

**HAMILTON COUNTY COMMUNITY
MENTAL HEALTH BOARD**

Basic Financial Statements

June 30, 2004

With

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Trustees
Hamilton County Community Mental Health Board
2350 Auburn Avenue
Cincinnati, Ohio 45219

We have reviewed the Independent Auditor's Report of the Hamilton County Community Mental Health Board, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Hamilton County Community Mental Health Board is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 3, 2005

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HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
Hamilton County Community Mental Health Board:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hamilton County Community Mental Health Board ("HCCMHB"), of the County of Hamilton, Ohio, as of and for the year ended June 30, 2004, which collectively comprise the HCCMHB's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the HCCMHB's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the HCCMHB are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the County of Hamilton, Ohio that is attributable to the transactions of the HCCMHB.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the HCCMHB as of June 30, 2004 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004 on our consideration of the HCCMHB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 3 through 11 and pages 30 through 31, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Haselt & Co.

Cincinnati, Ohio
December 3, 2004



2350 Auburn Avenue
Cincinnati, Ohio 45219
(513) 946-8600

Fax: (513) 946-8610
TTY: (513) 946-8690
hccmhb.org

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MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis provides key information from management highlighting the overall financial performance of the Hamilton County Community Mental Health Board (HCCMHB) for the year ended June 30, 2004. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the HCCMHB’s financial statements.

Financial Highlights

Major financial highlights for fiscal year (FY) 2004 are listed below:

- The Total net assets of the HCCMHB at year-end were \$20.6 million. Of this amount, \$14.8 million is unrestricted and may be used to meet the HCCMHB’s ongoing obligations to consumers and creditors.
- The HCCMHB, as a single purpose entity, had \$82.5 million in Program expenses related to the provision of Community Mental Health services. \$25.2 million of the Program expenses were funded by Program revenues comprised of operating grants and contributions restricted to specific programs. Medicaid (\$22.7 million) was the primary Program revenue source. General revenues of \$55.9 million, primarily comprised of Levy (\$33.3 million) and State (\$20.4 million) resources, were also used to fund Program expenses.
- The General Fund balance was reduced from \$14.9 million at June 30, 2003 to \$14.4 million at June 30, 2004, approximately a 2.9% decrease. The General fund balance at June 30, 2004 equals approximately 2.1 months of Total Government Fund Expenditures.

The Mission of the Hamilton County Community Mental Health Board is to develop and manage a system of quality mental health services responsive to individual and family needs and differences.



OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The Statement of Activities – This presents information showing how the HCCMHB's net assets changed during the most recent FY. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future FYs (e.g. uncollected taxes and earned but unused vacation leave).

Expenses – As a single purpose government, the HCCMHB's expenses are for the provision of community mental health services. These expenses include Agency Provider Contracts, HCCMHB Salaries, Benefits, Taxes and Operating Expenses, Auditor and Treasurer Fees, Depreciation, and the Ohio Department of Mental Health (ODMH) Direct Payments.

Program Revenues – These revenues include Medicaid, State and Federal Grants, Title XX and the ODMH Direct Payments.

General Revenue – These revenues include, the Mental Health Levy, State, Other Match, Capital & Rental Income and Miscellaneous.

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

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

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Management's Discussion and Analysis
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Unaudited**

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

The HCCMHB accounts for its activities using two individual funds. Both funds are considered major funds and thus, are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds, unlike the government-wide financial statements, which report on the HCCMHB as a whole. The following are the HCCMHB's major funds:

General Fund - This fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the HCCMHB for any purpose relating to the operations of the community-wide mental health systems.

Special Revenue Fund - This fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information concerning the General Fund and Special Revenue Fund budgets.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net assets at year-end

The table on the next page presents a condensed summary of the HCCMHB's overall financial position at June 30, 2004. The table is followed by a variance analysis.

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Assets/ Liabilities/ Net assets	Statement of Net Assets FY 2003	Statement of Net Assets FY 2004	Statement of Net Assets Var. Incr. (Decr.)	State. Of N.A. % of Variance Incr. (Decr.)
Current and other assets	\$ 63,350,666	\$ 66,832,592	\$ 3,481,926	5.5%
Capital assets	11,864,899	11,390,626	(474,273)	-4.0%
Total assets	75,215,565	78,223,218	3,007,653	4.0%
Long-term liabilities outstanding	6,008,793	6,207,301	198,508	3.3%
other liabilities	47,115,359	51,392,203	4,276,844	9.1%
Total liabilities	53,124,152	57,599,504	4,475,352	8.4%
Net Assets: Invested in capital assets, net of related debt	6,484,040	5,855,098	(628,942)	-9.7%
Unrestricted	15,607,373	14,768,616	(838,757)	-5.4%
Total net assets	\$ 22,091,413	\$ 20,623,714	\$ (1,467,699)	-6.6%

Total Assets – \$3.0 million & 4.0% Increase:

1. Current and Other Assets increased by \$3.5 million because of:
 - An increase in Due from Other Governments of \$1.6 million, primarily Medicaid receivables,
 - An increase in cash reserves of \$1.3 million primarily due to the increase in incurred but not billed FY 2004 agency services,
 - An increase in Long Term Receivables from Agencies of \$328 thousand reflecting a portion of the MACSIS Probate and Medicaid reversals that were processed but not yet collected from the agencies,
 - An increase in Levy receivable of \$287 thousand,
 - Partially offset by the \$55 thousand final payment received from an agency for an outstanding Pre-Payment.

2. Capital Assets decreased by \$474 thousand primarily because of:
 - Decreasing adjustments totaling \$771 thousand recognizing the sale of the Madison Road property,
 - A decrease in accumulated depreciation of \$366 thousand.
 - The addition of the Seton Avenue and Reading Road properties for \$340 thousand,
 - An increase recognizing the completion of the third floor of the 2350 Auburn property for \$327 thousand.

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3. A portion (14.6%) of Total Assets reflects HCCMHB's investment in capital assets of \$11.4 million. The majority of these capital assets are four-unit apartment buildings used to provide housing for the Severely Mentally Disabled Adult population.

Total Liabilities – \$4.5 million & 8.4% Increase:

1. The total increase of \$199 thousand in Long-Term Liabilities is the result of:
 - The addition of the \$350 thousand mortgage with ODMH for the purchase and renovation of the 2340 Auburn Avenue property,
 - An increase of \$34 thousand for the compensated absences accrual,
 - Partially offset by the \$185 thousand of amortized and forgiven portion of each property mortgage held by ODMH.
2. The majority of the \$4.3 million increase in Other Liabilities is the result of the increase in the accrual of the following FY 2004 liabilities incurred prior to, but paid or not received until after June 30, 2004:
 - \$3.9 million for agency contract service expenses,
 - \$265 thousand for Levy and other government deferred revenue,
 - \$69 thousand of operating and capital expenses.

Total Net Assets – (\$1.5 million) & (6.6%) Decrease:

1. The majority of the total decrease of \$629 thousand reflected in Invested in Capital Assets, Net of Related Debt is caused by:
 - The net decrease of \$771 thousand recognizing the sale of the Madison Road property,
 - The \$185 thousand decrease representing the amortized and forgiven portion of each property mortgage held by ODMH,
 - Partially offset by the addition of the ODMH mortgage of \$350 thousand used toward the purchase and renovation of the 2340 Auburn property.
2. The total decrease \$839 thousand in Unrestricted Net Assets is the result of:
 - The \$433 thousand in budgeted and approved Excess of Revenues under Expenditures,
 - The \$328 thousand increase in the Reserve for Long Term Receivables representing a portion of the MACSIS Probate and Medicaid reversals that were processed but not yet collected from the agencies,
 - The \$145 thousand increase in Reserve for Encumbrances covering the renovation of the third floor of the 2350 Auburn property,
 - Partially offset by the \$55 thousand decrease in prepaid contracts reflecting the final payment received from an agency's for an outstanding Pre-Payment.

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B. Governmental Activities during FY 2004

The table below and on the following page presents a condensed summary of the HCCMHB's activities during FY 2004 and the resulting change in net assets. A variance analysis follows the table.

Revenues/ Program Expenses/ Change in Net Assets	Statement of Activities FY 2003	Statement of Activities FY 2004	Statement of Act. Variance Fav. (Unfav.)	Statement of Act. % of Var. Fav. (Unfav.)
Revenues				
Program Revenues				
Operating grants and contributions restricted to specific programs:				
Medicaid	\$ 20,598,600	\$ 22,652,147	\$ 2,053,547	10.0%
State & federal grants	1,366,784	1,262,015	(104,769)	-7.7%
Title XX	714,567	695,298	(19,269)	-2.7%
ODMH direct payments	621,003	595,125	(25,878)	-4.2%
Total program rev.	23,300,954	25,204,585	1,903,631	8.2%
General Revenues:				
Mental Health Levy	32,163,974	33,295,708	1,131,734	3.5%
Grants and contributions not restricted to specific programs:				
State	22,028,938	20,436,375	(1,592,563)	-7.2%
Other match	2,020,666	1,474,736	(545,930)	-27.0%
Capital and rental income	138,733	243,198	104,465	75.3%
Miscellaneous	505,897	415,130	(90,767)	-17.9%
Total general revenues	56,858,208	55,865,147	(993,061)	-1.7%
Total Revenues:	80,159,162	81,069,732	910,570	1.1%

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Revenues/ Program Expenses/ Change in Net Assets	Statement of Activities FY 2003	Statement of Activities FY 2004	Statement of Act. Variance Fav. (Unfav.)	Statement of Act. % of Var. Fav. (Unfav.)
Program Expenses:				
Community Mental Health:				
Agency provider contracts	76,445,390	77,686,139	(1,240,749)	-1.6%
Salaries, benefits & taxes	2,717,847	2,739,135	(21,288)	-0.8%
Operating expenses	823,341	739,634	83,707	10.2%
Depreciation	314,864	366,090	(51,226)	-16.3%
Auditor's/Treasurer's fees	383,898	411,308	(27,410)	-7.1%
ODMH direct payments	621,003	595,125	25,878	4.2%
Total program	81,306,343	82,537,431	(1,231,088)	-1.5%
Decrease in net assets	(1,147,181)	(1,467,699)	(320,518)	-27.9%
Net assets, begin. of year	23,238,594	22,091,413	(1,147,181)	-4.9%
Net assets, end of year	\$ 22,091,413	\$ 20,623,714	\$ (1,467,699)	-6.6%

Total Program Revenues – \$1.9 million & 8.2% Favorable Variance:

- The favorable variance is primarily caused by the increase in client Medicaid services delivered by the agencies and the resulting Federal Financial Participation (FFP) payment made by ODJFS to the HCCMHB.

Total General Revenues – (\$993 thousand) & (1.7%) Unfavorable Variance:

- The variance is the result of the reduction of \$1.6 million in State Revenue, primarily 408 Flex funding, and Other Match of \$546 thousand from the Magellan contract, partially offset by an increase in Levy revenue of \$1.1 million.

Total Program Expenses – (\$1.2 million) & (1.5%) Unfavorable Variance:

- The variance is primarily caused by the \$3.5 million increase in client Medicaid services delivered by the agencies partially offset by the under-spending of \$2.3 million on Non-Medicaid services.

The total Governmental Activities Revenue is 68.9% General Revenue and 31.1% Program Revenue. Levy Revenue is 59.6% of the General Revenues and 41.1% of the Total Revenues. State Revenues from the ODMH are 36.6% of General Revenues and the total of all State and Federal Revenues (\$22.3 million) is 27.5% of Total Revenues. Medicaid is 89.9% of Program Revenue and 27.9% of Total Revenues. Levy (41.1%), State and Federal (27.5%) and Medicaid (27.9%) make up 96.5% or \$78.2 million of the HCCMHB's Total Revenues. Agency provider contracts expenses (\$77.7 million) are 94.1% of total Program Expenses. HCCMHB Salaries, Benefits, and Taxes and Operating Expenses are 4.2% of total Program Expenses.

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FINANCIAL ANALYSIS OF THE MAJOR FUNDS

Governmental Funds

The focus of the HCCMHB's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the HCCMHB's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the HCCMHB's net resources available for spending at the end of FY 2004. The HCCMHB has two governmental funds, both of which are major funds: General Fund and Special Revenue Fund. All assets of the HCCMHB are included in these two funds.

General Fund – The fund balance at June 30, 2004 was \$14.4 million including \$12.6 million of unreserved General Funds.

The table below details the activities of the General Fund. A variance analysis follows the table.

General Fund Revenues/ Program Expenses/ Change in Fund Balance	General Fund FY 2003	General Fund FY 2004	Variance Fav. (Unfav.)	% of Variance Fav. (Unfav.)
Total General Fund				
Revenues	\$ 31,362,707	\$ 33,272,975	\$ 1,910,268	6.1%
Total General Fund				
Program Expenses:	35,099,266	34,056,030	1,043,236	3.0%
Excess of revenues over (under) expenditures	(3,736,559)	(783,055)	2,953,504	79.0%
Other financing source:				
Proceeds from long-term obligations	-	350,000	350,000	100.0%
Net change in fund balance	(3,736,559)	(433,055)	3,303,504	88.4%
Fund balance at beg. of	18,613,469	14,876,910	(3,736,559)	-20.1%
Fund balance at end of year	\$ 14,876,910	\$ 14,443,855	\$ (433,055)	-2.9%

Total General Fund Revenues – \$1.9 million & 6.1% Favorable Variance:

- The favorable variance is the result of an increase in the Real Estate and Public Utilities portion of the Levy funds collected.

Total General Fund Program Expenses – \$1.0 million & 3.0% Favorable:

- The favorable variance is caused by the reduction in capital expenditures of \$845 thousand and agency contract payments of \$218 thousand.

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Other Financing Source – \$350 thousand & 100.0% Favorable Variance:

- The favorable variance is caused by the ODMH partially funding the purchase and renovation of the consumer building at 2340 Auburn Avenue. For Financial Statement presentation purposes, this category is not viewed as a Revenue or Expense.

Fund Balance at the End of the Year – (\$433 thousand) & (2.9%) Unfavorable Variance:

- The actual \$433 thousand decrease in the fund balance was less than the \$721 thousand decrease approved in the HCCMHB's FY 2004 Budget.

Special Revenue Fund - This fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Revenues from the Special Revenue Fund are used before General Fund resources for qualifying expenditures. Thus, since qualifying Special Revenue Fund Expenditures equal Special Revenue Fund revenues, the Special Revenue Fund has no fund balance. The only assets in the Special Revenue Fund are the \$10.6 million in receivables Due from Other Governments. The majority of these receivables are for Medicaid Federal Financial Participation (FFP) payments made by the HCCMHB for agency Medicaid claims and billed to the Ohio Department of Job and Family Services (ODJFS) for reimbursement. At fiscal year-end, the ODJFS had not reimbursed the HCCMHB for these claims. This is a \$1.5 million increase in the Due from Other Governments receivable versus FY 2003.

The table below details the activities of the Special Revenue Fund. A variance analysis follows the table.

Special Revenue Fund Revenues/ Program Expenses/ Change in Fund Balance	Special Revenue Fund FY 2003	Special Revenue Fund FY 2004	Variance Fav. (Unfav.)	% of Variance Fav. (Unfav.)
Special Fund Revenues:				
Intergovernmental:	44,073,811	45,245,100	1,171,289	2.7%
Other revenues:	3,237,704	3,499,424	261,720	8.1%
Total Special Fund Revenues	47,311,515	48,744,524	1,433,009	3.0%
Total Special Fund Expenses	47,311,515	48,744,524	1,433,009	3.0%
Excess of Revenues Over (Under) Expenditures	-	-	-	0.0%

Total Special Fund Revenues – \$1.4 million & 3.0% Favorable Variance:

1. The \$1.2 million favorable variance in Intergovernmental Revenue is caused by:

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- An increase in Medicaid revenue of \$2.0 million,
 - Partially offset by a reduction \$865 thousand in State Grants.
2. The \$262 thousand favorable variance in Other Revenue is the result of:
- An increase of \$876 thousand in capital and rental income, primarily from the sale of the Madison Road property,
 - The decrease in Magellan Other Match payments of \$546 thousand,
 - The reduction in ODMH Direct Payments of \$26 thousand,
 - The grant revenue decrease from the Health Foundation of \$25 thousand.

Total Special Fund Program Expenses – (\$1.4 million) & (3.0%) Unfavorable Variance:

- The variance is caused by the increase in client Medicaid services delivered by the agencies.

GENERAL AND SPECIAL REVENUE FUND BUDGETARY HIGHLIGHTS

The schedule comparing the HCCMHB's original and final budgets and actual results are included in the required supplementary information. During FY 2004, the HCCMHB amended its General and Special Revenue Fund budget with Hamilton County as changes occurred in the HCCMHB's revenues and expenditures.

A variance analysis of the original versus final budgets is as follows:

The Change in Total Budgeted Revenue – \$952 thousand & 1.2% Favorable Variance:

- The primary cause of the variance is the \$880 thousand increase in the Capital and Rental Revenue Budget to recognize the sale of the Madison Road property.

The Change in Total Budgeted Expenditures – (\$29 thousand) & (0.0%) Unfav. Var.:

- The variance is not material.

Other Financing Source – \$350 thousand & 100.0% Favorable Variance:

- The favorable variance is caused by the ODMH partially funding the purchase and renovation of the consumer building at 2340 Auburn Avenue. For Financial Statement presentation purposes, this category is not viewed as a Revenue or Expense.

A variance analysis of the Final Budget versus Actual Revenues & Expenditures is as follows:

Tax Levy – (\$272 thousand) & (0.8%) Unfavorable Variance:

- The variance is not material.

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State Grants – \$455 thousand & 2.1% Favorable Variance:

- The favorable variance is the result of ODMH paying out a prior year holdback of \$388 thousand and one time program funding of \$62 thousand.

Medicaid – \$3.1 million & 15.9% Favorable Variance:

- The favorable variance is primarily caused by the increase in client Medicaid services delivered by the agencies and the resulting increase in Federal Financial Participation (FFP) payments made by The Ohio Department of Job and Family Services to the HCCMHB.

Title XX – (\$4 thousand) & (0.6%) Unfavorable Variance:

- The variance is not material.

Federal Grant – (\$9 thousand) & (26.3%) Unfavorable Variance:

- These funds represent ORSC back payments for Social Security benefits due to clients from the now closed ORSC Pathways program at CRI. The Social Security benefit occurs when we are contacted by ODRC to request and forward a payment that they have calculated for a client. The HCCMHB has no control on the payment process or the amount of the payments.

ODMH Direct Payments – \$0 & 0.0% Variance:

- There is no variance to discuss.

Capital & Rental – (\$197 thousand) & (16.3%) Unfavorable Variance:

- The primary cause of the variance is the delay in purchasing additional consumer housing and the subsequent drawing down of ODMH matching funds.

Other Match – (\$957 thousand) & (39.4%) Unfavorable Variance:

- The Hamilton County Department of Job and Family Services (HCDJFS) did not renew its third party administrator contract with Magellan for Calendar Year 2004. The HCCMHB and HCDJFS entered into a cost sharing/cost management partnership to serve the mental health needs of HCDJFS' clients causing the unfavorable variance.

Miscellaneous – \$31 thousand & 8.1% Favorable Variance

- The variance is caused by the funding of the following Health Foundation of Greater Cincinnati grants:

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- The final payment of FY 2003 funds for the Mobile Crisis Grant (\$24 thousand) was not received and posted until FY 2004,
- A new Consumer Employment Grant (\$8 thousand).

EXPENDITURES:

Agency & Provider – (\$2.6 million) & (3.5%) Unfavorable Variance:

- The variance is caused by the \$5.2 million increase in client Medicaid services delivered by the agencies partially offset by the under-spending of \$2.6 million on Non-Medicaid services.

ODMH Direct Payments – \$0 & 0.0% Variance:

- There is no variance to discuss.

Salaries, Benefits & Taxes – \$136 thousand & 4.8% Favorable Variance:

- The favorable variance was caused by the HCCMHB having an actual average headcount of 39.1 positions versus a budget of 42 positions.

Operating Expenses – \$212 thousand & 26.6% Favorable Variance:

- The favorable variance was caused by Conservative spending on Consulting (\$106 thousand), Building Management Fees (\$52 thousand), and Training (\$33 thousand).

Capital Exp. – \$278 thousand & 25.4% Favorable Variance:

- The primary cause of the variance is the delay in purchasing additional consumer housing.

Auditor & Treasurer Fees – (\$411 thousand) & (100%) Unfavorable Variance:

- The County Auditor's Office was required to change the practice of recording these fees as negative revenue to recording them as a billed expense to the County agency receiving the Levy Revenue. This change was implemented after the HCCMHB revised its FY 2004 budget. This expense increase is offset by a corresponding increase in Levy Revenue

Other Financing Source – \$350 thousand & 100.0% Favorable Variance:

- The favorable variance is caused by the ODMH partially funding the purchase and renovation of the consumer building at 2340 Auburn Avenue. For Financial Statement presentation purposes, this category is not viewed as a Revenue or Expense.

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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. At June 30, 2004, the HCCMHB had \$11.4 million invested in a broad range of capital assets, including land, buildings and equipment. See Note 4 to the financial statements for more detail.

**Capital Assets at Year-End
(Net of Depreciation)**

Capital Assets At Year-End Net of Depreciation	Capital Asset Activities FY 2003	Capital Asset Activities FY 2004	Capital Asset Act. Variance Incr. (Decr.)	Capital Asset Act. % of Var. Incr. (Decr.)
Land	\$ 1,713,676	\$ 1,694,346	\$ (19,330)	-1.1%
Construction in progress	31,301	-	(31,301)	-100.0%
Buildings	10,031,924	9,639,319	(392,605)	-3.9%
Furniture and equipment	87,998	56,961	(31,037)	-35.3%
Total Capital Assets	\$ 11,864,899	\$ 11,390,626	\$ (474,273)	-4.0%

The major FY 2004 capital asset events outlined below caused the variances.

- The sale of the Madison Road Property,
- The purchase of the Seton Avenue and Reading Road properties for consumer housing,
- The completion of the third floor renovation of the 2350 Auburn property.

Debt

A summary of long-term obligations is located in Note #8.

The primary long term debt of the HCCMHB is the mortgage payable obligation. The mortgage payable of the HCCMHB consists of loan contracts made with the ODMH for the purchase and improvement of various properties in the County for use in providing mental health services.

ECONOMIC FACTORS

The State allocation from the ODMH is a major area of economic concern. The State of Ohio continues to experience shortfalls in tax revenue collections. There is also a statewide effort to end the additional 1% sales tax increase earlier than specified in the legislation. These two factors could have a significant impact on the HCCMHB's State allocation from the ODMH during the FY 2006/2007 State of Ohio biennium.

HCCMHB
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

Other Economic Factors:

- The ODMH raised the State Hospital per-diem from \$441 to \$446 or 1.1% in FY 2004. It now costs \$162,790 a year to serve a consumer in one of the State Hospitals. Despite keeping the number of State Hospital beds it buys per day steady at 94, the HCCMHB saw its FY 2004 allocation from the ODMH reduced by \$171 thousand dollars to cover the increase in the per-diem. This allocation reduction by the ODMH caused a direct reduction of the mental health services available to Hamilton County residents.
- The ODMH is projecting a \$14 increase in the State Hospital per-diem for FY 2006. If this increase becomes a reality, the HCCMHB's ODMH allocation will be reduced by an estimated \$480 thousand, further eroding mental health service availability for the residents of Hamilton County.

REQUESTS FOR ADDITIONAL INFORMATION

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

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Statement of Net Assets

June 30, 2004

ASSETS:	
Equity in pooled cash and investments with County Treasurer	\$ 20,499,408
Levy receivable	34,088,817
Due from other governments	10,578,709
Prepaid contract services	221,707
Long-term receivables from contract agencies	1,443,951
Nondepreciable capital assets	1,694,346
Depreciable capital assets, net of accumulated depreciation	<u>9,696,280</u>
Total assets	<u>78,223,218</u>
LIABILITIES:	
Contracts payable	17,531,850
Accrued other	595,536
Deferred revenue	33,264,817
Long-term liabilities:	
Due within one year	427,108
Due in more than one year	<u>5,780,193</u>
Total liabilities	<u>57,599,504</u>
NET ASSETS:	
Invested in capital assets, net of related debt	5,855,098
Unrestricted	<u>14,768,616</u>
Total net assets	\$ <u><u>20,623,714</u></u>

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

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Statement of Activities

Year Ended June 30, 2004

Program expenses:		
Community Mental Health:		
Agency provider contracts	\$	77,686,139
Salaries, benefits and taxes		2,739,135
Operating expenses		739,634
Depreciation		366,090
County auditor and treasurer fees		411,308
ODMH direct payments		595,125
Total program expenses		<u>82,537,431</u>
Program revenues:		
Operating grants and contributions restricted to specific programs:		
Medicaid		22,652,147
State and federal grants		1,262,015
Title XX		695,298
ODMH direct payments		595,125
Total program revenues		<u>25,204,585</u>
Net program expenses		<u>57,332,846</u>
General revenues:		
Mental health levy		33,295,708
Grants and contributions not restricted to specific programs:		
State		20,436,375
Other match		1,474,736
Capital and rental income		243,198
Miscellaneous		415,130
Total general revenues		<u>55,865,147</u>
Decrease in net assets		(1,467,699)
Net assets, beginning of year		<u>22,091,413</u>
Net assets, end of year	\$	<u><u>20,623,714</u></u>

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

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Balance Sheet - Governmental Funds

June 30, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
ASSETS			
Equity in pooled cash and investments with County Treasurer	\$ 20,499,408	-	20,499,408
Levy receivable	34,088,817	-	34,088,817
Due from other governments	-	10,578,709	10,578,709
Prepaid contract services	221,707	-	221,707
Interfund receivable	3,617,345	-	3,617,345
Long-term receivables from contract agencies	1,443,951	-	1,443,951
Total assets	<u>59,871,228</u>	<u>10,578,709</u>	<u>70,449,937</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Contracts payable	\$ 10,789,654	6,742,196	17,531,850
Accrued other	548,902	46,634	595,536
Deferred revenue	34,088,817	172,534	34,261,351
Interfund payable	-	3,617,345	3,617,345
Total liabilities	<u>45,427,373</u>	<u>10,578,709</u>	<u>56,006,082</u>
Fund balances:			
Unreserved, reported in:			
General fund	12,572,253	-	12,572,253
Reserved for encumbrances	205,944	-	205,944
Reserved for prepaid contract services	221,707	-	221,707
Reserved for long-term receivables	1,443,951	-	1,443,951
Total fund balances	<u>14,443,855</u>	-	14,443,855
Total liabilities and fund balances	\$ <u>59,871,228</u>	<u>10,578,709</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			996,534
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			11,390,626
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Mortgage payable	\$ 5,545,528		
Compensated absences	<u>661,773</u>		
Total			<u>(6,207,301)</u>
Net Assets of Governmental Activities		\$	<u>20,623,714</u>

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

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues:			
Mental health levy	\$ 33,272,975	-	33,272,975
Intergovernmental:			
State grants	-	21,894,286	21,894,286
Medicaid	-	22,630,944	22,630,944
Title XX	-	695,298	695,298
Federal grants	-	24,572	24,572
Other revenues:			
Capital and rental income	-	1,014,433	1,014,433
Other match	-	1,474,736	1,474,736
Miscellaneous	-	415,130	415,130
ODMH direct payments	-	595,125	595,125
Total revenues	<u>33,272,975</u>	<u>48,744,524</u>	<u>82,017,499</u>
Expenditures:			
Agency provider contracts	29,536,740	48,149,399	77,686,139
ODMH direct payments	-	595,125	595,125
Salaries, benefits and taxes	2,705,296	-	2,705,296
Operating expenses	584,296	-	584,296
Capital outlay	818,390	-	818,390
County auditor and treasurer fees	411,308	-	411,308
Debt service:			
Principal retirement	185,331	-	185,331
Forgiveness by ODMH	(185,331)	-	(185,331)
Total expenditures	<u>34,056,030</u>	<u>48,744,524</u>	<u>82,800,554</u>
Excess of revenues over (under) expenditures	(783,055)	-	(783,055)
Other financing source:			
Proceeds from long-term obligations	<u>350,000</u>	-	<u>350,000</u>
Change in fund balance	(433,055)	-	(433,055)
Fund balance, beginning of year	<u>14,876,910</u>	-	<u>14,876,910</u>
Fund balance, end of year	\$ <u><u>14,443,855</u></u>	<u>-</u>	<u><u>14,443,855</u></u>

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

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (433,055)

Amounts reported for governmental activities in the statement of activities
are different because:

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the funds (361,863)

Governmental funds report capital outlays as expenditures. However, in the statement
activities, the cost of those assets is allocated over their estimated useful lives
depreciation expense.

Capital outlay 663,052
Depreciation expense (366,090)

Retirement of mortgage principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the statement of net assets. 185,331

The gain on sale of capital assets is reported in the statement of activities but
in the governmental funds, the proceeds from sale increase financial resources. (771,235)

The issuance of long-term debt provides current financial resources to the
governmental funds but has no effect on net assets. (350,000)

Some expenses reported in the statement of activities, such as compensated absences
do not require the use of current financial resources and therefore are not reported
as expenditures in governmental funds. (33,839)

Change in Net Assets of Governmental Activities \$ (1,467,699)

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the HCCMHB as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the HCCMHB that are governmental and those that are considered business-type activities. The HCCMHB has no business-type activities.

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

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

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Fund Financial Statements – Fund financial statements report detailed information about the HCCMHB. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

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

C. Fund Accounting

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

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the HCCMHB's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the HCCMHB for any purpose relating to the operations of the community-wide mental health systems.

Special Revenue Fund – Used to account for the proceeds of specified revenue sources that are legally restricted to expenditures for specified purposes.

D. Basis of Accounting

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

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

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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

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

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

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

Deferred Revenue - Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes measurable as of June 30, 2004 which are intended to finance fiscal year 2005 operations and delinquent property taxes whose availability is indeterminable, have been recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

E. Budgetary Basis of Accounting

The HCCMHB prepares an annual budget for internal use for all governmental types covering the period July 1 through June 30. This budget is prepared on a modified accrual basis of accounting in conjunction with the HCCMHB's internal financial statements.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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

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

F. Cash and Cash Equivalents

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

G. Capital Assets

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

H. Interfund Transactions

On the fund financial statements, the General Fund has a receivable of \$3,617,345 that consists of amounts due from the Special Revenue Fund. During the course of normal operations, the HCCMHB will, as necessary, transfer cash between funds to meet current obligations.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

I. Compensated Absences

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

J. Fund Balance Reserves

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

K. Net Assets

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

The HCCMHB applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Estimates

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

2. POOLING OF CASH AND INVESTMENTS

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

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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

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

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal agency;
3. Repurchase agreements in the securities enumerated above;
4. Bonds and other obligations of the state of Ohio; and
5. The State Treasurer’s investment pool (STAROhio).

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

During 2004, the County monitored its compliance with the provisions of these statutes pertaining to the types of investments held and institutions in which deposits were made as well as collateral requirements. The County will continue to monitor compliance with applicable statutes in the future pertaining to public deposits and investments.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

3. PROPERTY TAXES

Property taxes include amounts levied against real, public utility and tangible property. The assessed value upon which the 2004 tax collection was based as follows:

Real Property:	
Residential/Agricultural	\$ 11,461,564,410
Commercial/Industrial/Public Utilities	4,755,950,160
Public Utilities	755,400,110
Tangible Personal Property:	
General	<u>1,798,031,185</u>
Total Valuation	\$ <u>18,770,945,865</u>

Real Property taxes are levied each October on the assessed values of the preceding January 1st, the lien date. Assessed values are established the preceding year by the County Auditor at 35% of appraised market value. A revaluation of real property is required to be completed no less than every six years, with a statistical update every third year. The most recent revaluation was a full physical revaluation in 1999 for taxes collected in 2000. Public Utility property taxes are assessed on tangible personal property, as well as land improvements at true value, which is, in general, net book value. Tangible personal property is assessed at 25% of true value except for inventories, which are assessed at 25% of average value. In 2004, each business was eligible to receive a ten thousand dollar exemption in assessed value, which was reimbursed by the state.

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

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance <u>7/1/03</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6/30/04</u>
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 1,713,676	74,570	93,900	1,694,346
Construction in progress	<u>31,301</u>	<u>-</u>	<u>31,301</u>	<u>-</u>
Total not being depreciated	<u>1,744,977</u>	<u>74,570</u>	<u>125,201</u>	<u>1,694,346</u>
Capital assets being depreciated:				
Building and building Improvements	12,122,757	599,858	1,113,428	11,609,187
Furniture and fixtures	<u>144,866</u>	<u>19,925</u>	<u>-</u>	<u>164,791</u>
Total being depreciated	<u>12,267,623</u>	<u>619,783</u>	<u>1,113,428</u>	<u>11,773,978</u>
Less accumulated depreciation:				
Building and building Improvements	2,090,833	315,128	436,093	1,969,868
Furniture and fixtures	<u>56,868</u>	<u>50,962</u>	<u>-</u>	<u>107,830</u>
Total accumulated depreciation	<u>2,147,701</u>	<u>366,090</u>	<u>436,093</u>	<u>2,077,698</u>
Capital assets, net	\$ <u>11,864,899</u>	<u>328,263</u>	<u>802,536</u>	<u>11,390,626</u>

5. DEFINED BENEFIT PENSION PLAN

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

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

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Plan and Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits. The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Member and employer contribution rates were consistent across all three plans. The employee contribution rates were 8.5%. The HCCMHB was required to contribute 13.55% of covered payroll for employees in 2004. The HCCMHB's required contributions to PERS for the years ending June 30, 2004, 2003, 2002 were approximately \$281,000, \$283,000, and \$267,000. All of the required contributions were paid within the respective fiscal years.

6. POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to qualifying members of both the Traditional and Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 employer contribution rate was 13.55% of covered payroll for employees of which 5.0% was the portion that was used to fund health care.

Actuarial Review. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2003.

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

Assets Valuation Method. All investments are carried at fair value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Investment Return. The investment assumption rate for 2003 was 8.00%.

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

Health Care. Health care costs were assumed to increase 4.00% annually.

The OPEB's are advance-funded on an actuarially determined basis. At December 31, 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. The portion of the HCCMHB's contributions that were used to fund postemployment benefits was approximately \$104,000. At December 31, 2003 (latest information available), the actuarial value of the Retirement System's net assets available for OPEB was \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

7. OTHER EMPLOYEE BENEFITS

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

As of June 30, 2004, the HCCMHB's liability for compensated absences was \$661,773.

8. LONG-TERM OBLIGATIONS

The changes in the HCCMHB's long-term obligations during fiscal year 2004 were as follows:

	Principal Outstanding <u>7/1/03</u>	<u>Additions</u>	<u>Disposals</u>	Principal Outstanding <u>6/30/04</u>	Amounts Due in <u>One Year</u>
<u>Governmental Activities</u>					
Mortgage payable	\$ 5,380,859	350,000	185,331	5,545,528	193,122
Compensated absences	<u>627,934</u>	<u>70,796</u>	<u>36,957</u>	<u>661,773</u>	<u>233,986</u>
Total long-term obligations	\$ <u>6,008,793</u>	<u>420,796</u>	<u>222,288</u>	<u>6,207,301</u>	<u>427,108</u>

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

The mortgage payable of the HCCMHB consist of loan contracts made with the Ohio Department of Mental Health (ODMH), for the purchase of and improvement to various properties in the County for use in providing mental health services. The loan contracts between the HCCMHB and ODMH provide that the property must be used to provide mental health services for a specified period of time.

The terms of the contract are essentially equivalent to a mortgage on the property, with the HCCMHB being obligated to provide mental health services for a period of 40 years from the inception of the contract.

Should the HCCMHB discontinue mental health services at a particular facility, the balance of the contract would become due immediately. The balance due is reduced on a month-by-month basis over the term of the contract as a forgiveness of debt, as long as the facility is used for mental health services. No interest is charged on these obligations.

Annual commitments under the mortgage payable, assuming no forgiveness by ODMH, as of June 30, 2004, are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>
2005	\$ 193,122
2006	193,122
2007	193,122
2008	193,122
2009	193,122
2010 and thereafter	<u>4,579,918</u>
Total	\$ <u>5,545,528</u>

9. RISK MANAGEMENT

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

The County is self-insured for court judgments resulting from tort and general liability claims of County officials and employees.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

In 1990, the County began to account for and finance its risk of loss due to workers' compensation claims and established an internal service fund entitled "Workers' Compensation Reserve". The County reimburses the Bureau of Ohio Workers' Compensation for injured workers' claims. All departments of the County, including the HCCMHB, participate in the program and make payments to the internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a long-term liability for future claims.

10. LEASES WITH CONTRACTUAL AGENCIES

As of June 30, 2004, the HCCMHB leases 56 scattered-site housing facilities to Excel Development Company, a non-profit organization responsible for renting the units to the mentally disabled of the County. These leases contain terms of 20 years contingent upon Excel fulfilling the agreed upon programmatic and reporting responsibilities as required by the HCCMHB. Annual lease payments to the HCCMHB are at the reduced rate of \$1 per year, per unit. The aggregate value of these leased housing facilities at June 30, 2004 is approximately \$5,768,000.

In addition, the HCCMHB owns two housing facilities that are leased to various community social service agencies under operating leases. The agencies are required, by the lease agreement, to provide mental health services to County residents; if such services cease, the lease agreement is terminated.

Minimum rentals receivable under existing leases as of June 30, 2004, were as follows:

<u>Year Ended June 30</u>	<u>Operating Leases</u>
2005	\$ 164,920
2006	36,549
2007	36,549
2008	36,549
2009	<u>36,549</u>
Total	\$ <u>311,116</u>

11. CONTINGENCIES

Grants

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

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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

Litigation

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

12. RELATED PARTIES

The County provides various administrative functions for the HCCMHB such as payroll, research and budgeting. Included in the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types as operating expense for 2004, is approximately \$80,000 of fees paid for these services.

13. STATE DIRECT PAYMENTS

During the year ended June 30, 2004, the Ohio Department of Mental Health made direct payments to providers totaling \$595,125 for contracts entered into by the HCCMHB. These payments have been recorded as intergovernmental revenue with a corresponding contract expense.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund and Special Revenue Fund

Year Ended June 30, 2004

	General Fund			
	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Mental health levy	\$ 33,000,603	33,000,603	33,272,975	272,372
Intergovernmental:				
State grants	-	-	-	-
Medicaid	-	-	-	-
Title XX	-	-	-	-
Federal grants	-	-	-	-
ODMH direct payments	-	-	-	-
Other revenues:				
Capital and rental income	-	-	-	-
Other match	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>33,000,603</u>	<u>33,000,603</u>	<u>33,272,975</u>	<u>272,372</u>
Expenditures:				
Agency provider contracts	30,261,511	29,338,188	29,536,740	(198,552)
ODMH direct payments	-	-	-	-
Salaries, benefits and taxes	2,840,906	2,840,906	2,705,296	135,610
Operating expenses	795,911	795,911	584,296	211,615
Capital outlay	1,096,325	1,096,325	818,390	277,935
County auditor and treasurer fees	-	-	411,308	(411,308)
Debt service:				
Principal retirement	-	-	185,331	(185,331)
Forgiveness by ODMH	-	-	(185,331)	185,331
Total expenditures	<u>34,994,653</u>	<u>34,071,330</u>	<u>34,056,030</u>	<u>15,300</u>
Excess of revenues over (under) expenditures	(1,994,050)	(1,070,727)	(783,055)	287,672
Other financing source:				
Proceeds from long-term obligations	<u>-</u>	<u>350,000</u>	<u>350,000</u>	<u>-</u>
Net change in fund balance	(1,994,050)	(720,727)	(433,055)	287,672
Fund balance at beginning of year	<u>14,876,910</u>	<u>14,876,910</u>	<u>14,876,910</u>	
Fund balance at end of year	\$ <u>12,882,860</u>	<u>14,156,183</u>	<u>14,443,855</u>	

Special Revenue Fund				Totals (Memorandum Only)			
<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance From Final Budget</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance From Final Budget</u>
-	-	-	-	33,000,603	33,000,603	33,272,975	272,372
21,311,560	21,439,591	21,894,286	454,695	21,311,560	21,439,591	21,894,286	454,695
19,538,545	19,521,468	22,630,944	3,109,476	19,538,545	19,521,468	22,630,944	3,109,476
712,756	699,624	695,298	(4,326)	712,756	699,624	695,298	(4,326)
33,359	33,359	24,572	(8,787)	33,359	33,359	24,572	(8,787)
621,003	595,125	595,125	-	621,003	595,125	595,125	-
331,296	1,211,296	1,014,433	(196,863)	331,296	1,211,296	1,014,433	(196,863)
2,431,977	2,431,977	1,474,736	(957,241)	2,431,977	2,431,977	1,474,736	(957,241)
383,570	383,889	415,130	31,241	383,570	383,889	415,130	31,241
<u>45,364,066</u>	<u>46,316,329</u>	<u>48,744,524</u>	<u>2,428,195</u>	<u>78,364,669</u>	<u>79,316,932</u>	<u>82,017,499</u>	<u>2,700,567</u>
44,743,063	45,721,204	48,149,399	(2,428,195)	75,004,574	75,059,392	77,686,139	(2,626,747)
621,003	595,125	595,125	-	621,003	595,125	595,125	-
-	-	-	-	2,840,906	2,840,906	2,705,296	135,610
-	-	-	-	795,911	795,911	584,296	211,615
-	-	-	-	1,096,325	1,096,325	818,390	277,935
-	-	-	-	-	-	411,308	(411,308)
-	-	-	-	-	-	185,331	(185,331)
-	-	-	-	-	-	(185,331)	185,331
<u>45,364,066</u>	<u>46,316,329</u>	<u>48,744,524</u>	<u>(2,428,195)</u>	<u>80,358,719</u>	<u>80,387,659</u>	<u>82,800,554</u>	<u>(2,412,895)</u>
-	-	-	-	(1,994,050)	(1,070,727)	(783,055)	287,672
-	-	-	-	-	350,000	350,000	-
-	-	-	-	(1,994,050)	(720,727)	(433,055)	287,672
-	-	-	-	<u>14,876,910</u>	<u>14,876,910</u>	<u>14,876,910</u>	
-	-	-	-	<u>12,882,860</u>	<u>14,156,183</u>	<u>14,443,855</u>	

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of the
Hamilton County Community Mental Health Board:

We have audited the financial statements of the governmental activities and each major fund of Hamilton County Community Mental Health Board ("HCCMHB") as of and for the year ended June 30, 2004, which collectively comprise HCCMHB's basic financial statements and have issued our report thereon dated December 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered HCCMHB's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HCCMHB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Clark, Schufer, Hackett & Co.

Cincinnati, Ohio
December 3, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 17, 2005**