for the SCRC, until SCRC was dissolved in March, 2005.

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**ALCOHOL, DRUG ADDICTION AND MENTAL HEALTH
SERVICES BOARD OF ADAMS, LAWRENCE AND SCIOTO COUNTIES
SCIOTO COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR YEAR ENDED DECEMBER 31, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<i>Passed Through Ohio Department of Mental Health:</i>			
Social Services Block Grant	N/A	93.667	\$ 179,961
Block Grants for Community Mental Health Services		93.958	
Community Plan	N/A		138,063
Child/Adolescent	N/A		<u>21,325</u>
Total Mental Health Services Grants			<u>159,388</u>
Total Ohio Department of Mental Health			339,349
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services and the Ohio Department of Mental Health:</i>			
State Children's Insurance Program		93.767	
ODADAS	N/A		45,772
ODMH	N/A		<u>199,439</u>
Total State Children's Insurance Program			245,211
Medical Assistance Program		93.778	
Medicaid (Title XX)			
ODADAS	N/A		944,335
ODMH			3,522,707
PASARR/OBRA	N/A		<u>23,532</u>
Total Medical Assistance Program			<u>4,490,574</u>
Total Ohio Department of Alcohol and Drug Addiction Services and Ohio Department of Mental Health:			4,735,785
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services:</i>			
Block Grants for Prevention and Treatment of Substance Abuse		93.959	
Women's Residential	73-06846-00-WOMEN-T-03/04-8973/ 73-09425-00-WOMEN-T-03/04-0238		501,747
Per Capita	N/A		<u>561,750</u>
Total Prevention and Treatment of Substance Abuse Grants			<u>1,063,497</u>
Total Ohio Department of Alcohol and Drug Addiction Services			<u>1,063,497</u>
Total U.S. Department of Health and Human Services			<u>6,138,631</u>
Total Federal Awards Expenditures			<u>\$ 6,138,631</u>

The Notes to the Schedule of Federal Awards Expenditures is an intergral part of the Schedule.

**ALCOHOL, DRUG ADDICTION, AND MENTAL HEALTH SERVICES BOARD OF
ADAMS, LAWRENCE, AND SCIOTO COUNTIES
SCIOTO COUNTY**

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

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 – SUBRECIPIENTS

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

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

NOTE C – MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

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

Alcohol, Drug Addiction, and Mental Health Services
Board of Adams, Lawrence, and Scioto Counties
Scioto County
802 Chillicothe Street
Portsmouth, Ohio 45662

To the Members of the Board:

We have audited the financial statements of the governmental activities and the major fund of the Alcohol, Drug Addiction, and Mental Health Services Board of Adams, Lawrence, and Scioto Counties, Scioto County, Ohio (the Board), as of and for the year ended December 31, 2004, which collectively comprise the Board's basic financial statements and have issued our report thereon dated October 5, 2005, wherein we noted the Board revised its financial presentation comparable to the requirements of Governmental Accounting Standards Board Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the Board's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Board's management dated October 5, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Alcohol, Drug Addiction, and Mental Health Services
Board of Adams, Lawrence, and Scioto Counties
Scioto County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

October 5, 2005



Auditor of State Betty Montgomery

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

Alcohol, Drug Addiction, and Mental Health Services
Board of Adams, Lawrence, and Scioto Counties
Scioto County
802 Chillicothe Street
Portsmouth, Ohio 45662

To the Members of the Board:

Compliance

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

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

In our opinion, the Board complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2004. In a separate letter to the Board's management dated October 5, 2005, we reported another matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Board's management in a separate letter dated October 5, 2005.

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

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

Betty Montgomery
Auditor of State

October 5, 2005

**ALCOHOL, DRUG ADDICTION, AND MENTAL HEALTH SERVICES BOARD OF
ADAMS, LAWRENCE, AND SCIOTO COUNTIES
SCIOTO COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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**A.D.A.M.H. SERVICE BOARDS OF ADAMS, LAWRENCE AND SCIOTO
COUNTIES**

SCIOTO 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 10, 2005**