

**HAMILTON COUNTY COMMUNITY
MENTAL HEALTH BOARD**

Basic Financial Statements

June 30, 2005

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 Auditors' Report* of the Hamilton County Community Mental Health Board, Hamilton County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2004 through June 30, 2005. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 28, 2006

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HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

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, 2005, 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, 2005 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 November 10, 2005 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 18 and pages 38 through 39, 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, Hackett & Co.

Cincinnati, Ohio
November 10, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

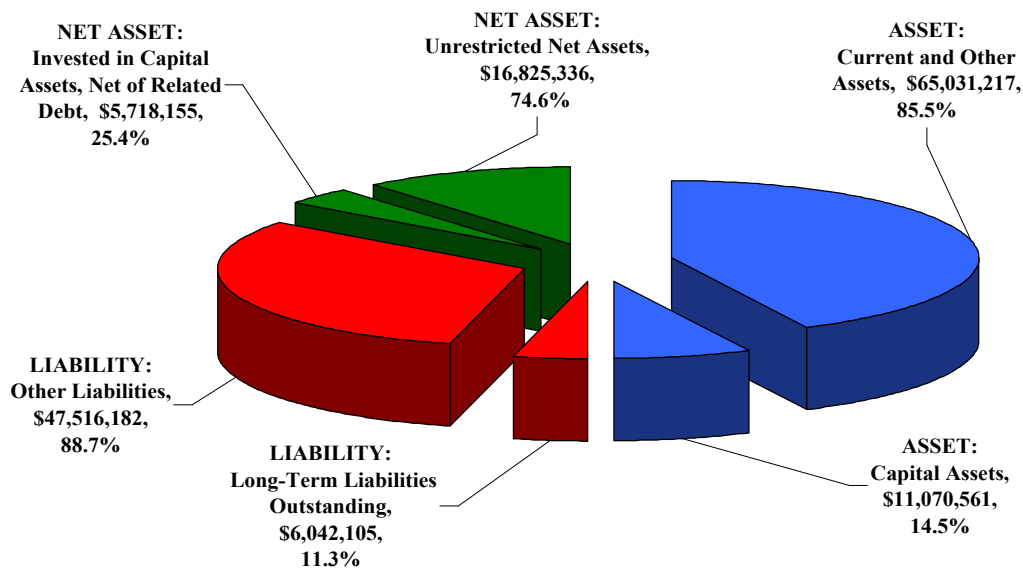
This discussion and analysis provides key information from management highlighting the overall financial performance of the Hamilton County Community Mental Health Board (HCCMHB) for the year ended June 30, 2005. This is meant to be a summary of important financial information regarding the accompanying financial statements. Please read it in conjunction with the HCCMHB's financial statements.

Financial Highlights

Some of the major financial highlights for fiscal year (FY) 2005 are listed below:

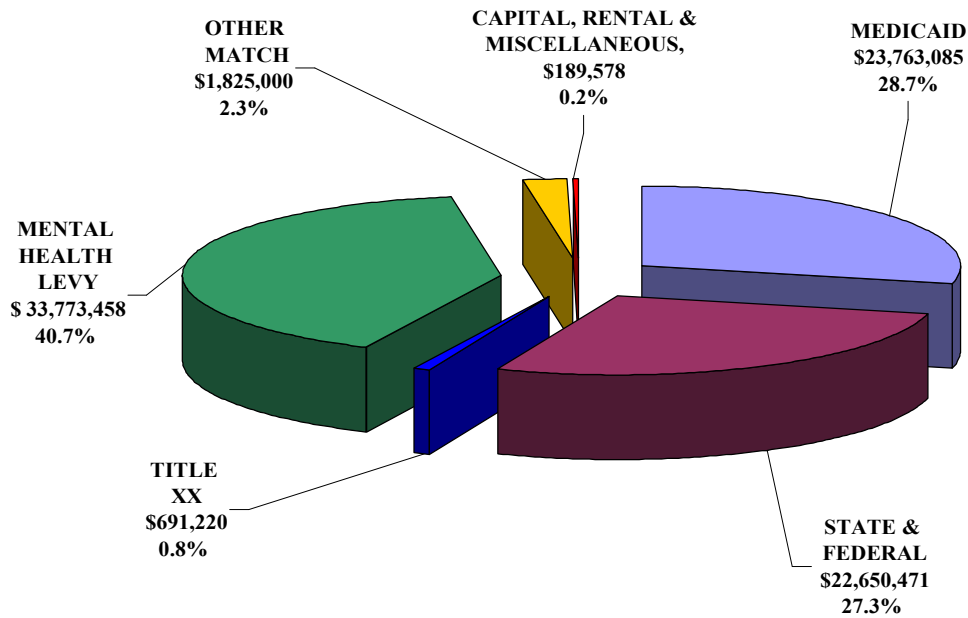
- The total net assets of the HCCMHB at year-end were \$22.5 million. Of this amount, \$16.8 million is unrestricted and may be used to meet the HCCMHB's ongoing obligations to consumers and creditors.
- The General Fund balance increased from \$10.4 million at June 30, 2004 to \$12.6 million at June 30, 2005, approximately a 21.1% increase. The General fund balance at June 30, 2005 equals approximately 1.8 months of Total Government Fund Expenditures.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
FY 2005 STATEMENT OF NET ASSETS
TOTAL ASSETS: \$76,101,778
TOTAL LIABILITIES: \$53,558,287
NET ASSETS: \$22,543,491

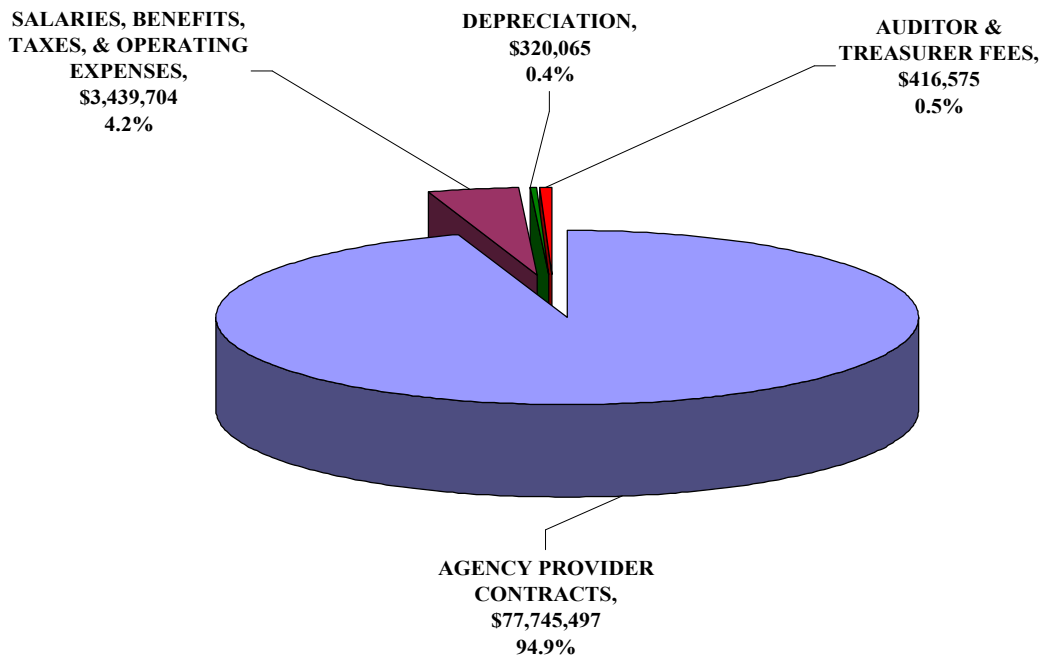


HCCMHB
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
FY 2005 STATEMENT OF ACTIVITIES REVENUE
TOTAL REVENUE \$82,892,812



HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
FY 2005 STATEMENT OF ACTIVITIES EXPENSES
TOTAL EXPENSES OF \$81,921,841



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.

**HCCMHB
Management's Discussion and Analysis
Year Ended June 30, 2005
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

Prior Period Adjustment

A Prior Period Adjustment is necessary to correct the Hamilton County Auditor's restatement of Delinquent Taxes after the FY 2004 Audited Financial Statements were published in December 2004. The original Delinquent Taxes accrual was \$824,000 and the restated Delinquent Taxes accrual is \$1,772,806. Thus the Net Assets, End of Year as of June 30, 2004 has been increased from the previously reported amount of \$20,623,714 to \$21,572,520.

The spreadsheet on the next page details the required adjustment to the Financial Statements.

PRIOR PERIOD ADJUSTMENT
FOOTNOTE #2 - DELINQUENT TAXES ADJUSTMENT

FY 2004:	Delinquent Taxes Revenue
Should Be:	\$ 1,772,806
As Reported:	<u>824,000</u>
Delinquent Taxes Adjust.	\$ 948,806

FY 2004 Audited Financial Statements	FY 2004 Statement of Activities Net Assets, Beginning of Year	FY 2004 Statement of Activities Decrease in Net Assets	FY 2004 Statement of Activities Net Assets, End of Year
Original	\$22,091,413	\$ (1,467,699)	\$ 20,623,714
Delinquent Taxes Adjust.		948,806	
Restated	22,091,413	(518,893)	21,572,520
Change in FY 2004 Net Assets			
	FY 2004	FY 2005	Total
Without Restatement	\$(1,467,699)	\$ 1,919,777	\$ 452,078
With Restatement	(518,893)	970,971	452,078

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, 2005. The table is followed by a variance analysis.

HCCMHB
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

Assets/ Liabilities/ Net assets	Statement of Net Assets FY 2004	Statement of Net Assets FY 2005	Statement of Net Assets Var. Incr. (Decr.)	State. Of N.A. % of Variance Incr. (Decr.)
Current and other assets	\$ 67,781,398	\$ 65,031,217	\$ (2,750,181)	-4.1%
Capital assets	11,390,626	11,070,561	(320,065)	-2.8%
Total assets	79,172,024	76,101,778	(3,070,246)	-3.9%
Long-term liabilities outstanding	6,207,301	6,042,105	(165,196)	-2.7%
Other liabilities	51,392,203	47,516,182	(3,876,021)	-7.5%
Total liabilities	57,599,504	53,558,287	(4,041,217)	-7.0%
Net Assets: Invested in capital assets, net of related debt	5,855,098	5,718,155	(136,943)	-2.3%
Unrestricted	15,717,422	16,825,336	1,107,914	7.0%
Total net assets	\$ 21,572,520	\$ 22,543,491	\$ 970,971	4.5%

Total Assets – (\$3.1 million) & (3.9%) Decrease:

1. Current and Other Assets decreased by \$2.8 million:
 - A decrease in Due from Other Governments of \$3.7 million, primarily Medicaid receivables,
 - A decrease in Long Term Receivables from Agencies of \$546 thousand reflecting the write down of an operating pre-payment against services rendered totaling \$214 thousand, and the reduction of Medicaid reversals totaling \$332 thousand,
 - A decrease in Pre-paid contract services of \$81 thousand reflecting the payment received from an agency for an outstanding Pre-Payment,
 - A increase in Levy Receivables of \$306 thousand primarily related to the adjustment of delinquent taxes, and
 - An increase in Equity in pooled cash of \$1.2 million primarily due to the overall pay down of receivables.
2. Capital Assets decreased by \$320 thousand primarily because of:
 - An increase in building and building improvements accumulated depreciation of \$287 thousand, and
 - An increase in furniture and fixtures accumulated depreciation of \$33 thousand.
3. A portion (14.5%) of Total Assets reflects HCCMHB's investment in capital assets of \$11.1 million. The majority of these capital assets are four-unit apartment buildings used to provide housing for the Severely Mentally Disabled Adult population.

HCCMHB
Management's Discussion and Analysis
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Total Liabilities – (\$4.0 million) & (7.0%) Decrease:

1. The total decrease of \$165 thousand in Long-Term Liabilities is the result of:
 - An increase of \$28 thousand for the compensated absences accrual,
 - Partially offset by the decrease of \$193 thousand for the amortized and forgiven portion of each property mortgage held by ODMH.

2. The majority of the \$3.9 million decrease in Other Liabilities is the result of the change in the accrual of the following FY 2005 liabilities incurred prior to, but paid or not received until after June 30, 2005:
 - \$3.5 million decrease in agency contract service payable expenses,
 - \$382 thousand decrease in operating and capital expenses, and
 - \$49 thousand increase in Levy and other government deferred revenue.

Total Net Assets – \$1.0 million & 4.5% Increase:

1. The total increase of \$1.1 million in Unrestricted Net Assets is primarily the result of the overall decrease in Total Assets (\$3.1 million) partially offset by a decrease in Total Liabilities (\$4.0 million) as detailed above.

2. The majority of the total decrease of \$137 thousand reflected in Invested in Capital Assets, Net of Related Debt is caused by the FY 2005 Depreciation of \$320 thousand partially offset by the \$193 thousand decrease representing the amortized and forgiven portion of each property mortgage held by ODMH,

B. Governmental Activities during FY 2005

The table on the following page presents a condensed summary of the HCCMHB's activities during FY 2005 and the resulting change in net assets. A variance analysis follows the table.

HCCMHB
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

Revenues/ Program Expenses/ Change in Net Assets	Statement of Activities FY 2004	Statement of Activities FY 2005	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	\$ 22,652,147	\$ 23,763,085	\$ 1,110,938	4.9%
State & federal grants	1,262,015	1,478,558	216,543	17.2%
Title XX	695,298	691,220	(4,078)	-0.6%
ODMH direct payments	595,125	609,970	14,845	2.5%
Total program rev.	25,204,585	26,542,833	1,338,248	5.3%
General Revenues:				
Mental Health Levy	34,244,514	33,773,458	(471,056)	-1.4%
Grants and contributions not restricted to specific programs:				
State	20,436,375	20,561,943	125,568	0.6%
Other match	1,474,736	1,825,000	350,264	23.8%
Capital and rental income	243,198	41,177	(202,021)	-83.1%
Miscellaneous	415,130	148,401	(266,729)	-64.3%
Total general revenues	56,813,953	56,349,979	(463,974)	-0.8%
Total Revenues:	82,018,538	82,892,812	874,274	1.1%
Program Expenses:				
Community Mental Health:				
Agency provider contracts	77,686,139	77,135,527	550,612	0.7%
Salaries, benefits & taxes	2,739,135	2,738,969	166	0.0%
Operating expenses	739,634	700,735	38,899	5.3%
Depreciation	366,090	320,065	46,025	12.6%
Auditor's/Treasurer's fees	411,308	416,575	(5,267)	-1.3%
ODMH direct payments	595,125	609,970	(14,845)	-2.5%
Total program	82,537,431	81,921,841	615,590	0.7%
Incr. (Decr.) in net assets	(518,893)	970,971	1,489,864	287.1%
Net assets, begin. of year	22,091,413	21,572,520	(518,893)	-2.3%
Net assets, end of year	\$ 21,572,520	\$ 22,543,491	\$ 970,971	4.5%

HCCMHB
Management's Discussion and Analysis
Year Ended June 30, 2005
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Total Program Revenues – \$1.3 million & 5.3% 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 – (\$464 thousand) & (0.8%) Unfavorable Variance:

- The variance is primarily the result of the decrease in Levy revenue of \$471 thousand associated with the adjustment in the delinquent taxes accrual.

Total Program Expenses – \$616 thousand & 0.7% Favorable Variance:

- The variance is primarily caused by the \$550 thousand favorable variance in Agency provider contracts reflecting the underspending of available Non-Medicaid funds.

FINANCIAL ANALYSIS OF THE MAJOR FUNDS

Prior Period Adjustment

A prior period adjustment is necessary to correct an error in revenue recognition of Medicaid receivables for the year ended June 30, 2004. Revenue of \$4,073,061 collected outside the available period was improperly recognized in the prior year. Thus, the fund balance for the General Fund as of June 30, 2004 has been reduced from the previously reported amount of \$14,443,855 to \$10,370,794.

The basis of accounting defines 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 to recognize Government Funds revenues and expenditures. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means when 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 the fiscal year. Therefore, the Medicaid revenue of \$4,073,061 which was received after the available period should have been reported as unearned revenue rather than revenue.

The spreadsheet on the following page details the required adjustment to the Government Fund Financial Statements.

HCCMHB
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

PRIOR PERIOD ADJUSTMENT
FOOTNOTE #2 - MEDICAID ADJUSTMENT

FY 2004:	Medicaid Revenue		
Should Be:	\$ 18,557,883		
As Reported:	<u>22,630,944</u>		
Medicaid Adjustment	\$ (4,073,061)		
FY 2004 Audited Financial Statements	FY 2004 Beginning Fund Balance	FY 2004 Change in Fund Balance	FY 2004 Ending Fund Balance
Original	\$ 14,876,910	\$ (433,055)	\$ 14,443,855
Medicaid Adjustment		(4,073,061)	
Restated	14,876,910	(4,506,116)	10,370,794
Change in FY 2004 Fund Balance	FY 2004	FY 2005	Total
Without Restatement	\$ (433,055)	\$ (1,888,898)	\$ (2,321,953)
With Restatement	(4,506,116)	2,184,163	(2,321,953)

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 2005. 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, 2005 was \$12.6 million including \$11.3 million of unreserved fund balance.

The table on the next page details the activities of the General Fund. A variance analysis follows the table.

HCCMHB
Management's Discussion and Analysis
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General Fund Revenues/ Program Expenses/ Change in Fund Balance	General Fund FY 2004	General Fund FY 2005	Variance Fav. (Unfav.)	% of Variance Fav. (Unfav.)
Total General Fund Revenues	\$ 36,177,274	\$ 35,510,587	\$ (666,687)	-1.8%
Total General Fund Program Expenses:	41,033,390	33,326,424	7,706,966	18.8%
Excess of revenues over (under) expenditures	(4,856,116)	2,184,163	7,040,279	145.0%
Other financing source:				
Proceeds from long-term obligations	350,000	-	(350,000)	-100.0%
Net change in fund balance	(4,506,116)	2,184,163	6,690,279	148.5%
Fund balance at beg. of	14,876,910	10,370,794	(4,506,116)	-30.3%
Fund balance at end of year	\$ 10,370,794	\$ 12,554,957	\$ 2,184,163	21.1%

Total General Fund Revenues – (\$667 thousand) & (1.8%) Unfavorable Variance:

The unfavorable variance is the result of:

- The decrease in Capital & Rental Income of \$974 thousand. The HCCMHB sold the Madison Road property in FY 2004. There were no real estate sales in FY 2005,
- The decrease in Miscellaneous income of \$286 thousand. This reflects the run-out of all start-up grants from The Health Foundation of Greater Cincinnati,
- The increase of \$350 thousand in Other Match reflecting the phase out of the Magellan contract and the beginning of the Family Access Partnership with the HC Department of Job and Family Services, and
- The increase of \$243 thousand in the Real Estate and Public Utilities portion of the Levy funds collected.

Total General Fund Program Expenses – \$7.7 million & 18.8% Favorable:

- The favorable variance is caused by the restatement and carry forward of FY 2004 Medicaid Revenue in the FY 2005 Special Revenue Fund causing the shifting of expenses from the Agency provider contracts (\$7.0 million) in the General Revenue Fund to Agency provider contracts in the Special Revenue Fund. The reduction in capital expenditures of \$744 thousand contributed to the favorable variance.

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Other Financing Source – (\$350 thousand) & (100.0%) Unfavorable Variance:

- The variance is caused by the ODMH partially funding the purchase and renovation of the consumer building at 2340 Auburn Avenue in FY 2004 with no like payments in FY 2005. For Financial Statement presentation purposes, this category is not viewed as a Revenue or Expense.

Fund Balance at the End of the Year – \$2.2 million & 21.1% Favorable Variance:

- The actual \$2.2 million increase in the fund balance was the result of the restatement and carry forward of FY 2004 Medicaid Revenue in the FY 2005 Special Revenue Fund causing the shifting of expenses from the Agency provider contracts in the General Revenue Fund to Agency provider contracts in the Special Revenue Fund.

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 asset in the Special Revenue Fund is the \$6.9 million in 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 \$3.7 million decrease in Due from other governments versus FY 2004.

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

Special Fund Revenues/ Program Expenses/ Change in Fund Balance	Special Fund FY 2004	Special Fund FY 2005	Budget Variance Fav. (Unfav.)	Budget % of Variance Fav. (Unfav.)
Special Fund Revenues:				
Intergovernmental:	41,172,039	47,637,456	6,465,417	15.7%
Other revenues:	595,125	609,970	14,845	2.5%
Total Special Fund Revenues	41,767,164	48,247,426	6,480,262	15.5%
Total Special Fund Expenses	41,767,164	48,247,426	(6,480,262)	-15.5%
Excess of Revenues Over (Under) Expenditures	-	-	-	0.0%

Total Special Fund Revenues – \$6.5 million & 15.5% Favorable Variance:

1. The \$6.5 million favorable variance in Intergovernmental Revenue is caused by:
 - An increase in Medicaid revenue of \$7.0 million, and
 - Partially offset by a reduction \$500 thousand in State Grants.
2. The \$15 thousand favorable variance in Other Revenue is the result of:
 - An increase in ODMH Direct Payments of \$15 thousand.

Total Special Fund Program Expenses – (\$6.5 million) & (15.5%) Unfavorable Variance:

- The favorable variance is caused by the restatement and carry forward of FY 2004 Medicaid Revenue in the FY 2005 Special Revenue Fund causing the shifting of expenses from the Agency provider contracts (\$6.5 million) in the General Revenue Fund to Agency provider contracts in the Special Revenue Fund.

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 2005, 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 Final Budget versus Actual Revenues & Expenditures is as follows:

Tax Levy – (\$27 thousand) & (0.1%) Unfavorable Variance:

- The variance is not material.

State Grants – (\$329 thousand) & (1.5%) Unfavorable Variance:

- The variance is the result of receiving FY 2005 ODMH payments after the available period of August 31, 2005.

Medicaid – \$1.9 million & 8.0% 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 – (\$1 thousand) & (0.2%) Unfavorable Variance:

- The variance is not material.

Federal Grant – (\$30 thousand) & (100.0%) 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 – (\$167 thousand) & (80.5%) Unfavorable Variance:

- The primary cause of the variance is the delay in the reimbursement of \$170 thousand from ODMH for the Seton and Reading Road properties.

Other Match – \$0 & 0.0% Variance:

- There is no variance to discuss.

Miscellaneous – (\$52 thousand) & (28.7%) Unfavorable Variance

- The variance is caused by the delay in the start-up and funding of the Health Foundation of Greater Cincinnati's Improving Access for School Age Children grant (\$33 thousand) and the delay in billing and payment for the Justice Center Evaluation Program (\$19 thousand).

EXPENDITURES:

Agency & Provider – \$1.9 million & 2.5% Favorable Variance:

- The variance is caused by the \$1.7 million increase in client Medicaid services delivered by the agencies partially offset by the under-spending of \$3.6 million for Non-Medicaid services.

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

- There is no variance to discuss.

Salaries, Benefits & Taxes – \$70 thousand & 2.5% Favorable Variance:

- The favorable variance was caused by the HCCMHB having an actual average headcount of 37.2 positions versus a budget of 42 positions.

HCCMHB
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

Operating Expenses – \$172 thousand & 21.6% Favorable Variance:

- The favorable variance was caused by conservative spending on Consulting (\$148 thousand), Temporary Help (\$13 thousand) and Directors and Officers Insurance (\$12 thousand).

Capital Exp. – \$55 thousand & 42.2% Favorable Variance:

- Conservative spending on building related capital expenditures caused the favorable variance.

Auditor & Treasurer Fees – (\$6 thousand) & (1.4%) Unfavorable Variance:

- The variance is not material.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. At June 30, 2005, the HCCMHB had \$11.1 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 2004	Capital Asset Activities FY 2005	Capital Asset Act. Variance Incr. (Decr.)	Capital Asset Act. % of Var. Incr. (Decr.)
Land	\$ 1,694,346	\$ 1,694,346	\$ -	0.0%
Construction in progress	-	-	-	0.0%
Buildings	9,639,319	9,352,027	(287,292)	-3.0%
Furniture and equipment	56,961	24,188	(32,773)	-57.5%
Total Capital Assets	\$ 11,390,626	\$ 11,070,561	\$ (320,065)	-2.8%

The recording of the FY 2005 Depreciation expenses associated with buildings, furniture and fixtures caused the variance.

Debt

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

HCCMHB
Management's Discussion and Analysis
Year Ended June 30, 2005
Unaudited

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 continues to be a major area of economic concern. The State of Ohio's biennium budget for FY 2006 – 07 included a 3% increase in funds for Mental Health. Instead of allocating the 3% to the Boards across the state for ongoing services, ODMH held back the majority of the increase for State Hospital spending and a new "Safety Net" program.

Other Economic Factors:

- The ODMH raised the State Hospital per-diem from \$446 to \$470 or 5.4% in FY 2006. It will cost \$161,550 in FY 2006 to serve a consumer for one year in a State Hospital. Despite keeping the FY 2006 State Hospital bed days purchased (34,310) the same as FY 2005, the HCCMHB's 408 line item saw a gross reduction of \$823 thousand because of the increase in the per diem expense partially offset by a .5% increase in the 408 base of \$145 thousand. This net allocation reduction of \$678 thousand by the ODMH caused a direct reduction of the mental health services available to Hamilton County residents.

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, 2005

ASSETS:

Equity in pooled cash and investments with County Treasurer	\$ 21,748,562
Levy receivable	35,343,977
Due from other governments	6,900,438
Prepaid contract services	140,483
Long-term receivables from contract agencies	897,757
Nondepreciable capital assets	1,694,346
Depreciable capital assets, net of accumulated depreciation	<u>9,376,215</u>
Total assets	<u>76,101,778</u>

LIABILITIES:

Contracts payable	13,989,296
Accrued other	213,430
Unearned revenue	33,313,456
Long-term liabilities:	
Due within one year	439,515
Due in more than one year	<u>5,602,590</u>
Total liabilities	<u>53,558,287</u>

NET ASSETS:

Invested in capital assets, net of related debt	5,718,155
Unrestricted	<u>16,825,336</u>
Total net assets	\$ <u><u>22,543,491</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, 2005

Program expenses:

Community Mental Health:

Agency provider contracts	\$	77,135,527
Salaries, benefits and taxes		2,738,969
Operating expenses		700,735
Depreciation		320,065
County auditor and treasurer fees		416,575
ODMH direct payments		<u>609,970</u>
Total program expenses		<u>81,921,841</u>

Program revenues:

Operating grants and contributions restricted to specific programs:

Medicaid		23,763,085
State and federal grants		1,478,558
Title XX		691,220
ODMH direct payments		<u>609,970</u>
Total program revenues		<u>26,542,833</u>
Net program expenses		<u>55,379,008</u>

General revenues:

Mental health levy		33,773,458
Grants and contributions not restricted to specific programs:		
State		20,561,943
Other match		1,825,000
Capital and rental income		41,177
Miscellaneous		<u>148,401</u>
Total general revenues		<u>56,349,979</u>

Increase in net assets		970,971
Net assets, beginning of year, restated		<u>21,572,520</u>
Net assets, end of year	\$	<u><u>22,543,491</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, 2005

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
ASSETS			
Equity in pooled cash and investments with County Treasurer	\$ 21,748,562	-	21,748,562
Levy receivable	35,343,977	-	35,343,977
Due from other governments	-	6,900,438	6,900,438
Prepaid contract services	140,483	-	140,483
Interfund receivable	-	567,256	567,256
Long-term receivables from contract agencies	897,757	-	897,757
Total assets	<u>58,130,779</u>	<u>7,467,694</u>	<u>65,598,473</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Contracts payable	\$ 9,451,159	4,538,137	13,989,296
Accrued other	213,430	-	213,430
Unearned revenue	35,343,977	2,929,557	38,273,534
Interfund payable	567,256	-	567,256
Total liabilities	<u>45,575,822</u>	<u>7,467,694</u>	<u>53,043,516</u>
Fund balances:			
Unreserved, reported in:			
General fund	11,304,452	-	11,304,452
Reserved for encumbrances	212,265	-	212,265
Reserved for prepaid contract services	140,483	-	140,483
Reserved for long-term receivables	897,757	-	897,757
Total fund balances	<u>12,554,957</u>	<u>-</u>	<u>12,554,957</u>
Total liabilities and fund balances	\$ <u>58,130,779</u>	<u>7,467,694</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.	4,960,078
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,070,561
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Mortgage payable	\$ 5,352,406
Compensated absences	<u>689,699</u>
Total	<u>(6,042,105)</u>
Net Assets of Governmental Activities	\$ <u><u>22,543,491</u></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, 2005

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues:			
Mental health levy	\$ 33,515,743	-	33,515,743
Intergovernmental:			
State grants	-	21,394,280	21,394,280
Medicaid	-	25,551,956	25,551,956
Title XX	-	691,220	691,220
Other revenues:			
Capital and rental income	40,512	-	40,512
Other match	1,825,000	-	1,825,000
Miscellaneous	129,332	-	129,332
ODMH direct payments	-	609,970	609,970
Total revenues	<u>35,510,587</u>	<u>48,247,426</u>	<u>83,758,013</u>
Expenditures:			
Agency provider contracts	29,498,071	47,637,456	77,135,527
ODMH direct payments	-	609,970	609,970
Salaries, benefits and taxes	2,711,043	-	2,711,043
Operating expenses	626,091	-	626,091
Capital outlay	74,644	-	74,644
County auditor and treasurer fees	416,575	-	416,575
Debt service:			
Principal retirement	193,122	-	193,122
Forgiveness by ODMH	(193,122)	-	(193,122)
Total expenditures	<u>33,326,424</u>	<u>48,247,426</u>	<u>81,573,850</u>
Change in fund balance	2,184,163	-	2,184,163
Fund balance, beginning of year, restated	<u>10,370,794</u>	-	<u>10,370,794</u>
Fund balance, end of year	\$ <u>12,554,957</u>	-	<u>12,554,957</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
Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	2,184,163
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		(1,058,323)
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		-
Depreciation expense		(320,065)
Retirement of mortgage principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		193,122
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.		<u>(27,926)</u>
 Change in Net Assets of Governmental Activities	 \$	 <u>970,971</u>

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2005

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, 2005

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, 2005

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, 2005 which are intended to finance fiscal year 2006 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, 2005

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. 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.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Notes to the Basic Financial Statements

Year Ended June 30, 2005

I. Interfund Transactions

On the fund financial statements, the General Fund has a payable of \$567,256 that consists of amounts due to the Special Revenue Fund. During the course of normal operations, the HCCMHB will, as necessary, transfer cash between funds to meet current obligations.

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.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Notes to the Basic Financial Statements

Year Ended June 30, 2005

2. PRIOR PERIOD ADJUSTMENTS

Net Assets

A prior period adjustment is necessary to restate net assets for an error related to the outstanding delinquent taxes provided by the Hamilton County Auditor. On the accrual basis of accounting, delinquent taxes are recognized as revenue. In the year ended June 30, 2004 delinquent taxes of \$824,000 were recognized as revenue. Subsequently, the actual delinquent taxes were determined to be \$1,772,806. Thus, a prior period adjustment of \$948,806 is necessary to correct the revenue recognition. Net assets as of June 30, 2004 have been restated from \$20,623,714 to \$21,572,520.

Fund Balance

A prior period adjustment is necessary to correct an error in revenue recognition of Medicaid receivables for the year ended June 30, 2004. Revenue of \$4,073,061 collected outside the available period was improperly recognized in the prior year. Thus, the fund balance for the General Fund as of June 30, 2004 has been reduced from the previously reported amount of \$14,443,855 to \$10,370,794.

3. 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.

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;

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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 2005, 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.

4. PROPERTY TAXES

Property taxes include amounts levied against real, public utility and tangible property. The assessed value upon which the 2005 tax collection was based as follows:

Real Property:	
Residential/Agricultural	\$ 11,581,903,250
Commercial/Industrial/Public Utilities	4,638,731,730
Public Utilities	757,438,390
Tangible Personal Property:	
General	<u>1,750,930,182</u>
Total Valuation	\$ <u><u>18,729,003,552</u></u>

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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 2005, 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.

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance <u>7/1/04</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6/30/05</u>
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$ <u>1,694,346</u>	<u>-</u>	<u>-</u>	<u>1,694,346</u>
Capital assets being depreciated:				
Building and building Improvements	11,609,187	-	-	11,609,187
Furniture and fixtures	<u>164,791</u>	<u>-</u>	<u>-</u>	<u>164,791</u>
Total being depreciated	<u>11,773,978</u>	<u>-</u>	<u>-</u>	<u>11,773,978</u>
Less accumulated depreciation:				
Building and building Improvements	1,969,868	287,292	-	2,257,160
Furniture and fixtures	<u>107,830</u>	<u>32,773</u>	<u>-</u>	<u>140,603</u>
Total accumulated depreciation	<u>2,077,698</u>	<u>320,065</u>	<u>-</u>	<u>2,397,763</u>
Capital assets, net	\$ <u>11,390,626</u>	<u>320,065</u>	<u>-</u>	<u>11,070,561</u>

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Notes to the Basic Financial Statements

Year Ended June 30, 2005

6. 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.

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 2005. The HCCMHB's required contributions to PERS for the years ending June 30, 2005, 2004, 2003 were approximately \$286,000, \$281,000, and \$283,000. All of the required contributions were paid within the respective fiscal years.

7. 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.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD
Notes to the Basic Financial Statements
Year Ended June 30, 2005

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 2005 employer contribution rate was 13.55% of covered payroll for employees of which 4.0% was the portion that was used to fund health care.

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

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.

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 369,885. The portion of the HCCMHB's contributions that were used to fund postemployment benefits was approximately \$84,000. At December 31, 2003 (latest information available), the actuarial value of the Retirement System's net assets available for OPEB was \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Notes to the Basic Financial Statements

Year Ended June 30, 2005

8. 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, 2005, the HCCMHB's liability for compensated absences was \$689,699.

9. LONG-TERM OBLIGATIONS

The changes in the HCCMHB's long-term obligations during fiscal year 2005 were as follows:

	Principal Outstanding <u>7/1/04</u>	<u>Additions</u>	<u>Disposals</u>	Principal Outstanding <u>6/30/05</u>	Amounts Due in <u>One Year</u>
<u>Governmental Activities</u>					
Mortgage payable	\$ 5,545,528	-	193,122	5,352,406	193,369
Compensated absences	<u>661,773</u>	<u>189,693</u>	<u>161,767</u>	<u>689,699</u>	<u>246,146</u>
Total long-term obligations	\$ <u>6,207,301</u>	<u>189,693</u>	<u>354,889</u>	<u>6,042,105</u>	<u>439,515</u>

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.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Notes to the Basic Financial Statements

Year Ended June 30, 2005

Annual commitments under the mortgage payable, assuming no forgiveness by ODMH, as of June 30, 2005, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>
2006	\$ 193,369
2007	193,369
2008	193,369
2009	193,369
2010	193,369
2011 and thereafter	<u>4,385,561</u>
Total	\$ <u>5,352,406</u>

10. 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.

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.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Notes to the Basic Financial Statements

Year Ended June 30, 2005

11. LEASES WITH CONTRACTUAL AGENCIES

As of June 30, 2005, 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, 2005 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, 2005, were as follows:

<u>Year Ended June 30</u>	<u>Operating Leases</u>
2006	\$ 33,882
2007	33,882
2008	33,882
2009	33,882
2010	<u>33,882</u>
Total	\$ <u>169,410</u>

12. 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.

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.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Notes to the Basic Financial Statements

Year Ended June 30, 2005

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.

13. 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 2005, is approximately \$78,000 of fees paid for these services.

14. STATE DIRECT PAYMENTS

During the year ended June 30, 2005, the Ohio Department of Mental Health made direct payments to providers totaling \$609,970 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, 2005

	<u>General Fund</u>			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance From Final Budget</u>
Revenues:				
Mental health levy	\$ 33,264,817	33,542,813	33,515,743	(27,070)
Intergovernmental:				
State grants	-	-	-	-
Medicaid	-	-	-	-
Title XX	-	-	-	-
Federal grants	-	-	-	-
ODMH direct payments	-	-	-	-
Other revenues:				
Capital and rental income	34,622	207,807	40,512	(167,295)
Other match	1,600,000	1,825,000	1,825,000	-
Miscellaneous	-	181,440	129,332	(52,108)
Total revenues	<u>34,899,439</u>	<u>35,757,060</u>	<u>35,510,587</u>	<u>(246,473)</u>
Expenditures:				
Agency provider contracts	32,941,761	32,969,783	29,498,071	3,471,712
ODMH direct payments	-	-	-	-
Salaries, benefits and taxes	2,744,315	2,780,658	2,711,043	69,615
Operating expenses	768,850	798,585	626,091	172,494
Capital outlay	129,215	129,215	74,644	54,571
County auditor and treasurer fees	-	410,751	416,575	(5,824)
Debt service:				
Principal retirement	-	-	193,122	(193,122)
Forgiveness by ODMH	-	-	(193,122)	193,122
Total expenditures	<u>36,584,141</u>	<u>37,088,992</u>	<u>33,326,424</u>	<u>3,762,568</u>
Net change in fund balance	(1,684,702)	(1,331,932)	2,184,163	3,516,095
Fund balance at beginning of year, restated	<u>10,370,794</u>	<u>10,370,794</u>	<u>10,370,794</u>	
Fund balance at end of year	<u>\$ 8,686,092</u>	<u>9,038,862</u>	<u>12,554,957</u>	

Special Revenue Fund				Totals (Memorandum Only)			
Original Budget	Final Budget	Actual	Variance From Final Budget	Original Budget	Final Budget	Actual	Variance From Final Budget
-	-	-	-	33,264,817	33,542,813	33,515,743	(27,070)
21,268,041	21,723,662	21,394,280	(329,382)	21,268,041	21,723,662	21,394,280	(329,382)
24,772,885	23,660,336	25,551,956	1,891,620	24,772,885	23,660,336	25,551,956	1,891,620
695,298	692,295	691,220	(1,075)	695,298	692,295	691,220	(1,075)
30,000	30,000	-	(30,000)	30,000	30,000	-	(30,000)
595,125	609,970	609,970	-	595,125	609,970	609,970	-
-	-	-	-	34,622	207,807	40,512	(167,295)
-	-	-	-	1,600,000	1,825,000	1,825,000	-
-	-	-	-	-	181,440	129,332	(52,108)
<u>47,361,349</u>	<u>46,716,263</u>	<u>48,247,426</u>	<u>1,531,163</u>	<u>82,260,788</u>	<u>82,473,323</u>	<u>83,758,013</u>	<u>1,284,690</u>
46,766,224	46,106,293	47,637,456	(1,531,163)	79,707,985	79,076,076	77,135,527	1,940,549
595,125	609,970	609,970	-	595,125	609,970	609,970	-
-	-	-	-	2,744,315	2,780,658	2,711,043	69,615
-	-	-	-	768,850	798,585	626,091	172,494
-	-	-	-	129,215	129,215	74,644	54,571
-	-	-	-	-	410,751	416,575	(5,824)
-	-	-	-	-	-	193,122	(193,122)
-	-	-	-	-	-	(193,122)	193,122
<u>47,361,349</u>	<u>46,716,263</u>	<u>48,247,426</u>	<u>(1,531,163)</u>	<u>83,945,490</u>	<u>83,805,255</u>	<u>81,573,850</u>	<u>2,231,405</u>
-	-	-	-	(1,684,702)	(1,331,932)	2,184,163	3,516,095
-	-	-	-	<u>10,370,794</u>	<u>10,370,794</u>	<u>10,370,794</u>	
-	-	-	-	<u>8,686,092</u>	<u>9,038,862</u>	<u>12,554,957</u>	



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**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, 2005, which collectively comprise HCCMHB's basic financial statements and have issued our report thereon dated November 10, 2005. 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 opinions 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, Schaefer, Hachett & Co.

Cincinnati, Ohio
November 10, 2005



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Betty Montgomery**

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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
MARCH 14, 2006**