



Dave Yost • Auditor of State



**MENTAL HEALTH & RECOVERY SERVICES BOARD  
MUSKINGUM COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Mental Health & Recovery Services Board  
Muskingum County  
1205 Newark Road  
Zanesville, Ohio 43701

To the Members of the Board:

We have audited the accompanying financial statements of the governmental activities and the major fund of the Mental Health & Recovery Services Board, Muskingum County, Ohio (the Board), as of and for the year ended December 31, 2011, 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 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 and major fund of the Mental Health & Recovery Services Board, Muskingum County, Ohio, as of December 31, 2011, and the changes in cash financial position and the budgetary comparison for the General Fund for the year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 2, during 2011 the Mental Health & Recovery Services Board adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2012, 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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We conducted our audit to opine on the Board's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets and governmental activities. The Federal Awards Expenditures Schedule (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However, these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.



**Dave Yost**  
Auditor of State

July 2, 2012

**Mental Health & Recovery Services Board  
Muskingum County**

Management's Discussion and Analysis  
For the Year Ended December 31, 2011  
Unaudited

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The discussion and analysis of the Mental Health & Recovery Services Board (the Board), financial performance provides an overall review of the Board's financial activities for the year ended December 31, 2011, within the limitations of the Board's cash basis of accounting. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the Board's financial performance.

**Financial Highlights**

Key financial highlights for the year 2011 are as follows:

- Net assets increased \$1,291,331.
- General receipts accounted for \$7,686,574 in receipts or 36 percent of all receipts. Program specific receipts in the form of operating grants and contributions accounted for \$13,584,095 or 64 percent of total receipts of \$21,270,669.
- The Board had \$19,979,338 in disbursements related to governmental activities; only \$13,584,095 of these disbursements was offset by program specific operating grants and contributions. General receipts of \$7,686,574 were adequate to provide for the remainder of these programs.
- The Board's major fund had \$21,270,669 in receipts and \$19,979,338 in disbursements. The cash balance increased \$1,291,331.

**Using this Annual Financial Report**

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, 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 finances. Governmental financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending.

**Reporting the Board as a Whole**

*Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis*

While this document contains information used by the Board to provide programs and services for its service area, the view of the Board as a whole looks at all financial transactions and asks the question, "How did we do financially during calendar year 2011?" The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis answer this question. These two statements report the Board's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Board as a whole, the financial position of the Board has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis, all of the Board's activities are considered to be Governmental Activities.

**Mental Health & Recovery Services Board  
Muskingum County**

Management's Discussion and Analysis  
For the Year Ended December 31, 2011  
Unaudited  
(Continued)

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**Reporting the Board as a Whole (Continued)**

*Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis (Continued)*

Governmental Activities – The Board's only program and associated services are reported here.

**Reporting the Board's Governmental Financial Statements**

*Governmental Financial Statements*

Governmental financial statements provide detailed information about the Board. The Board's activities are reported in the governmental financial statements, which focus on how money flows and the balance left at year end available for spending in future periods. These governmental financial statements are reported on a cash basis of accounting. The governmental financial statements provide a detailed short-term view of the Board's mental health and dependency rehabilitation operations and the services they provide. Governmental information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance mental health and dependency rehabilitation programs.

**The Board as a Whole**

Recall that the Statement of Net Assets – Cash Basis provides the perspective of the Board as a whole. Table 1 provides a summary of the Board's net assets for 2011 compared to 2010

**Table 1  
Net Assets – Cash Basis**

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	<u>\$7,341,751</u>	<u>\$6,050,420</u>
<b>Net Assets</b>		
Unrestricted	<u>\$7,341,751</u>	<u>\$6,050,420</u>
<b>Total Net Assets</b>	<u><u>\$7,341,751</u></u>	<u><u>\$6,050,420</u></u>

Total assets increased \$1,291,331. The increase is due primarily to increased Medicaid revenue and some additional levy funds. The Board continues to attempt to control costs in a time of rising costs.

Table 2 shows the changes in net assets for the year ended December 31, 2011, and comparisons to December 31, 2010.



**Mental Health & Recovery Services Board  
Muskingum County**

Management's Discussion and Analysis  
For the Year Ended December 31, 2011  
Unaudited  
(Continued)

**Table 2  
Changes in Net Assets**

	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
<b>Receipts</b>		
Program Cash Receipts		
Operating Grants and Contributions	\$13,584,095	\$13,032,181
Total Program Cash Receipts	13,584,095	13,032,181
General Receipts		
Property Taxes Levied for General Purposes	2,446,929	2,165,551
Entitlements – Unrestricted	5,239,645	5,528,426
Total General Receipts	7,686,574	7,693,977
<b>Total Receipts</b>	<b>21,270,669</b>	<b>20,726,158</b>
<b>Disbursements:</b>		
Mental Health and Dependency Rehabilitation	19,979,338	19,490,768
<b>Total Disbursements</b>	<b>19,979,338</b>	<b>19,490,768</b>
<b>Change in Net Assets</b>	<b>\$1,291,331</b>	<b>\$1,235,390</b>

In 2011, 36 percent of the Board's total receipts were from general receipts, consisting mainly of property taxes and unrestricted state entitlements. Program cash receipts accounted for 64 percent of the Board's total receipts in year 2011. These receipts consist primarily of Medicaid and its matching funds, and federal operating grants.

The increase in mental health and dependency rehabilitation disbursements is mainly attributable to an increase in Medicaid services disbursements. Payments to contract service providers are based on Medicaid billings and timing of 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 services. In other words, it identifies the cost of those services supported by property tax receipts and unrestricted state entitlements.

**Mental Health & Recovery Services Board  
Muskingum County**

Management's Discussion and Analysis  
For the Year Ended December 31, 2011  
Unaudited  
(Continued)

**Table 3  
Governmental Activities**

	<u>Total Cost of Services 2011</u>	<u>Net Cost of Services 2011</u>	<u>Total Cost of Services 2010</u>	<u>Net Cost of Services 2010</u>
Mental Health and Dependency Rehabilitation:				
Salaries	\$386,388	\$317,220	\$408,629	\$358,867
Supplies	5,926	5,926	6,440	6,440
Materials	341	341	506	506
Equipment	2,039	2,039	0	0
Contracts – Repairs	1,997	1,997	1,075	1,075
Contracts-Services	19,356,252	5,844,985	18,699,442	5,766,138
Rentals	23,100	20,142	23,100	23,100
Advertising and Printing	886	886	1,793	1,793
Travel and Expenses	14,707	14,005	14,762	14,762
Public Employee's Retirement	52,139	52,139	57,260	57,260
Worker's Compensation	9,365	9,365	10,912	10,912
Construction	0	0	29,580	(19,535)
Insurance	35,546	35,546	145,926	145,926
Other Expenses	26,499	26,499	28,583	28,583
Medicare	4,222	4,222	4,608	4,608
Utilities	35,099	35,099	37,195	37,195
Tax Settlement Deduction	24,832	24,832	20,957	20,957
<b>Total Disbursements</b>	<u>\$19,979,338</u>	<u>\$6,395,243</u>	<u>\$19,490,768</u>	<u>\$6,458,587</u>

The dependence upon state entitlements for governmental activities is apparent as 32 percent of mental health and dependency rehabilitation costs are supported through unrestricted state entitlements and other general receipts.

**The Board's Governmental Financial Statements**

The Board's governmental financial statements are accounted for using the cash basis of accounting. The governmental financial statements had total receipts of \$21,270,669 and disbursements of \$19,979,338. The financial statements had an increase in the cash balance of \$1,291,331.

**Budgeting Highlights**

The Board's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

During the course of 2011, the Board amended its appropriations, and the budgetary statement reflects both the original and final appropriated amounts.

**Mental Health & Recovery Services Board  
Muskingum County**

Management's Discussion and Analysis  
For the Year Ended December 31, 2011  
Unaudited  
(Continued)

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**Debt and Capital Asset Acquisitions**

In 2004 and in 2009 the Board entered into a contract/note with the Ohio Department of Mental Health concerning the residential facility on Liberty School Road in Cambridge, Ohio. See Note 6 for additional details. In addition, the Board entered into another contract/note with the Ohio Department of Mental Health for the renovation of the outpatient facility in Morgan County in 2009.

**Economic Factors**

The Board contracts with nine provider agencies to deliver mental health and substance abuse services to the residents of Coshocton, Guernsey, Morgan, Muskingum, Noble and Perry counties.

The Board will be challenged to maintain the current level of services and programs due to the reductions in state and federal funding. 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, and providers with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Rod Hollingsworth, Executive Director, at Mental Health and Recovery Services Board, 1205 Newark Road, Zanesville, Ohio 43701.

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**Mental Health & Recovery Services Board  
Muskingum County**

*Statement of Net Assets - Cash Basis  
December 31, 2011*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$7,341,751</u>
<i>Total Assets</i>	<u>7,341,751</u>
<b>Net Assets</b>	
Unrestricted	<u>7,341,751</u>
<i>Total Net Assets</i>	<u><u>\$7,341,751</u></u>
See accompanying notes to the basic financial statements	

**Mental Health & Recovery Services Board  
Muskingum County**

*Statement of Activities - Cash Basis  
For the Fiscal Year Ended December 31, 2011*

	Cash Disbursements	Program Cash Receipts Operating Grants and Contributions	Net (Disbursements) Receipts and Changes in Net Assets Governmental Activities
<b>Governmental Activities</b>			
Mental Health and Dependency Rehabilitation:			
Salaries	\$386,388	\$69,168	(\$317,220)
Supplies	5,926		(5,926)
Materials	341		(341)
Equipment	2,039		(2,039)
Contracts - Repairs	1,997		(1,997)
Contracts - Services (Net of \$49,805 in contract agency reimbursements)	19,356,252	13,511,267	(5,844,985)
Rentals	23,100	2,958	(20,142)
Advertising and Printing	886		(886)
Travel and Expenses (Net of \$757 in agency reimbursements)	14,707	702	(14,005)
Public Employee's Retirement	52,139		(52,139)
Worker's Compensation	9,365		(9,365)
Insurance (Net of \$1,771,244 in contract agency reimbursements)	35,546		(35,546)
Other Expenses	26,499		(26,499)
Medicare	4,222		(4,222)
Utilities (Net of \$94 in reimbursements)	35,099		(35,099)
Tax Settlement Deduction	24,832		(24,832)
<i>Total Governmental Activities</i>	<b>\$19,979,338</b>	<b>\$13,584,095</b>	<b>(6,395,243)</b>
<b>General Receipts</b>			
Property Taxes Levied for General Purposes			2,446,929
Entitlements - Unrestricted			5,239,645
<i>Total General Receipts</i>			<b>7,686,574</b>
Change in Net Assets			1,291,331
<i>Net Assets Beginning of Year</i>			<b>6,050,420</b>
<i>Net Assets End of Year</i>			<b>\$7,341,751</b>

See accompanying notes to the basic financial statements

**Mental Health & Recovery Services Board  
Muskingum County**

*Statement of Assets and Fund Balance - Cash Basis  
Governmental Fund  
December 31, 2011*

	<u><b>General Fund</b></u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$7,341,751</u>
<i>Total Assets</i>	<u><u>\$7,341,751</u></u>
<b>Fund Balance</b>	
Assigned	\$31,850
Unassigned	<u>7,309,901</u>
<i>Total Fund Balance</i>	<u><u>\$7,341,751</u></u>

See accompanying notes to the basic financial statements

**Mental Health & Recovery Services Board  
Muskingum County**

*Statement of Receipts, Disbursements and Changes in Fund Balance - Cash Basis  
Governmental Fund  
For the Fiscal Year Ended December 31, 2011*

	<b>General Fund</b>
<b>Receipts</b>	
Taxes	\$2,446,929
Grants	18,823,740
	<b>21,270,669</b>
<b>Disbursements</b>	
Current:	
Salaries	386,388
Supplies	5,926
Materials	341
Equipment	2,039
Contracts - Repairs	1,997
Contracts - Services (Net of \$49,805 in contract agency reimbursements)	19,356,252
Rentals	23,100
Advertising and Printing	886
Travel and Expenses (Net of \$757 in reimbursements)	14,707
Public Employee's Retirement	52,139
Worker's Compensation	9,365
Insurance (Net of \$1,771,244 in contract agency reimbursements)	35,546
Other Expenses	26,499
Medicare	4,222
Utilities (Net of \$94 in reimbursements)	35,099
Tax Settlement Deduction	24,832
	<b>19,979,338</b>
<i>Total Disbursements</i>	<b>19,979,338</b>
<i>Excess of Receipts Over/(Under) Disbursements</i>	<b>1,291,331</b>
<i>Fund Balance Beginning of Year</i>	<b>6,050,420</b>
<i>Fund Balance End of Year</i>	<b>\$7,341,751</b>

See accompanying notes to the basic financial statements



**Mental Health & Recovery Services Board  
Muskingum County**

*Statement of Receipts, Disbursements and Changes  
In Fund Balance - Budget and Actual - Budget Basis  
General Fund  
For the Year Ended December 31, 2011*

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Receipts</b>				
Property Taxes	\$1,811,381	\$2,424,177	\$2,446,929	\$22,752
Grants	17,471,107	18,190,235	18,823,740	633,505
Reimbursements	1,743,230	1,767,141	1,821,897	54,756
<i>Total Receipts</i>	<u>21,025,718</u>	<u>22,381,553</u>	<u>23,092,566</u>	<u>711,013</u>
<b>Disbursements</b>				
Current:				
Salaries	406,355	406,355	386,388	19,967
Supplies	11,500	11,500	5,926	5,574
Materials	800	800	341	459
Equipment	3,000	8,000	2,039	5,961
Contracts - Repairs	4,100	4,100	1,997	2,103
Contracts - Services	19,764,363	24,543,613	19,406,054	5,137,559
Rentals	23,100	23,100	23,100	0
Advertising and Printing	3,200	3,200	886	2,314
Travel and Expenses	20,675	20,675	15,464	5,211
Public Employee's Retirement	56,900	56,900	52,139	4,761
Worker's Compensation	11,000	11,000	9,365	1,635
Unemployment Compensation	2,000	2,000		2,000
Insurance	1,771,000	1,881,000	1,806,790	74,210
Other Expenses	33,250	33,250	26,499	6,751
Medicare	4,800	4,800	4,222	578
Utilities	40,250	40,250	35,193	5,057
Tax Settlement Deduction	24,200	24,950	24,832	118
<i>Total Disbursements</i>	<u>22,180,493</u>	<u>27,075,493</u>	<u>21,801,235</u>	<u>5,274,258</u>
<i>Net Change in Fund Balance</i>	(1,154,775)	(4,693,940)	1,291,331	5,985,271
<i>Unencumbered Fund Balance Beginning of Year</i>	4,895,645	4,895,645	4,895,645	0
Prior Year Encumbrances Appropriated	1,154,775	1,154,775	1,154,775	0
<i>Unencumbered Fund Balance End of Year</i>	<u>\$4,895,645</u>	<u>\$1,356,480</u>	<u>\$7,341,751</u>	<u>\$5,985,271</u>

See accompanying notes to the basic financial statements

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**Mental Health & Recovery Services Board  
Muskingum County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2011

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***Note 1 – Description of the Reporting Entity***

The constitution and laws of the State of Ohio establish the rights and privileges of the Mental Health & Recovery Services Board, Muskingum County (the Board), as a body corporate and politic. An eighteen member Board is the governing body. Members shall be residents of the Board's six-county area. The Director of the Ohio Department of Mental Health shall appoint four members, the Director of the Ohio Department of Alcohol and Drug Addiction Services shall appoint four members, and the remaining ten members shall be appointed by the County Commissioners of Coshocton, Guernsey, Morgan, Muskingum, Noble and Perry counties proportionate to population. The Board provides alcohol, drug addiction, and mental health services and programs to citizens of the Board area. These services are provided primarily through contracts with not-for-profit agencies.

The Board participates in the Eastern Alliance Council of Governments which is defined as a jointly governed organization. Additionally information concerning the jointly governed organization is discussed in Note 11.

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

***Reporting Entity***

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 Board has no component units.

***Note 2 - Summary of Significant Accounting Policies***

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: 1) encumbrances outstanding at the beginning and end of the fiscal year, and 2) budgetary expenditures reflect gross expenditures where cash disbursements reflect amounts net of reimbursements from provider agencies.

***A. Fund Accounting***

The Board uses one fund (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 used to account for the Board's general operations.

**Mental Health & Recovery Services Board  
Muskingum County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2011  
(Continued)

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation**

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 presents the financial condition of the governmental activities of the Board at year-end. The Statement of Activities presents a comparison between direct disbursements and program cash receipts for the program of the Board's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program cash receipts include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program cash receipts are presented as general receipts of the Board. The comparison of direct disbursements with program cash receipts identifies the extent to which each governmental function is self-financing or draws from the general receipts of the Board.

**Governmental Financial Statements:** Governmental financial statements are intended to report more detailed information about the Board. While the focus of governmental financial statements is on major funds, the Board only utilizes one fund, resulting in the governmental financial statements reporting that is similar to that of the government-wide financial statements.

**C. Basis of Accounting**

The Government-wide Statement of Net Assets and Statement of Activities and the governmental financial statements are presented using the cash basis of accounting. This basis recognizes cash assets, 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 Board utilized the basis of accounting recognized as generally accepted, the governmental financial statements for governmental funds would use the modified accrual basis of accounting, while the governmental financial statements for proprietary fund types would use the accrual basis of accounting.

**D. Cash, Cash Equivalents and Investments**

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. The Muskingum County Treasurer's office is located in the Muskingum County Court House at 4<sup>th</sup> and Main Street, Zanesville, Ohio 43701. The phone number is (740) 455-7109.

**Mental Health & Recovery Services Board  
Muskingum County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2011  
(Continued)

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**E. Budgetary Data**

Ohio law requires all funds, other than agency funds, to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use 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 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 estimated 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 for that fund 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.

**F. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Board is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**Nonspendable** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

**Restricted** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**Committed** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Mental Health & Recovery Services Board  
Muskingum County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2011  
(Continued)

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**F. Fund Balance (Continued)**

**Assigned** Amounts in the assigned fund balance classification are intended to be used by the Board for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Board applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**Note 3 - Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Board is bound to observe constraints imposed upon the use of the resources in its fund. The constraints placed on fund balance for the Board's fund are presented below:

Fund Balance	General Fund
Assigned to:	
Encumbrances	\$31,850
<i>Total Assigned</i>	<u>31,850</u>
Unassigned	7,309,901
<i>Total Fund Balance</i>	<u><u>\$7,341,751</u></u>

**Note 4 - Property Taxes**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board adopts rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Taxes. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Board.

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30.

**Mental Health & Recovery Services Board  
Muskingum County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2011  
(Continued)

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**Note 4 - Property Taxes (Continued)**

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Board.

**Note 5 - Risk Management**

**Commercial Insurance**

The Board has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Automobile;
- Directors, officers, trustees and organization liability;
- Employment practices liability;
- Medical professional liability; and
- Public employee blanket bond including faithful performance and position.

The Board provides health, vision, life, and long-term disability insurance to full-time employees through private carriers.

**Note 6 – Debt**

Debt outstanding at December 31, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Promissory Note	\$110,969	variable 4% - 11%

The promissory note was issued in December 2003 to finance the acquisition and development of 9.89 acres of real property at 9259 Liberty School Road, Cambridge, Ohio. The property was converted into a 16 bed residential facility. Renovations were completed and the facility was operational in October 2004. The note is collateralized by an open-ended mortgage on the property financed and held by a financial institution.

The Liberty Manor residential facility is operated by the Board and the Mental Health and Recovery Services Board serving Belmont, Harrison and Monroe Counties, Ohio. The Eastern Alliance Council of Governments, of which these two Boards are members, acts as the fiscal agent. By agreement, the Muskingum County Mental Health and Recovery Services Board is to be reimbursed the amount of the loan repayments for the above debt from funds received from the residents as payment of rent.

Amortization of the above debt, including interest, is scheduled as follows:

**Mental Health & Recovery Services Board  
Muskingum County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2011  
(Continued)

**Note 6 – Debt (Continued)**

Year ending December 31:	Promissory Note
2012	\$11,879
2013	11,879
2014	11,879
2015	11,879
2016	11,879
2017-2024	91,420
Total	\$150,815

On March 11, 2004, the Board entered into a contract/note with the Ohio Department of Mental Health for \$150,000. The note is secured by a mortgage deed on the property located at 9259 Liberty School Road, Cambridge, Ohio. The payment of principal will be forgiven by the Ohio Department of Mental Health in 480 equal installments beginning the first day of April 2004 and forgivable upon the first day of each month thereafter until and including the first day of April 2044 providing there is no transfer by sale, gift, devise, operation of law or otherwise of the title in all or part of the said premises. If such a transfer should occur, the remaining balance shall be immediately due and payable to the Ohio Department of Mental Health. The Board received 90% or \$135,000 of this state funding on May 10, 2004. The final 10% or \$15,000 was paid on December 3, 2004, after completion of the renovation.

On May 14, 2009, the Board entered into another contract/note with the Ohio Department of Mental Health for \$171,710. The note is secured by a mortgage deed on the property located at 9259 Liberty School Road, Cambridge, Ohio. The payment of principal will be forgiven by the Ohio Department of Mental Health in 480 equal installments beginning the first day of May 2009 and forgivable upon the first day of each month thereafter until and including the first day of May 2049 providing there is no transfer by sale, gift, devise, operation of law or otherwise of title in all or part of the said premises. If such transfer should occur, the remaining balance shall be immediately due and payable to the Ohio Department of Mental Health. The Board will receive 100 percent state funding for this project. The Board received \$128,680 and \$42,110 in state funding on July 30, 2009 and October 6, 2009, respectively. The Board received the final payment on April 28, 2010 for \$920.

On May 14, 2009, the Board entered into a contract/note with the Ohio Department of Mental Health for \$420,100. The note is secured by a mortgage deed on the property located at 915 South Riverside Drive, McConnelsville, Ohio. The payment of principal will be forgiven by the Ohio Department of Mental Health in 480 equal installments beginning the first day of May 2009 and forgivable upon the first day of each month thereafter until and including the first day of May 2049 providing there is no transfer by sale, gift, devise, operation of all of otherwise of the title in all or part of the said premises. If such a transfer should occur, the remaining balance shall be immediately due and payable to the Ohio Department of Mental Health. The Board will receive 100 percent state funding for this project. The Board received state funding in the amounts of \$79,417 on August 3, 2009, \$100,123 on October 6, 2009, \$82,123 on November 17, 2009, \$110,241 on December 22, 2009 and the final payment of \$48,196 on April 28, 2010.



**Mental Health & Recovery Services Board  
Muskingum County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2011  
(Continued)

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**Note 7 – Defined Benefit Pension Plans**

**Ohio Public Employees Retirement System**

The Muskingum County Auditor serves as the fiscal agent for the Board. The Board's employees are paid through Muskingum County's payroll system and the following Muskingum County note disclosure is included as it relates to the Board.

Plan Description – The County 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. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional pension plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the member-directed plan.

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. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll. Members in the state and local divisions may participate in all three plans. For 2011, member and employer contribution rates were consistent across all three plans.

The County's 2011 contribution rate was 14 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.5 percent for 2011. Employer contribution rates are actuarially determined.

The County's required contributions for pension obligations to the traditional pension and combined plans for the years ended December 31, 2011, 2010 and 2009 were \$3,563,643, \$2,723,207, and \$2,505,810 respectively. For 2011, 96 percent has been contributed. The full amount has been contributed for 2010 and 2009. Contributions to the Member Directed plan for 2011 were \$68,992 made by the County and \$49,280 made by the plan members.

**Mental Health & Recovery Services Board  
Muskingum County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2011  
(Continued)

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**Note 8 – Post-Employment Benefits**

**Ohio Public Employees Retirement System (OPERS)**

The Muskingum County Auditor serves as the fiscal agent for the Board. The Board's employees are paid through Muskingum County's payroll system and the following Muskingum County note disclosure is included as it relates to the Board.

Plan Description – OPERS maintains a cost sharing multiple employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment health care coverage, age-and-service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The County's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$1,369,790, \$1,559,229, and \$1,829,177 respectively; 96 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

**Mental Health & Recovery Services Board  
Muskingum County**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2011  
(Continued)

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**Note 8 – Post-Employment Benefits (Continued)**

**Ohio Public Employees Retirement System (OPERS) (Continued)**

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

**Note 9 – Reimbursements**

The Board makes a number of cash disbursements on behalf of provider agencies and is later reimbursed for these out-of-pocket expenses. Cash disbursements made on behalf of provider agencies include payments made for insurance coverage, contract services (audit costs) and office supplies.

The Statement of Activities – Cash Basis and the Statement of Receipts, Disbursements and Changes in Fund Balance – Cash Basis include neither the reimbursements from provider agencies nor the cash disbursements made on behalf of provider agencies. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual - Budget Basis does include the reimbursement activity since the Board includes this activity within its budget. The budgetary statement also includes encumbrances as disbursements since encumbrances are required by law when purchase commitments are made.

**Note 10 - Contingencies**

**A. Grants**

The Board receives financial assistance from federal and state agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Board. However, in the opinion of management, any such disallowed claims would not have a material adverse effect on the overall financial position of the Board at December 31, 2011.

**Note 11 - Jointly Governed Organization**

The Board is a member of the Eastern Alliance Council of Governments (Council), which is a jointly governed organization, consisting of three Alcohol, Drug Addiction and Mental Health Services Boards serving Jefferson, Coshocton, Guernsey, Morgan, Muskingum, Noble, Perry, Belmont, Harrison, and Monroe Counties. The Council was established under Chapter 167 of the Ohio Revised Code. The purpose of the Council is to promote cooperative agreements and coordinated action among members, state departments, and other local service entities, develop and implement joint quality improvement activities on a regional basis, plan, develop, fund and administer joint residential programming for target populations, and optimize comprehensive planning and program development.

The Council is managed by a board of trustees composed of the Executive Director, or Director's designee, from each of its members. The continued existence of the Council is not dependent on the Board's continued participation and the Board has no equity interest or financial responsibility for the Council. During 2011, the Board contributed \$10,000 for reimbursements. In addition, debt payments were made on behalf of the Board by the Council as discussed in Note 6.

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**MENTAL HEALTH & RECOVERY SERVICES BOARD  
MUSKINGUM COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>FEDERAL GRANTOR/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Disbursements</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services:</i>			
Vocational Rehabilitation Administration	60-0060-VOCRHB-T-12-11132	84.126	\$44,354
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<i>Passed Through Ohio Department of Mental Health:</i>			
Federal Child Care Quality	N/A	93.596	24,681
Social Services Block Grant	N/A	93.667	183,449
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services:</i>			
State Children's Insurance Program	N/A	93.767	44,881
<i>Passed Through Ohio Department of Mental Health:</i>			
State Children's Insurance Program	N/A	93.767	<u>317,882</u>
Total State Children's Insurance Program			362,763
Medical Assistance Program	N/A	93.778	4,727,839
ARRA - Medical Assistance Program	N/A	93.778	352,450
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services:</i>			
Medical Assistance Program	N/A	93.778	557,466
ARRA - Medical Assistance Program	N/A	93.778	<u>41,736</u>
Total Medical Assistance Program			5,679,491
<i>Passed Through Ohio Department of Mental Health:</i>			
Block Grants for Prevention and Treatment of Substance Abuse	N/A	93.959	152,626
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services:</i>			
Block Grants for Prevention and Treatment of Substance Abuse	N/A	93.959	659,452
Women's Comprehensive Recovery Program	60-1431-Women's-T-11-9000		<u>288,240</u>
Total Block Grants for Prevention and Treatment of Substance Abuse			<u>947,692</u>
Total U.S. Department of Health and Human Services			<u>7,350,702</u>
<b>Total Federal Awards Expenditures</b>			<b><u><u>\$7,395,056</u></u></b>

*The Notes to the Federal Awards Expenditures Schedule are an integral part of this Schedule.*

**MENTAL HEALTH & RECOVERY SERVICES BOARD  
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Mental Health & Recovery Services Board's (the Board's) federal award programs' disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - MATCHING REQUIREMENTS**

Certain Federal programs require the Board to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Board has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



# Dave Yost • 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 & Recovery Services Board  
Muskingum County  
1205 Newark Road  
Zanesville, Ohio 43701

To the Members of the Board:

We have audited the financial statements of the governmental activities and the major fund of the Mental Health & Recovery Services Board, Muskingum County, Ohio (the Board), as of and for the year ended December 31, 2011, which collectively comprise the Board's basic financial statements and have issued our report thereon dated July 2, 2012, wherein we noted the Board uses a comprehensive accounting basis other than generally accepted accounting principles and adopted Governmental Accounting Standards Board Statement No. 54. 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2011-001 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

The Board's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Board's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

July 2, 2012





# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Mental Health & Recovery Services Board  
Muskingum County  
1205 Newark Road  
Zanesville, Ohio 43701

To the Members of the Board:

### Compliance

We have audited the compliance of the Mental Health & Recovery Services Board, Muskingum 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 could directly and materially affect each of the Board's major federal programs for the year ended December 31, 2011. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Board's major federal programs. 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 opine on the Board's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 these 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 these requirements.

In our opinion, the Board complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2011.

### 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, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Board's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We intend this report solely for the information and use of the audit committee, management, the Board members, others within the entity, 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 "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

July 2, 2012

**MENTAL HEALTH & RECOVERY SERVICES BOARD  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2011**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Medical Assistance Program – CFDA #93.778 State Children's Insurance Program – CFDA #93.767
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

**Significant Deficiency**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, introduces five fund balance classifications and clarifies the existing governmental fund type definitions. The fund balance classifications relate to constraints placed upon the use of resources reported in governmental funds. The five classifications are nonspendable, restricted, committed, assigned and unassigned. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

During 2011, the Board failed to implement GASB Statement No. 54 requirements. This resulted in adjustments being necessary to the Board's financial statements and additional disclosures being necessary in the Board's notes to the basic financial statements.

We recommend the Board follow the requirements of GASB Statement No. 54 when preparing its financial statements each year. In addition, we recommend the Board remain alert to all new accounting pronouncements and implement these requirements when required.

**MENTAL HEALTH & RECOVERY SERVICES BOARD  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2011  
(Continued)**

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

**Officials' Response:** In future audits, the fund balance will be presented in accordance with GASB 54.

**3. FINDINGS FOR FEDERAL AWARDS**

None.



# Dave Yost • Auditor of State

**MENTAL HEALTH AND RECOVERY SERVICE BOARD**

**MUSKINGUM 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 24, 2012**