



Dave Yost • Auditor of State



**MENTAL HEALTH & RECOVERY SERVICES BOARD  
MUSKINGUM COUNTY  
DECEMBER 31, 2016**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Members of the Board:

### ***Report on the Financial Statements***

We have audited the accompanying cash basis 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, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Board's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinion***

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 the major fund of the Mental Health & Recovery Services Board, Muskingum County, Ohio, as of December 31, 2016, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

We draw attention to Note 2 of the financial statements, which describes the accounting basis. The financial statements are prepared on the cash basis of accounting, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Other Matters***

*Supplemental Information*

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Other Information*

We applied no procedures to the Management's Discussion & Analysis as listed in the Table of Contents. Accordingly, we express no opinion or any other assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

June 26, 2017

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

Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

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The discussion and analysis of the Mental Health & Recovery Services Board's (the Board), financial performance provides an overall review of the Board's financial activities for the year ended December 31, 2016, 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 2016 are as follows:

- Net position increased by \$677,406.
- General receipts accounted for \$7,399,537 in receipts or 79 percent of all receipts. Program specific receipts in the form of operating grants and contributions accounted for \$1,913,805 or 21 percent of total receipts of \$9,313,342.
- The Board had \$8,635,936 in disbursements related to governmental activities; \$1,913,805 of these disbursements was offset by program specific operating grants and contributions. General receipts of \$7,399,537 were adequate to provide for the remainder of these programs.
- The Board's major fund had \$9,313,342 in receipts and \$8,635,936 in disbursements. The cash balance increased \$677,406.

**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 Position – 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 Position – 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 2016?" The Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis answer this question. These two statements report the Board's net position and changes in those assets. This change in net position 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 Position – 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, 2016  
Unaudited  
(Continued)

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

*Statement of Net Position – 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 Position – Cash Basis provides the perspective of the Board as a whole. Table 1 provides a summary of the Board's net position for 2016 compared to 2015.

**Table 1  
Net Position – Cash Basis**

|  | <b>Governmental Activities</b> |                    |
|--|--------------------------------|--------------------|
|  | <b>2016</b>                    | <b>2015</b>        |
| <b>Assets</b>                              |                                |                    |
| Equity in Pooled Cash and Cash Equivalents | <u>\$7,025,907</u>             | <u>\$6,348,501</u> |
| <b>Net Position</b>                        |                                |                    |
| Unrestricted                               | <u>\$7,025,907</u>             | <u>\$6,348,501</u> |
| <b>Total Net Position</b>                  | <u>\$7,025,907</u>             | <u>\$6,348,501</u> |

Total assets increased \$677,406. The increase is due primarily to increased state revenue. The Board continues to attempt to control costs in a time of rising costs.

Table 2 shows the changes in net position for the year ended December 31, 2016, and comparisons to December 31, 2015.

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

Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited  
(Continued)

**Table 2  
Changes in Net Position**

|   | <b>Governmental Activities</b> |                    |
|---|--------------------------------|--------------------|
|   | <b>2016</b>                    | <b>2015</b>        |
| <b>Receipts</b>                             |                                |                    |
| Program Cash Receipts                       |                                |                    |
| Operating Grants and Contributions          | \$1,913,805                    | \$1,739,238        |
| Total Program Cash Receipts                 | 1,913,805                      | 1,739,238          |
| General Receipts                            |                                |                    |
| Property Taxes Levied for General Purposes  | 3,121,602                      | 2,987,869          |
| Entitlements – Unrestricted                 | 4,277,935                      | 3,836,672          |
| Total General Receipts                      | 7,399,537                      | 6,824,541          |
| <b>Total Receipts</b>                       | <b>9,313,342</b>               | <b>8,563,779</b>   |
| <b>Disbursements:</b>                       |                                |                    |
| Mental Health and Dependency Rehabilitation | 8,635,936                      | 8,918,620          |
| <b>Total Disbursements</b>                  | <b>8,635,936</b>               | <b>8,918,620</b>   |
| <b>Change in Net Position</b>               | <b>\$677,406</b>               | <b>(\$354,841)</b> |

In 2016, 79 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 21 percent of the Board's total receipts in year 2016. These receipts consist primarily of federal operating grants.

The Statement of Activities – Cash Basis shows the cost of program services and the operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of 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, 2016  
Unaudited  
(Continued)

**Table 3  
Governmental Activities**

|  | <b>Total Cost<br/>of<br/>Services<br/>2016</b> | <b>Net Cost of<br/>Services<br/>2016</b> | <b>Total Cost<br/>of<br/>Services<br/>2015</b> | <b>Net Cost of<br/>Services<br/>2015</b> |
|--|--|--|--|--|
| Mental Health and Dependency Rehabilitation: |  |  |  |  |
| Salaries                                     | \$416,845                                      | \$381,212                                | \$415,729                                      | \$384,910                                |
| Supplies                                     | 6,335  | 6,335                                    | 7,085  | 7,085                                    |
| Materials                                    | 109  | 109                                      | 317  | 317                                      |
| Equipment                                    | 7,001  | 7,001                                    | 9,752  | 9,752                                    |
| Contracts - Services                         | 7,878,881                                      | 6,000,787                                | 8,158,768                                      | 6,450,349                                |
| Professional Services                        | 30,089   | 30,089                                   | 63,493   | 63,493                                   |
| Rentals                                      | 23,100   | 23,100                                   | 23,100   | 23,100                                   |
| Advertising and Printing                     | 7,620  | 7,620                                    | 16,397   | 16,397                                   |
| Travel and Expenses                          | 17,091   | 17,013                                   | 18,446   | 18,446                                   |
| Public Employee's Retirement                 | 58,160   | 58,160                                   | 55,939   | 55,939                                   |
| Worker's Compensation                        | 4,104  | 4,104                                    | 5,312  | 5,312                                    |
| Insurance                                    | 88,077   | 88,077                                   | 44,925   | 44,925                                   |
| Other Expenses                               | 33,367   | 33,367                                   | 35,057   | 35,057                                   |
| Medicare                                     | 5,901  | 5,901                                    | 5,889  | 5,889                                    |
| Utilities                                    | 30,754   | 30,754                                   | 31,730   | 31,730                                   |
| Tax Settlement Deduction                     | 28,502   | 28,502                                   | 26,681   | 26,681                                   |
| <b>Total Disbursements</b>                   | <b>\$8,635,936</b>                             | <b>\$6,722,131</b>                       | <b>\$8,918,620</b>                             | <b>\$7,179,382</b>                       |

The dependence upon state entitlements and local levies for governmental activities is apparent as 80 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 \$9,313,342 and disbursements of \$8,635,936. The financial statements had a increase in the cash balance of \$677,406.

**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 2016, 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, 2016  
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 7 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 Vickie Hare, 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 Position - Cash Basis  
December 31, 2016*

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b>Assets</b>                              |                                    |
| Equity in Pooled Cash and Cash Equivalents | <u>\$ 7,025,907</u>                |
| <i>Total Assets</i>                        | <u>7,025,907</u>                   |
| <b>Net Position</b>                        |                                    |
| Unrestricted                               | <u>7,025,907</u>                   |
| <i>Total Net Position</i>                  | <u>\$ 7,025,907</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, 2016*

|   | Cash<br>Disbursements | Program<br>Cash Receipts              | Net (Disbursements)<br>Receipts<br>and Changes<br>in Net Position |
|---|-----------------------|---------------------------------------|---|
|   |                       | Operating Grants<br>and Contributions | Governmental<br>Activities  |
| <b>Governmental Activities</b>                                      |                       |                                       |   |
| <i>Mental Health and Dependency Rehabilitation:</i>                 |                       |                                       |   |
| Salaries  | \$ 416,845            | \$ 35,633                             | \$ (381,212)  |
| Supplies  | 6,335                 |                                       | (6,335)   |
| Materials   | 109                   |                                       | (109)   |
| Equipment   | 7,001                 |                                       | (7,001)   |
| Contracts - Services (Net of \$1 in contract agency reimbursements) | 7,878,881             | 1,878,094                             | (6,000,787)   |
| Professional Services (Net of \$178,333 in reimbursement)           | 30,089                |                                       | (30,089)  |
| Rentals   | 23,100                |                                       | (23,100)  |
| Advertising and Printing  | 7,620                 |                                       | (7,620)   |
| Travel and Expenses (Net of \$5 in reimbursement)                   | 17,091                | 78                                    | (17,013)  |
| Public Employee's Retirement  | 58,160                |                                       | (58,160)  |
| Worker's Compensation (Net of \$4,751 in reimbursement)             | 4,104                 |                                       | (4,104)   |
| Insurance (Net of \$2,407,969 in contract agency reimbursements)    | 88,077                |                                       | (88,077)  |
| Other Expenses (Net of \$6,200 in reimbursement)                    | 33,367                |                                       | (33,367)  |
| Medicare  | 5,901                 |                                       | (5,901)   |
| Utilities (Net of \$113 in reimbursements)                          | 30,754                |                                       | (30,754)  |
| Tax Settlement Deduction  | 28,502                |                                       | (28,502)  |
| <i>Total Governmental Activities</i>                                | \$ 8,635,936          | \$ 1,913,805                          | \$ (6,722,131)  |
| <br><b>General Receipts</b>   |                       |                                       |   |
| Property Taxes Levied for General Purposes                          |                       |                                       | \$ 3,121,602  |
| Entitlements - Unrestricted   |                       |                                       | 4,277,935   |
| <i>Total General Receipts</i>                                       |                       |                                       | 7,399,537   |
| Change in Net Position  |                       |                                       | 677,406   |
| <i>Net Position Beginning of Year</i>                               |                       |                                       | 6,348,501   |
| <i>Net Position End of Year</i>                                     |                       |                                       | \$ 7,025,907  |

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, 2016*

|  | <u><b>General Fund</b></u> |
|--|----------------------------|
| <b>Cash Basis Assets</b>                   |                            |
| Equity in Pooled Cash and Cash Equivalents | <u>\$ 7,025,907</u>        |
| <i>Total Assets</i>                        | <u><u>\$ 7,025,907</u></u> |
| <b>Cash Basis Fund Balance</b>             |                            |
| Assigned                                   | \$ 759,460                 |
| Unassigned                                 | <u>6,266,447</u>           |
| <i>Total Cash Basis Fund Balance</i>       | <u><u>\$ 7,025,907</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, 2016*

|   | <b>General Fund</b> |
|---|---------------------|
| <b>Cash Receipts</b>  |                     |
| Taxes   | \$ 3,121,602        |
| Grants  | 6,191,740           |
|   | 9,313,342           |
| <br><b>Cash Disbursements</b>                                       |                     |
| Current:  |                     |
| Salaries  | 416,845             |
| Supplies  | 6,335               |
| Materials   | 109                 |
| Equipment   | 7,001               |
| Contracts - Services (Net of \$1 in contract agency reimbursements) | 7,878,881           |
| Professional Services (Net of \$178,333 in reimbursements)          | 30,089              |
| Rentals   | 23,100              |
| Advertising and Printing  | 7,620               |
| Travel and Expenses (Net of \$5 in reimbursements)                  | 17,091              |
| Public Employee's Retirement  | 58,160              |
| Worker's Compensation (Net of \$4,751 in reimbursements)            | 4,104               |
| Insurance (Net of \$2,407,969 in contract agency reimbursements)    | 88,077              |
| Other Expenses (Net of \$6,200 in reimbursements)                   | 33,367              |
| Medicare  | 5,901               |
| Utilities (Net of \$113 in reimbursements)                          | 30,754              |
| Tax Settlement Deduction  | 28,502              |
|   | 8,635,936           |
| <br><i>Total Cash Disbursements</i>                                 | <br>8,635,936       |
| <br><i>Excess of Cash Receipts Over/(Under) Cash Disbursements</i>  | <br>677,406         |
| <br><i>Cash Basis Fund Balance Beginning of Year</i>                | <br>6,348,501       |
| <br><i>Cash Basis Fund Balance End of Year</i>                      | <br>\$ 7,025,907    |

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 Fiscal Year Ended December 31, 2016*

|  | <u>Budgeted Amounts</u> |                     |                     | Variance with<br>Final Budget |
|--|-------------------------|---------------------|---------------------|-------------------------------|
|  | <u>Original</u>         | <u>Final</u>        | <u>Actual</u>       |                               |
| <b>Cash Receipts</b>                             |                         |                     |                     |                               |
| Property Taxes                                   | \$ 2,793,000            | \$ 3,125,605        | \$ 3,121,602        | \$ (4,003)                    |
| Grants   | 4,780,320               | 6,004,295           | 6,191,740           | 187,445                       |
| Reimbursements                                   | 2,412,700               | 2,682,130           | 2,597,371           | (84,759)                      |
| <i>Total Cash Receipts</i>                       | <u>9,986,020</u>        | <u>11,812,030</u>   | <u>11,910,713</u>   | <u>98,683</u>                 |
| <b>Cash Disbursements</b>                        |                         |                     |                     |                               |
| Current:   |                         |                     |                     |                               |
| Salaries   | 413,000                 | 418,000             | 416,845             | 1,155                         |
| Supplies   | 8,000                   | 8,000               | 6,532               | 1,468                         |
| Materials  | 700                     | 700                 | 109                 | 591                           |
| Equipment  | 10,000                  | 10,000              | 7,001               | 2,999                         |
| Contracts - Repairs                              | 1,500                   | 1,500               | 0                   | 1,500                         |
| Contracts - Services                             | 6,760,260               | 12,635,061          | 8,609,635           | 4,025,426                     |
| Professional Services                            | 162,200                 | 276,899             | 233,116             | 43,783                        |
| Rentals  | 23,100                  | 23,100              | 23,100              | 0                             |
| Advertising and Printing                         | 31,150                  | 17,651              | 7,620               | 10,031                        |
| Travel and Expenses                              | 24,000                  | 24,000              | 18,817              | 5,183                         |
| Public Employee's Retirement                     | 60,000                  | 60,000              | 58,160              | 1,840                         |
| Worker's Compensation                            | 9,800                   | 9,800               | 8,855               | 945                           |
| Unemployment Compensation                        | 2,000                   | 2,000               | 0                   | 2,000                         |
| Insurance  | 2,373,610               | 2,723,610           | 2,496,045           | 227,565                       |
| Other Expenses                                   | 36,100                  | 51,100              | 39,616              | 11,484                        |
| Medicare   | 6,500                   | 6,500               | 5,901               | 599                           |
| Utilities  | 37,400                  | 37,400              | 32,913              | 4,487                         |
| Tax Settlement Deduction                         | 26,700                  | 29,200              | 28,502              | 698                           |
| <i>Total Cash Disbursements</i>                  | <u>9,986,020</u>        | <u>16,334,521</u>   | <u>11,992,767</u>   | <u>4,341,754</u>              |
| <i>Net Change in Cash Basis Fund Balance</i>     | 0                       | (4,522,491)         | (82,054)            | 4,440,437                     |
| <i>Cash Basis Fund Balance Beginning of Year</i> | 6,348,501               | 6,348,501           | 6,348,501           | 0                             |
| Prior Year Encumbrances Appropriated             | 0                       | 0                   | 0                   | 0                             |
| <i>Cash Basis Fund Balance End of Year</i>       | <u>\$ 6,348,501</u>     | <u>\$ 1,826,010</u> | <u>\$ 6,266,447</u> | <u>\$ 4,440,437</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, 2016

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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. A fourteen 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 and Addiction Services shall appoint six members, and the remaining eight 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 12.

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, 2016  
(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 position and a statement of activities, and governmental financial statements providing more detailed financial information.

**Government-wide Financial Statements:** The Statement of Net Position 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 Position and Statement of Activities and the governmental financial statements are presented using the cash basis of accounting. This basis recognizes cash assets, net position/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.

**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) 455-7118.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2016  
(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:

**Non-spendable** The non-spendable 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, 2016  
(Continued)

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**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 the general fund, assigned amounts represent intended uses established by the Board or a Board 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.

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.

**G. Capital Assets**

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

**H. Accumulated Leave**

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

**I. 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.

**Note 3 - Fund Balances**

Fund balance is classified as non-spendable, 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. At December 31, 2016, \$759,460 of the fund balance was classified as assigned and the remaining \$6,266,447 is classified as unassigned.

**Note 4 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The Statement of Cash Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances, which are treated as cash disbursements (budget basis) rather than as restricted, committed or assigned fund balance (cash basis). The General Fund encumbrances outstanding at year end (budgetary basis) amounted to \$759,460 for the year ended December 31, 2016.



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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2016  
(Continued)

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**Note 5 - 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.

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

The assessed values of real property and public utility property upon which 2016 property tax receipts were based come from assessed values of the six participating counties of the Board which are Coshocton, Guernsey, Morgan, Muskingum, Noble and Perry counties.

For 2016, Governmental Accounting Standards Board (GASB) Statement No. 77, "Tax Abatement Disclosures" was effective. This GASB pronouncement had no effect on beginning net position as reported December 31, 2015. Tax abatements entered into by the six participating counties result in reduced tax revenue for the Board; however, the impact of these abatements on the Board's tax revenues is not considered to be significant.

**Note 6 - Risk Management**

**Commercial Insurance**

The Board has obtained commercial insurance for the following risks:

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

Settled claims have not exceeded this commercial coverage in any of the past three years and there was no significant reduction in coverage from the prior year.

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

**Note 7 - Debt**

Debt outstanding at December 31, 2016 was as follows:

|                 |          |                   |
|-----------------|----------|-------------------|
| Promissory Note | \$74,196 | variable 4% - 11% |
|-----------------|----------|-------------------|

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2016  
(Continued)

**Note 7 - Debt (Continued)**

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:

| <u>Year ending December 31:</u> | <u>Promissory Note</u> |
|---------------------------------|------------------------|
| 2017                            | \$11,492               |
| 2018                            | 11,492                 |
| 2019                            | 11,492                 |
| 2020                            | 11,492                 |
| 2021                            | 11,492                 |
| 2022-2024                       | 28,722                 |
| Total                           | <u>\$86,182</u>        |

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 and Addiction Services 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 and Addiction Services. 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 and Addiction Services 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 and Addiction Services. 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, McConnellsville, Ohio. The payment of principal will be forgiven by the Ohio Department of Mental Health and Addiction Services 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.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2016  
(Continued)

**Note 7 - Debt (Continued)**

If such a transfer should occur, the remaining balance shall be immediately due and payable to the Ohio Department of Mental Health and Addiction Services. 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.

**Note 8 - Defined Benefit Pension Plan**

**Plan Description – 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.

Plan Description – Board employees, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Board employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

| <b>Group A</b>  | <b>Group B</b>  | <b>Group C</b>  |
|---|---|---|
| Eligible to retire prior to January 7, 2013 or five years after January 7, 2013   | 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013                       | Members not in other Groups and members hired on or after January 7, 2013   |
| <b>State and Local</b>  | <b>State and Local</b>  | <b>State and Local</b>  |
| <b>Age and Service Requirements:</b><br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit       | <b>Age and Service Requirements:</b><br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit       | <b>Age and Service Requirements:</b><br>Age 57 with 25 years of service credit or Age 62 with 5 years of service credit         |
| <b>Formula:</b><br>2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | <b>Formula:</b><br>2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | <b>Formula:</b><br>2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2016  
(Continued)

**Note 8 - Defined Benefit Pension Plan (Continued)**

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

|  | State<br>and Local |
|--|--------------------|
| <b>2016 Statutory Maximum Contribution Rates</b> |                    |
| Employer   | 14.0 %             |
| Employee   | 10.0 %             |
| <br><b>2016 Actual Contribution Rates</b>        |                    |
| Employer:  |                    |
| Pension  | 12.0 %             |
| Post-employment Health Care Benefits             | 2.0                |
| Total Employer                                   | 14.0 %             |
| <br>Employee                                     | <br>10.0 %         |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The Board's contractually required contributions for the years ended December 31, 2016, 2015 and 2014, were \$58,358, \$56,120, and \$51,049, respectively. For 2016, 92 percent has been contributed. The full amount has been contributed for 2015 and 2014.

**Note 9 - 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.

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans. The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2016  
(Continued)

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**Note 9 - Post-Employment Benefits (Continued)**

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

OPERS maintains two cost sharing multiple employer defined benefit post-employment health care trusts which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement, and Medicare Part B premium reimbursements to qualifying benefit recipients of both the Traditional and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order 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 health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

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 health care coverage is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, 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 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 earnable salary of active employees. In 2016, local government employers contributed at a rate of 14 percent of earnable salary. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retired Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contributions rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2 percent during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 remained at 2 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2016 was 4.5 percent.

Substantially all of the Board's contributions allocated to fund postemployment health care benefits relates to the cost sharing, multiple employer trusts. The Board's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$33,348, \$32,068, and \$29,171, respectively. For 2016, 92 percent has been contributed. The full amount has been contributed for 2015 and 2014.

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended December 31, 2016  
(Continued)

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**Note 10 - 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 and contract services (audit and billing costs).

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 11 - 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, 2016.

**Note 12 - 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 2016, debt payments were made on behalf of the Board by the Council as discussed in Note 7.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

| <b>FEDERAL GRANTOR<br/>Pass-Through Grantor<br/>Program Title</b>                 | <b>Federal<br/>CFDA<br/>Number</b> | <b>Pass Through<br/>Entity Identifying<br/>Number</b> | <b>Passed<br/>Through to<br/>Subrecipients</b> | <b>Total Federal<br/>Expenditures</b> |
|---|------------------------------------|---|--|---------------------------------------|
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>                               |                                    |   |  |                                       |
| <i>Passed Through Ohio Department of Mental Health<br/>and Addiction Services</i> |                                    |   |  |                                       |
| Social Services Block Grant   | 93.667                             | N/A   | \$206,229                                      | \$206,229                             |
| Block Grants for Community Mental Health Services                                 | 93.958                             | N/A   | 164,677  | 164,677                               |
| Block Grant for Forensic  |                                    | N/A   | 2,200  | 2,200                                 |
| Block Grant for Respite Services  |                                    | N/A   | 39,902   | 39,902                                |
| Total Block Grants for Community Mental Health Services                           |                                    |   | <u>206,779</u>                                 | <u>206,779</u>                        |
| Block Grants for Prevention and Treatment of Substance Abuse                      | 93.959                             | N/A   | 762,051  | 786,202                               |
| Women's Comprehensive Recovery Program  |                                    | 60-1431-WOMENS-T-16-9000                              | 315,062  | 315,062                               |
| Block Grant for Youth Led   |                                    | N/A   | 2,553  | 2,553                                 |
| Total Block Grants for Prevention and Treatment of Substance Abuse                |                                    |   | <u>1,079,666</u>                               | <u>1,103,817</u>                      |
| <b>Total Expenditures of Federal Awards</b>                                       |                                    |   | <b><u>\$1,492,674</u></b>                      | <b><u>\$1,516,825</u></b>             |

*The accompanying notes are an integral part of this Schedule.*

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR PART 200.510(b)(6)  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Board under programs of the federal government for the year ended December 31, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Board.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Board has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C - SUBRECIPIENTS**

The Board passes certain federal awards received from the Ohio Department of Mental Health and Addiction Services to other governments or not-for-profit agencies (sub-recipients). As Note B describes, the Board reports expenditures of Federal awards to sub-recipients when paid in cash.

As a subrecipient, the Board has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

**NOTE C - 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 AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis 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, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated June 26, 2017, wherein we noted the Board uses a special purpose framework other than generally accepted accounting principles.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Board's internal control. Accordingly, we have not opined on it.

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Board's financial statements. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

### ***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, opining 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*.

***Board's Response to Finding***

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.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

June 26, 2017



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Members of the Board:

### ***Report on Compliance for the Major Federal Program***

We have audited the Mental Health & Recovery Services Board's, Muskingum County, Ohio (the Board's), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Board's major federal program for the year ended December 31, 2016. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the Board's major federal program.

### ***Management's Responsibility***

The Board's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the Board's compliance for the Board's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Board's major program. However, our audit does not provide a legal determination of the Board's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the Board complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2016.

***Report on Internal Control Over Compliance***

The Board's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Board's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine 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's applicable 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

June 26, 2017

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

**SCHEDULE OF FINDINGS  
2 CFR PART 200.515  
DECEMBER 31, 2016**

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

|                     |   |  |
|---------------------|---|--|
| <i>(d)(1)(i)</i>    | Type of Financial Statement Opinion   | Unmodified                                 |
| <i>(d)(1)(ii)</i>   | Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?   | Yes  |
| <i>(d)(1)(ii)</i>   | Were there any 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)?   | No   |
| <i>(d)(1)(iv)</i>   | Were there any material weaknesses in internal control reported for major federal programs?   | No   |
| <i>(d)(1)(iv)</i>   | Were there any significant deficiencies in internal control reported for major federal programs?  | No   |
| <i>(d)(1)(v)</i>    | Type of Major Programs' Compliance Opinion  | No   |
| <i>(d)(1)(vi)</i>   | Are there any reportable findings under 2 CFR Part 200.516(a)?  | No   |
| <i>(d)(1)(vii)</i>  | Major Program (list): <ul style="list-style-type: none"> <li>• Block Grants for Prevention and Treatment of Substance Abuse – CFDA #93.959</li> </ul> |  |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs   | Type A: > \$ 750,000<br>Type B: all others |
| <i>(d)(1)(ix)</i>   | Low Risk Auditee under 2 CFR Part 200.520?  | No   |

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

**FINDING NUMBER 2016-001**

**Material Weakness**

All local public offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

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

**SCHEDULE OF FINDINGS  
2 CFR PART 200.515  
DECEMBER 31, 2016  
(Continued)**

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

**FINDING NUMBER 2016-001 (Continued)**

**Material Weakness (Continued)**

In addition, Governmental Accounting Standards Board (GASB) Statement No. 54 defined how fund balances were to be classified and was codified as follows: GASB Cod. 1800.173-176 requires funds without external or internal constraints to report Assigned fund balances for amounts encumbered or set aside to cover the excess of subsequent year appropriations exceeding estimated revenue. GASB Cod. 1800.177 designates Unassigned fund balance as the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

General Fund outstanding encumbrances totaling \$759,460 were not included as actual disbursements on the Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget and Actual (Budget Basis). The following adjustments were made as a result of these outstanding encumbrances being omitted:

| <u>Line Item</u>      | <u>Amount</u> |
|-----------------------|---------------|
| Supplies              | \$197         |
| Contracts - Services  | 730,753       |
| Professional Services | 24,694        |
| Travel and Expenses   | 1,721         |
| Other Expenses        | 49            |
| Utilities             | 2,046         |

In addition, outstanding encumbrances should have been classified as Assigned fund balance rather than Unassigned fund balances in the General Fund on the Statement of Assets and Fund Balance - Cash Basis.

Failure to properly report financial activity could result in material misstatements occurring and remaining undetected and fail to provide management with an accurate picture of the Board's financial position and operations. Adjustments, to which management has agreed, have been reflected in the accompanying financial statements to correct these errors.

The Board should take the necessary steps to ensure that all outstanding encumbrances at year-end are properly presented and disclosed in the Board's basic financial statements.

**Officials' Response:** See Corrective Action Plan.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

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

**CORRECTIVE ACTION PLAN  
2 CFR PART 200.511(c)  
DECEMBER 31, 2016**

| <b>Finding Number</b> | <b>Planned Corrective Action</b>   | <b>Anticipated Completion Date</b> | <b>Responsible Contact Person</b> |
|-----------------------|--|------------------------------------|-----------------------------------|
| 2016-001              | Prior year outstanding encumbrances will be included in the actual disbursements on the Statement of Receipts, Disbursements, and Changes in Fund Balances-Budget and Actual (Budget Basis). | 2/28/18<br>(Next Audit)            | Melanie Smith                     |

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# Dave Yost • Auditor of State

**MUSKINGUM MENTAL HEALTH AND RECOVERY SERVICES 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 6, 2017**