



Mary Taylor, CPA
Auditor of State

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

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of the Board:

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

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

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mental Health and Recovery Services Board of Allen, Auglaize and Hardin Counties, Allen County, as of December 31, 2007, and the respective changes in cash financial position and the respective budgetary comparisons for the General Fund and the Community Mental Health Services State Fund, Mental Health Systems State Fund, and Medicaid Mental Health Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Mary Taylor, CPA
Auditor of State

June 11, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED**

As management of the Mental Health and Recovery Services Board of Allen, Auglaize and Hardin Counties (the Board), we are providing this overview of the Board's financial activities for the year ended December 31, 2007. Please read this overview in conjunction with the Board's basic financial statements, which follow.

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

Financial Highlights

Key financial highlights for the year ended December 31, 2007 are as follows:

- Net assets increased \$535,064. This was due in part to grant expenditures being slightly less than the prior year in the other governmental funds.
- General receipts accounted for \$1,887,066 in receipts or 17.8 percent of all receipts. Program specific receipts in the form of charges for services, grants and contributions accounted for \$8,727,440 or 82.2 percent of total receipts of \$10,614,506.
- The Board had \$10,079,442 in disbursements related to governmental activities; only \$8,727,440 of these disbursements were offset by program specific grants and contributions. General receipts of \$1,887,066 were adequate to provide for these programs.
- As of the close of 2007, The Board's governmental funds reported combined ending fund balances of \$4,935,582.
- At the close of the 2007, unreserved fund balance was \$3,257,999.
- As of the close of 2007, the Board had cumulated deposit amounts totaling \$4,935,582.

Overview Of The Financial Statements

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

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

Basis of Accounting

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

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

Reporting The Board As A Whole

The statement of net assets and the statement of activities reflect how the Board did financially during 2007, within the limitations of the cash basis of accounting. The Statement of Net Assets – Cash Basis presents the cash balances of the governmental activities of the Board at year end. The Statement of Activities – Cash Basis compares disbursements with program receipts for each governmental activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of disbursements with program receipts identifies how each governmental function draws from the Board's general receipts.

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

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

Reporting The Board's Most Significant Funds

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

The Board's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Board's major governmental funds are the General Fund, Community Mental Health Services State Fund, Mental Health Systems State Fund, and the Medicaid Mental Health Fund. The programs reported in the governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

The Board maintains 31 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all four major funds. The basic governmental fund financial statements can be found starting on page 11 of this report.

Notes To The Basic Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 19 of this report.

The Board As A Whole

Recall that the Statement of Net Assets provides the perspective of the Board as a whole. Table 1, below, provides a summary of the Board's net assets for 2007 compared to 2006.

**Table 1
Net Assets – Cash Basis**

	Governmental Activities	
	2007	2006
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$4,935,582</u>	<u>\$4,400,518</u>
Net Assets		
Restricted for:		
Budget Stabilization	1,661,060	1,661,060
Other Purposes	675,575	293,486
Capital Outlay	55,723	55,266
Unrestricted	<u>2,543,224</u>	<u>2,390,706</u>
Total Net Assets	<u>\$4,935,582</u>	<u>\$4,400,518</u>

Total assets increased \$535,064.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for the year ended December 31, 2007.

**Table 2
Changes in Net Assets**

	Governmental Activities	
	2007	2006
Receipts		
Program Cash Receipts		
Operating Grants and Contributions	\$8,640,716	\$8,403,916
Charges for Services	56,724	63,645
Capital Grants and Contributions	30,000	
Total Program Cash Receipts	<u>8,727,440</u>	<u>8,467,561</u>
General Receipts		
Property Taxes	1,620,417	1,548,260
Intergovernmental	134,863	125,109
Contributions	1,407	7,563
Rent	57,501	
Other Receipts	72,878	109,086
Total General Receipts	<u>1,887,066</u>	<u>1,790,018</u>
Total Receipts	<u>10,614,506</u>	<u>10,257,579</u>
Disbursements		
Environmental Health		
General Government	762,947	1,721,001
Health Services	9,144,891	8,308,793
Employee Benefits	171,604	143,821
Total Disbursements	<u>10,079,442</u>	<u>10,173,615</u>
Change in Net Assets	535,064	83,964
Net Assets Beginning of Year	<u>4,400,518</u>	<u>4,316,554</u>
Net Assets End of Year	<u><u>\$4,935,582</u></u>	<u><u>\$4,400,518</u></u>

In 2007, 17.8 percent of the Board's total receipts were from general receipts which consist mainly of property taxes and intergovernmental revenue. Program cash receipts accounted for 82.2 percent of the Board's total receipts in year 2007. In 2006, 17.5 percent of the Board's total receipts were from general receipts which consist mainly of property taxes and intergovernmental revenue. Program cash receipts accounted for 82.5 percent of the Board's total receipts in year 2006. Medicaid and its matching funds, federal operating grants, and state funds awarded for specific programs or purposes primarily make up these receipts.

Total Cost versus Net Cost of Services

The Statement of Activities – Cash Basis shows the cost of program services and the operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. The "net cost" amount represents the cost of those services supported by property tax receipts and intergovernmental revenues. Comparisons to 2006 have been presented.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

Table 3

Functions/Program	2007 Total Cost of Services	2007 Net Cost of Services
Governmental Activities:		
Health Services	\$ 9,144,891	\$1,377,757
General Government	762,947	(25,755)
Employee Benefits	171,604	
Total Governmental Activities	\$10,079,442	\$1,352,002
Functions/Program	2006 Total Cost of Services	2006 Net Cost of Services
Governmental Activities:		
Health Services	\$ 8,308,793	\$1,006,544
General Government	1,721,001	699,510
Employee Benefits	143,821	
Total Governmental Activities	\$10,173,615	\$1,706,054

The Board's reliance upon intergovernmental revenues, property tax receipts, and other general revenues is apparent as 13 percent of governmental activities were supported through general receipts for 2007.

The Board's Funds

As noted earlier, the Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of 2007, the Board's governmental funds reported combined ending fund balances of \$4,935,582, an increase of \$535,064.

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2007 compared with 2006:

	Fund Balance 12/31/2007	Fund Balance 12/31/2006	Increase (Decrease)
General	\$5,002,398	\$4,493,078	\$509,320
Mental Health Systems Fund	173,742	190,214	(16,472)
Community Mental Health Services Fund	(217,997)	(408,984)	190,987
Medicaid MH	(162,387)	(188,260)	25,873
Other	139,826	284,502	(144,676)
Capital Projects		29,968	(29,968)
Total	\$4,935,582	\$4,400,518	\$535,064

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

General Fund Budgetary Information

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

During the course of 2007, The Board amended its general fund budget throughout the year. For the general fund, original budgeted receipts were \$1,720,105 and final budgeted receipts were \$1,702,105. Actual receipts for fiscal year 2007 were \$1,867,200. This represents a \$147,095 increase over final budgeted receipts. General fund original appropriations (appropriated expenditures) were \$2,320,105 and final budgeted appropriations were \$1,720,105. The actual budget basis expenditures 2007 totaled \$1,357,880, which were \$362,225 less than the final budget appropriations.

Capital Renovations

The Board was awarded Capital funding in the form of two grants directly from the Ohio Department of Mental Health for property renovations in the cities of Kenton and St. Mary's in the amount of \$150,000 per facility. The final \$30,000 of these funds were received in 2007.

Conditions Expected To Affect Future Operations

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

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

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

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

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

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

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

Contacting The Board's Financial Management

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

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

**STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2007**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$4,935,582
Total Assets	<u>4,935,582</u>
Net Assets	
Restricted for:	
Budget Stabilization	1,661,060
Other Purposes	675,575
Capital Outlay	55,723
Unrestricted	<u>2,543,224</u>
Total Net Assets	<u><u>\$4,935,582</u></u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Functions/Programs	Expenditures	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Health Services:					
Contract - Services	\$9,144,891	\$56,724	\$7,710,410		(\$1,377,757)
General Government:					
Salaries	367,127		367,127		
Advertising and Printing	45,942		45,942		
Professional Services	132,466		132,466		
Supplies	8,360		8,360		
Postage and Shipping	1,000		1,000		
Communications	13,881		13,881		
Dues	19,682		19,682		
Rentals	40,034		40,034		
Utilities	3,878		3,878		
Maintenance	10,767		10,767		
Insurance	14,257		14,257		
Travel and Training	44,708		44,708		
Buildings/Equipment	12,957		8,712	\$30,000	25,755
Other Expense	29,667		29,667		
Reimbursements	18,221		18,221		
Employee Benefits:					
Public Employee's Retirement	85,557		85,557		
Health Insurance	73,240		73,240		
Life Insurance	1,212		1,212		
Medicare	5,308		5,308		
Workers' Compensation	6,287		6,287		
Total Governmental Activities	\$10,079,442	\$56,724	\$8,640,716	\$30,000	(1,352,002)
General Revenues:					
					1,620,417
					134,863
					1,407
					57,501
					72,878
					<u>1,887,066</u>
					535,064
					<u>4,400,518</u>
					<u>\$4,935,582</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	Governmental Fund Types				Total Governmental Funds	
	General	Mental Health Systems	Community Mental Health Services	Medicaid Mental Health		Other Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$5,002,398	\$173,742	(\$217,997)	(\$162,387)	\$139,826	\$4,935,582
Total Assets	<u>5,002,398</u>	<u>173,742</u>	<u>(217,997)</u>	<u>(162,387)</u>	<u>139,826</u>	<u>4,935,582</u>
Liabilities and Fund Balance						
Reserved for Encumbrances				16,523		16,523
Designated for Contract Commitments	1,661,060					1,661,060
Reported In:						
General Fund	3,341,338					3,341,338
Special Revenue Funds		173,742	(217,997)	(162,387)	67,580	(139,062)
Capital Project Fund					55,723	55,723
Total Fund Balances	<u>\$5,002,398</u>	<u>\$173,742</u>	<u>(\$217,997)</u>	<u>(\$162,387)</u>	<u>\$139,826</u>	<u>\$4,935,582</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Fund Types					Totals (Memorandum Only)
	General	Mental Health Systems	Community Mental Health Services	Medicaid Mental Health	Other Governmental Funds	
Receipts:						
Taxes	\$1,620,416	\$1,426,267	\$2,904,896	\$1,716,958	\$2,622,346	\$10,290,883
Grants	250					250
Intergovernmental Revenue	134,863					134,863
Charges for Services	56,724					56,724
Contributions	1,407					1,407
Rent	1				57,500	57,501
Other	53,539	84			19,255	72,878
Total Cash Receipts	<u>1,867,200</u>	<u>1,426,351</u>	<u>2,904,896</u>	<u>1,716,958</u>	<u>2,699,101</u>	<u>10,614,506</u>
Disbursements:						
Current Operations:						
Health Services:						
Contract - Services	1,197,642	919,970	2,690,176	1,673,943	2,663,160	9,144,891
General Government:						
Salaries		202,737			164,391	367,128
Advertising and Printing	25,744	3,964			16,233	45,941
Professional Services	70,529	21,904	23,733		16,300	132,466
Supplies	1,485	6,875				8,360
Postage and Shipping		1,000				1,000
Communications	5,400	8,481				13,881
Dues	2,200	17,482				19,682
Rentals		40,034				40,034
Utilities		3,549			330	3,879
Maintenance	120	10,646				10,766
Insurance		4,332			9,924	14,256
Travel and Training	25,444	19,264				44,708
Buildings/Equipment		10,981			1,975	12,956
Other Expenses	29,316				353	29,669
Reimbursements				17,142	1,079	18,221
Employee Benefits:						
Public Employee's Retirement		85,557				85,557
Life Insurance		1,212				1,212
Health Insurance		73,240				73,240
Medicare		5,308				5,308
Workers' Compensation		6,287				6,287
Total Cash Disbursements	<u>1,357,880</u>	<u>1,442,823</u>	<u>2,713,909</u>	<u>1,691,085</u>	<u>2,873,745</u>	<u>10,079,442</u>
Net Change in Fund Balance	509,320	(16,472)	190,987	25,873	(174,644)	535,064
Fund Balances, January 1, 2007 - Restated (See Note 4)	<u>4,493,078</u>	<u>190,214</u>	<u>(408,984)</u>	<u>(188,260)</u>	<u>314,470</u>	<u>4,400,518</u>
Fund Balances, December 31, 2007	<u>\$5,002,398</u>	<u>\$173,742</u>	<u>(\$217,997)</u>	<u>(\$162,387)</u>	<u>\$139,826</u>	<u>\$4,935,582</u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Receipts:				
Taxes	\$1,554,200	\$1,554,200	\$1,620,416	\$66,216
Grants			250	250
Intergovernmental Revenue			134,863	134,863
Charges for Services	88,772	88,772	56,724	(32,048)
Contributions			1,407	1,407
Rent			1	1
Other	77,133	77,133	53,539	(23,594)
Total Receipts	<u>1,720,105</u>	<u>1,720,105</u>	<u>1,867,200</u>	<u>147,095</u>
Disbursements:				
Contract - Services	2,199,606	1,599,606	1,357,880	241,726
Board Administration	120,499	120,499		120,499
Total Disbursements	<u>2,320,105</u>	<u>1,720,105</u>	<u>1,357,880</u>	<u>362,225</u>
Net Change in Fund Balance	(600,000)		509,320	509,320
Fund Balance, January 1, 2007	<u>4,493,078</u>	<u>4,493,078</u>	<u>4,493,078</u>	
Fund Balance, December 31, 2007	<u><u>\$3,893,078</u></u>	<u><u>\$4,493,078</u></u>	<u><u>\$5,002,398</u></u>	<u><u>\$509,320</u></u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
MENTAL HEALTH SYSTEMS STATE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Receipts:				
Taxes	\$1,352,543	\$1,403,029	\$1,426,267	\$23,238
Other			84	84
Total Receipts	<u>1,352,543</u>	<u>1,403,029</u>	<u>1,426,351</u>	<u>23,322</u>
Disbursements:				
Contract - Services	916,193	996,193	919,970	76,223
Board Administration	436,350	436,350	522,853	(86,503)
Total Disbursements	<u>1,352,543</u>	<u>1,432,543</u>	<u>1,442,823</u>	<u>(10,280)</u>
Net Change in Fund Balance		(29,514)	(16,472)	13,042
Fund Balance, January 1, 2007	<u>190,214</u>	<u>190,214</u>	<u>190,214</u>	
Fund Balance, December 31, 2007	<u><u>\$190,214</u></u>	<u><u>\$160,700</u></u>	<u><u>\$173,742</u></u>	<u><u>\$13,042</u></u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
COMMUNITY MENTAL HEALTH SERVICES STATE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Receipts:				
Taxes	\$2,799,177	\$2,199,177	\$2,904,896	\$705,719
Total Receipts	<u>2,799,177</u>	<u>2,199,177</u>	<u>2,904,896</u>	<u>705,719</u>
Disbursements:				
Contract - Services	<u>2,799,177</u>	<u>2,199,177</u>	<u>2,713,909</u>	<u>(514,732)</u>
Total Disbursements	<u>2,799,177</u>	<u>2,199,177</u>	<u>2,713,909</u>	<u>(514,732)</u>
 Total Receipts Over/(Under) Disbursements			190,987	190,987
 Fund Balance, January 1, 2007	<u>(408,984)</u>	<u>(408,984)</u>	<u>(408,984)</u>	
 Fund Balance, December 31, 2007	<u><u>(\$408,984)</u></u>	<u><u>(\$408,984)</u></u>	<u><u>(\$217,997)</u></u>	<u><u>\$190,987</u></u>

See accompanying notes to the basic financial statements.

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

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
MEDICAID MENTAL HEALTH FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>			Variance with Final Budget Over/(Under)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
Receipts:				
Taxes	\$1,652,000	\$1,840,260	\$1,716,958	(\$123,302)
Total Receipts	<u>1,652,000</u>	<u>1,840,260</u>	<u>1,716,958</u>	<u>(123,302)</u>
Disbursements:				
Contract - Services	<u>1,652,000</u>	<u>1,652,000</u>	<u>1,691,085</u>	<u>(39,085)</u>
Total Disbursements	<u>1,652,000</u>	<u>1,652,000</u>	<u>1,691,085</u>	<u>(39,085)</u>
 Total Receipts Over/(Under) Disbursements		188,260	25,873	(162,387)
 Fund Balance, January 1, 2007	<u>(188,260)</u>	<u>(188,260)</u>	<u>(188,260)</u>	
 Fund Balance, December 31, 2007	<u><u>(\$188,260)</u></u>	<u><u>\$0</u></u>	<u><u>(\$162,387)</u></u>	<u><u>(\$162,387)</u></u>

See accompanying notes to the basic financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

1. REPORTING ENTITY

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Board's accounting policies.

A. Basis of Presentation

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

1. Government-wide Financial Statements

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

The statement of net assets presents the cash balance of the governmental activities of the Board at year end. The statement of activities compares disbursements and program receipts for each program or function of the Board's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Board is responsible.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Fund Financial Statements

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

B. Fund Accounting

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

1. Governmental Funds

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

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

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

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

D. Budgetary Process

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

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

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

E. Cash and Investments

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Inventory and Prepaid Items

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

G. Capital Assets

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

H. Accumulated Leave

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

I. Fund Balance Reserves and Designations

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

J. Interfund Activity

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

K. Employer Contributions to Cost-Sharing Pension Plans

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

L. Net Assets

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE

At December 31, 2007, the following funds had deficit balances: Medicaid Mental Health (\$162,387); Community Mental Health Systems (\$217,997), Title XX (\$34,085), PASSAR (\$2,400), Early Childhood Mental Health (\$1,370), Medicaid Alcohol/Drug (\$37,086), Federal Per Capita Treatment (\$229,644), Federal Per Capita Prevention (\$40,039) UMADAOP SAPT Block Grant (\$59,043), Youth Mentoring (\$8,509), and Circle for Recovery (\$5,555). Contrary to Ohio law, the funds above have deficit fund balances, which indicate that revenues from other funds were used to meet the expenses of those funds. Additionally, the Board did not request amended certificates of estimated resources for various funds and had actual expenditures in excess of appropriations in various funds.

4. RESTATEMENT OF PRIOR YEARS BALANCES

During 2007, the Board changed software systems and in the course of transferring the information to the new system found several coding errors for transactions which resulted in the following restatement of fund balances:

	<u>General</u>	<u>Mental Health Systems</u>	<u>Community Mental Health</u>	<u>Other Governmental Funds</u>
Balance as December 31, 2006	\$4,490,886	\$38,953	(\$250,858)	\$309,799
Transaction Coding Errors	2,192	151,261	(158,126)	4,671
Restated Balance at January 1, 2007	<u>\$4,493,078</u>	<u>\$190,214</u>	<u>(\$408,984)</u>	<u>\$314,470</u>

5. EQUITY IN POOLED CASH

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

The Allen County Auditor's records indicated the Board's cash balance as of December 31, 2007, was \$4,935,582.

6. PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the County. Real property tax receipts received in 2007 represent the collection of 2006 taxes. Real property taxes received in 2007 were levied after October 1, 2006, on the assessed values as of January 1, 2006, the lien date.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

6. PROPERTY TAXES (Continued)

Public utility personal property tax received in 2007 represent the collection of 2006 taxes. Public utility tangible personal property taxes received in 2007 became a lien on December 31, 2005, were levied after October 1, 2006, and are collected in 2007 with real property taxes. Public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2007 (other than public utility property) represent the collection of 2007 taxes. Tangible personal property taxes received in 2007 were levied after October 1, 2006, on the true value as of December 31, 2006. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. Tangible personal property is currently being phased out over a four year period and was reduced to 18.75 percent of true value in 2006. The assessment percentage for all property, including inventory, for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008, and zero for 2009.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

The full tax rate for the Mental Health and Recovery Services Board operations for the year ended December 31, 2007, was .50 mills per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2007 property tax receipts were based are as follows:

	<u>Allen</u>	<u>Auglaize</u>	<u>Hardin</u>
Real Property			
Residential/Agriculture			
Commercial/Industrial/Mineral	\$1,642,791,280	\$763,895,820	\$382,421,320
Public Utilities	89,476,040	26,994,640	24,169,130
Tangible Personal Property	192,525,083	75,690,434	28,493,170
Total Assessed Value	<u>\$1,924,782,403</u>	<u>\$866,580,894</u>	<u>\$435,083,620</u>

7. RISK MANAGEMENT

Commercial Insurance

The Board has obtained commercial insurance for the following risks:

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

8. DEFINED BENEFIT PENSION PLAN

The Board participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan.

The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

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

For the year ended December 31, 2007, the members of all three plans were required to contribute 9.5 percent of their annual covered salaries; however, the Board picked up 100 percent of employee contributions. The employer contribution rate for pension benefits for 2007 was 13.85 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Board's required contributions for pension obligations, including the employee portion, to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$65,536, \$55,517, and \$58,400 respectively; 100 percent has been contributed for all years.

9. POST-EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage.

The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in *GASB Statement No. 12 "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Government Employees"*. 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 2007 local government employer contribution rate was 13.85 percent of covered payroll; 5 percent from January through June 2007, and 6 percent, from July through December 2007, of covered payroll was the portion that was used to fund health care.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5 to 5 percent annually for the next eight years and 4 percent annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 374,979. Actual employer contributions for 2007 which were used to fund post employment benefits were \$20,188.

The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 will be effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

10. CONTINGENT LIABILITIES

A. Grants

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

B. Fund Designation

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

The recommended fund balance designation requirement was developed as equal to two months of the total operating budget (2/12). This percentage is then converted to a dollar amount for the current operating year identifying a minimum level. At December 31, 2007, the Board had designated \$1,661,060 for possible future financial shortfalls for contract commitments.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Program Title	Federal CFDA Number	Project Number	Receipts	Disbursements
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Passed Through Ohio Department of Mental Health)				
Block Grants for Community Mental Health Services	93.958	01-BG01PLAN-07 01-BG01PLAN-08	\$70,373 70,372	\$140,745 58,813
Total Block Grants for Community Mental Health Services			<u>\$140,745</u>	<u>\$199,558</u>
Promoting Safe and Stable Families	93.556	FY07 FY08	38,781 21,896	46,315 18,660
Positive Parenting		FY07	<u>5,000</u>	<u>5,000</u>
Total Promoting Safe and Stable Families			65,677	69,975
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	02-TSIG-07-01	18,215	18,215
Community Based Child Abuse Prevention Grants	93.590	FY07 FY08	43,383 17,353	57,428 18,723
Total Community Based Child Abuse Prevention Grants			<u>60,736</u>	<u>76,151</u>
Social Services Block Grant	93.667	FY 07 FY 08	102,728 34,330	68,342 68,415
Total Social Services Block Grant			<u>137,058</u>	<u>136,757</u>
Medical Assistance Program	93.778	FY 07 FY 08	824,010 892,948	1,088,586 602,499
Sub-total Medical Assistance Program			<u>1,716,958</u>	<u>1,691,085</u>
(Passed Through Ohio Depart of Alcohol and Drug Addiction Services)				
Medical Assistance Program	93.778	FY 07 FY 08	184,954 150,716	239,878 96,421
Total Medical Assistance Program			<u>2,052,628</u>	<u>2,027,384</u>
Block Grants for Prevention and Treatment of Substance Abuse	93.959	01-BGD-FY07 01-BGD-FY08	287,690 53,740	303,938 323,422
UMADAOP		0205004-00-UMP-07 0205004-00-UMP-08	109,407 57,728	95,721 116,772
Total Block Grants for Prevention and Treatment of Substance Abuse			<u>508,565</u>	<u>839,853</u>
Total Federal Assistance - U.S. Department of Health and Human Services			<u><u>\$2,983,624</u></u>	<u><u>\$3,367,893</u></u>

See accompanying Notes to the Schedule of Federal Awards.

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – SUBRECIPIENTS

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

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

NOTE C – MATCHING REQUIREMENTS

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mental Health Recovery Services Board of Allen, Auglaize and Hardin Counties, (the Board), as of and for the year ended December 31, 2007, which collectively comprise the Board's basic financial statements and have issued our report thereon dated June 11, 2008 wherein we noted the Board uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Board's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Board's internal control over financial reporting.

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

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

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

We noted certain matters that we reported to the Board's management in a separate letter dated June 11, 2008.

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Compliance and Other Matters

As part of reasonably assuring whether the Board's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-003.

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

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

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

Mary Taylor, CPA
Auditor of State

June 11, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

Compliance

We have audited the compliance of the Mental Health Recovery Services Board of Allen, Auglaize and Hardin Counties, (the Board), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the Board's major federal program. The Board's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Board's compliance based on our audit.

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

In our opinion, the Mental Health Recovery Services Board of Allen, Auglaize and Hardin Counties complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2007.

Internal Control over Compliance

The Board's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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**Internal Control over Compliance
(Continued)**

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

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

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

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



Mary Taylor, CPA
Auditor of State

June 11, 2008

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007**

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 weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control 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)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control 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):	Medicaid Assistance Program (Medicaid Title XIX) CFDA 93.778
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2007-001

Noncompliance – Revenues Less Than Estimated

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

During 2007, there were nine funds, as listed below which received less revenue than was budgeted and for which an amended certificate of estimated resources was not obtained. This resulted in the funds expending more than what was available per the results in Findings 2007-002 and 2007-003.

<u>Fund</u>	<u>Estimated Revenue</u>	<u>Actual Revenue</u>	<u>Variance (Unfavorable)</u>
Youth Mentoring Fund	\$38,500	\$28,875	(\$9,625)
Circle for Recovery	67,500	67,001	(499)
Medicaid Mental Health	1,840,261	1,716,958	(123,303)
Medicaid Alcohol/Drug	356,458	335,671	(20,787)
Federal Per Capita Fund - Treatment	517,580	287,690	(229,890)
Federal Per Capita Fund - Prevention	65,000	26,870	(38,130)
PASARR Fund	12,000	7,600	(4,400)
Early Childhood Mental Health	68,955	60,736	(8,219)
UMADAOP Fund	209,619	167,135	(42,484)

The chief financial officer should request amended certificates of estimated resources from the county budget commission throughout the year as actual revenues increase or decrease.

Officials' Response:

The Board has since purchased and is in the process of implementing a new accounting system that will help to track budgetary changes in an attempt to correct these problems. However, due to the late receipt of the 2006 audit, it made it very difficult for us to correct this problem for 2007.

FINDING NUMBER 2007-002

Noncompliance – Expenditures in Excess of Appropriations

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

During 2007, the following funds had expenditures in excess of appropriations:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Actual Expenditures</u>	<u>Variance (Unfavorable)</u>
State per Capita	\$403,090	\$413,582	(\$10,762)
State Subsidy Fund	3,348,989	4,176,156	(527,167)
Youth Mentoring Fund	41,500	47,681	(6,181)
TANF MOE Fund	59,679	65,961	(6,282)
Circle for Recovery	62,000	67,056	(5,056)
Title XX	135,000	136,757	(1,757)
Medicaid Mental Health	1,652,000	1,691,085	(39,085)
Medicaid Alcohol/Drug	320,000	336,299	(16,299)
Federal Per Capita Fund	517,580	533,582	(16,002)
UMADAOP SAPT Block Grant	195,933	212,493	(16,560)
Criminal Justice and Prevention Treatment	306,000	315,551	(9,551)

The failure to monitor appropriations versus expenditures could result in expenditures exceeding available resources and possibly result in deficit spending.

Budget versus actual reports should be monitored by the Board and modifications approved when necessary. The board should deny payment requests lacking available appropriations.

Officials' Response:

The Board has since purchased and is in the process of implementing a new accounting system that will help to track budgetary changes in an attempt to correct these problems. However, due to the late receipt of the 2006 audit, it made it very difficult for us to correct this problem for 2007. The Board feels that due to the nature of their business, this Finding may be difficult to nearly impossible to eliminate each year. In order for the Board to get a revised budget to the Board of Directors for approval, it is necessary to estimate up to two months worth of revenue and expenses. Coupled with the fact that agency billings are unpredictable and out of our control, expenses could end up over the budgeted amount by the end of the year. This problem is especially difficult to control in relation to Medicaid funding since agencies throughout the state could do catch up billing in the last couple months of a year and the board will be required to pay this within 30 days driving up the expenses for the year.

FINDING NUMBER 2007-003

Noncompliance – Deficit Balances

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

<u>Fund</u>	<u>Deficit Amount</u>
Early Childhood Mental Health	\$1,370
Medicaid Mental Health	162,387
Youth Mentoring	8,509
Medicaid Alcohol/Drug	37,086
Title XX	34,085
Community Mental Health Systems	217,997
Federal Per Capita-Treatment	229,644
Federal Per Capita-Prevention	40,039
Circle for Recovery	5,555
PASARR	2,400
UMADAOP SAPT Block Grant	59,043
Total Deficit Fund Balances	<u>\$761,030</u>

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

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

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

Officials’ Response:

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

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Rev. Code Section 5705.36(A)(2)	No	Repeated as Finding 2007-001
2006-002	Rev. Code Section 5705.41(B)	No	Repeated as Finding 2007-002
2006-003	Rev. Code Section 5705.10, Deficit Fund Balances	No	Repeated as Finding 2007-003



Mary Taylor, CPA
Auditor of State

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

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 29, 2008**