
MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES

Basic Financial Statements – Cash Basis

December 31, 2011

(with Independent Auditors' Report)



Dave Yost • Auditor of State

Members of the Board
Mental Health and Recovery for Licking and Knox Counties
1435-B West Main Street
Newark, Ohio 43055

We have reviewed the *Independent Auditor's Report* of the Mental Health and Recovery for Licking and Knox Counties, Licking County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2011 through December 31, 2011. 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 Mental Health and Recovery for Licking and Knox Counties is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 18, 2012

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INDEPENDENT AUDITORS' REPORT

Mental Health and Recovery for
Licking and Knox Counties, Ohio
1435-B West Main Street
Newark, Ohio 43055

We have audited the accompanying financial statements of the governmental activities and each major fund of Mental Health and Recovery for Licking and Knox Counties, Ohio (the Board) as of and for the year ended December 31, 2011, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government 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 the 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 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. As described in Note 14, during the year ended December 31, 2011, the Board adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mental Health and Recovery for Licking and Knox Counties, Ohio, as of December 31, 2011, and the respective changes in cash basis financial position, and the budgetary comparisons for the General Fund for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2012, on our consideration of the Board's internal control over financial reporting and on 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 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.

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Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the Board's basic financial statements. The tables included within the management's discussion and analysis (net cash assets, changes in net cash assets, governmental activities – total and net cost of services, governmental fund balances, and long-term obligations) and schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. These tables and the schedule of expenditures of federal awards were subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the tables and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole. Other than the aforementioned procedures applied to the tables, we have applied no procedures to any other information included within management's discussion and analysis, and accordingly, we do not express an opinion or provide any assurance on it.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
May 31, 2012

The management's discussion and analysis of Mental Health and Recovery for Licking and Knox Counties (the "Board") financial performance provides an overall review of the Board's financial activities for the year ended December 31, 2011, within the limitation of the Board's cash basis of accounting. The intent of this discussion and analysis is to look at the Board's financial performance as a whole; readers should also review the cash-basis basic financial statements and the notes to the basic financial statements to enhance their understanding of the Board's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- Net assets of the Board's governmental activities increased \$749,492 from 2010, or 16.4%.
- General cash receipts accounted for \$13,422,008 or 73.4% of total governmental activities cash receipts. Program specific cash receipts accounted for \$4,871,564 or 26.6% of total governmental activities cash receipts. Total governmental activities cash receipts for 2011 were \$18,293,572.
- The Board had \$17,544,080 in cash disbursements related to governmental activities; \$4,871,564 of these cash disbursements were offset by program specific operating grants or contributions. The remaining cash disbursements of the governmental activities of \$12,672,516 were offset by general cash receipts (primarily property taxes and unrestricted grants and entitlements) of \$13,422,008.
- The Board's major governmental funds are the General and Capital Projects funds. The General fund had cash receipts of \$18,411,654, including the advance in, and cash disbursements of \$17,542,129. The net increase in fund balance for the General Fund was \$869,525 or 19.5%.

Using the Basic Financial Statements (BFS)

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

The Statement of Net Assets – Cash Basis and Statement of Activities - Cash Basis provide information about the activities of the Board as a whole, presenting both an aggregate view of the Board's cash-basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Board's most significant funds.

Since the Board uses the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded on these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the Board as a Whole

Statement of Net Assets and the Statement of Activities

A general question typically asked about the Board's finances is "How did we do financially during 2011?" The Statement of Net Assets-Cash Basis and the Statement of Activities-Cash Basis answers this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's cash receipts and cash disbursements if the cash is actually received or paid.

These two statements report the Board's net assets and changes in those assets on a cash basis. This change in net assets is important because it tells the reader that, for the Board as a whole, the financial position of the Board has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Board's property tax base, current property tax laws in Ohio restricting revenue growth, changes in Medicaid funding, changes in required community programs and other factors.

In the Statement of Net Assets-Cash Basis and the Statement of Activities-Cash Basis, the Board is consisted of the following types of activities:

Governmental activities – The Board's programs and services are reported here including alcohol and other drugs programs and mental health programs. These services are funded primarily by property taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the Board's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board uses two funds to account for financial transactions and has segregated these funds into major funds. Information for major funds is presented separately in the governmental fund financial statements. The Board's major governmental funds are the General and the Capital Projects funds.

Governmental Funds

The governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. For the Board, these funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Since the Board is reporting on the cash basis of accounting, there are no differences between net assets and fund balances or changes in net assets and changes in fund balances. Therefore, no such reconciliation is necessary between such financial statements.

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

The Board's budgetary process accounts for certain transactions on the cash basis. The budgetary statement for the General fund is presented to demonstrate the Board's compliance with annually adopted budgets. Differences arising between the changes in fund balances presented on the fund financial statements and fund balances on the budgetary statements are attributed to outstanding encumbrances at year end.

The Board as a Whole

Recall that the Statement of Net Assets – Cash Basis provides the perspective of the Board as a whole.

The table below provides a summary of the Board's net assets for 2011 and a comparison of 2010.

**TABLE 1
NET CASH ASSETS**

| | Governmental Activities | |
|------------------------|----------------------------|---------------------|
| | <u>2011</u> | <u>2010</u> |
| Assets: | | |
| Cash with Fiscal Agent | \$ 5,320,219 | \$ 4,570,727 |
| Total Assets | <u>5,320,219</u> | <u>4,570,727</u> |
| Net Cash Assets: | | |
| Restricted | 672,590 | 120,033 |
| Unrestricted | <u>4,647,629</u> | <u>4,450,694</u> |
| Total Net Cash Assets | <u>\$ 5,320,219</u> | <u>\$ 4,570,727</u> |

Net assets of the Board's governmental activities increased \$749,492 from 2010, or 16.4%. The restricted net assets increased by \$552,557 to \$672,590 due to ordinary timing differences between when grant subsidies are received by the Board.

The table below provides a summary of changes in the Board's net assets for 2011 in comparison to 2010.

TABLE 2
CHANGES IN NET CASH ASSETS

| | <u>Governmental Activities</u> | |
|--|------------------------------------|-------------------------|
| | <u>2011</u> | <u>2010</u> |
| <u>Cash Receipts</u> | | |
| <i>Program Cash Receipts</i> | | |
| Operating Grants and Contributions | \$ 4,860,564 | \$ 6,869,432 |
| Rental Revenue | 11,000 | - |
| <i>General Cash Receipts</i> | | |
| Property Taxes | 4,896,564 | 4,074,351 |
| Unrestricted grants and entitlements | 8,347,446 | 6,111,952 |
| Donations | 71,030 | 16,366 |
| Reimbursements | 75,050 | 164,526 |
| Proceeds from Note | <u>31,918</u> | <u>287,623</u> |
| Total Cash Receipts and Transfers | <u>18,293,572</u> | <u>17,524,250</u> |
| <u>Cash Disbursements</u> | | |
| <i>Program Cash Disbursements</i> | | |
| Salaries | 379,585 | 413,109 |
| Supplies | 9,389 | 12,990 |
| Equipment/Maintenance | 27,553 | 27,205 |
| Agencies Contract Services | 12,020,456 | 12,074,373 |
| Grants | 208,371 | 133,866 |
| Rentals | 46,529 | 45,324 |
| Utilities/Phone | 16,175 | 22,331 |
| Travel and Board Expense | 7,776 | 10,453 |
| Public Employees Retirement | 52,164 | 55,288 |
| Workers Compensation | 7,718 | 8,645 |
| Hospitalization | 57,422 | 56,507 |
| Medicare | 5,393 | 5,853 |
| Printing/Marketing | 23,934 | 22,869 |
| Medicaid Out of County Services | 4,007,050 | 3,665,231 |
| Professional Services | 297,953 | 257,786 |
| Other | 173,635 | 68,681 |
| Reimbursement | 202,977 | - |
| Capital Outlay | <u>-</u> | <u>326,762</u> |
| Total Cash Disbursements | <u>17,544,080</u> | <u>17,207,273</u> |
| Change in Net Cash Assets | 749,492 | 316,977 |
| Net Cash Assets, Beginning of Year | <u>4,570,727</u> | <u>4,253,750</u> |
| Net Cash Assets, End of Year | <u>\$ 5,320,219</u> | <u>\$ 4,570,727</u> |

Mental Health and Recovery for
Licking and Knox Counties

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

Agency Contract Services, which consists of payments to provider agencies, accounted for \$12,020,456 of the total cash disbursements of the Board. These services were offset by \$4,860,564 in operating grants and contributions. General cash receipts totaled \$13,422,008 and amounted to 73.4% of total cash receipts. General cash receipts primarily consist of property taxes, unrestricted grant entitlements, and reimbursement receipts.

Property tax receipts increased \$822,213 from 2010 primarily due to the timing of the advances. Although there was a \$2,008,868 decrease in the operating grants and contributions, which is mainly comprised of the Medicaid and CHIPS Grants, the unrestricted grant entitlements increased by \$2,235,494. Unrestricted grant entitlements include receipts from state sources including state grants from the Ohio Department of Mental Health and the Ohio Department of Alcohol and Drug Addiction Services as well as homestead and rollback and state reimbursements for tangible personal property tax losses due to phase out. The Board will continue to receive increases in state sources from the tangible personal property tax loss through the year 2018.

Principal retirement of debt service of \$20,426 is reported through the reduction of grants receipts because repayments are made via reductions of amounts paid to the agency for services rendered. See Note 9 for the Debt footnote disclosure.

The Statement of Activities-Cash Basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen below, the Board is highly dependent upon property taxes as well as unrestricted grants and entitlements to support its governmental activities. The table below provides a summary of program cash receipts compared to total cash disbursements for 2011 in comparison to 2010.

Table 3
Analysis of Program Expenditures of Governmental
Activities – Program Cash Receipts vs. Total Cash Disbursements

| | Total Cost of Services 2011 | Net Cost of Services 2011 | Total Cost of Services 2010 | Net Cost of Services 2010 |
|---------------------------------|--------------------------------|------------------------------|--------------------------------|------------------------------|
| Salaries | 379,585 | 379,585 | 413,109 | 413,109 |
| Supplies | 9,389 | 9,389 | 12,990 | 12,990 |
| Equipment/Maintenance | 27,553 | 27,553 | 27,205 | 27,205 |
| Agencies Contract Services | 12,020,456 | 7,159,892 | 12,074,373 | 5,204,941 |
| Grants | 208,371 | 208,371 | 133,866 | 133,866 |
| Rentals | 46,529 | 35,529 | 45,324 | 45,324 |
| Utilities/Phone | 16,175 | 16,175 | 22,331 | 22,331 |
| Travel and Board Expense | 7,776 | 7,776 | 10,453 | 10,453 |
| Public Employees Retirement | 52,164 | 52,164 | 55,288 | 55,288 |
| Workers Compensation | 7,718 | 7,718 | 8,645 | 8,645 |
| Hospitalization | 57,422 | 57,422 | 56,507 | 56,507 |
| Medicare | 5,393 | 5,393 | 5,853 | 5,853 |
| Printing/Marketing | 23,934 | 23,934 | 22,869 | 22,869 |
| Medicaid Out of County Services | 4,007,050 | 4,007,050 | 3,665,231 | 3,665,231 |
| Professional Services | 297,953 | 297,953 | 257,786 | 257,786 |
| Other | 173,635 | 173,635 | 68,681 | 68,681 |
| Capital Outlay | - | - | 326,762 | 326,762 |
| Reimbursements | <u>202,977</u> | <u>202,977</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 17,544,080</u> | <u>\$ 12,672,516</u> | <u>\$ 17,207,273</u> | <u>\$ 10,337,841</u> |

Financial Analysis of the Government's Funds

As noted earlier, the Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The Board's governmental funds are accounted for using the cash basis of accounting. Therefore explanation of change in fund account will be the same as those noted above.

The Board's governmental funds reported a combined fund cash balance of \$5,320,219, which is \$749,492 higher than last year's combined total of \$4,570,727. The schedule below indicates the fund cash balance and the total change in fund cash balances as of December 31, 2011 and December 31, 2010, for all major governmental funds.

| | Fund Balances 12/31/11 | Fund Balances 12/31/10 | Increase (Decrease) |
|------------------|---------------------------|---------------------------|------------------------|
| Major funds: | | | |
| General | \$ 5,320,219 | \$ 4,450,694 | \$ 869,525 |
| Capital Projects | <u>-</u> | <u>120,033</u> | <u>(120,033)</u> |
| Total | <u>\$ 5,320,219</u> | <u>\$ 4,570,727</u> | <u>\$ 749,492</u> |

Budgeting Highlights - General Fund

The Board's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the Board's appropriations which are restricted by the amounts of anticipated revenues certified by the County Budget Commission in accordance with the ORC. Therefore, the Board's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the General fund. In the General fund, the actual cash receipts came in \$319,342 higher than they were in the final budget due to conservative estimates and actual cash disbursements were \$1,363,309 less than the amount in the final budget. Actual expenditures were \$2,980,395 less than original budget amounts due to management's on-going efforts to minimize discretionary spending within the General Fund.

Capital Assets and Debt Administration

Capital Assets

The Board does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as cash disbursements.

Debt Administration

The Board had the following long-term obligations outstanding at December 31, 2011 and 2010:

| | <u>2011</u> | <u>Restated 2010</u> |
|--------------------|-------------------|--------------------------|
| Main Place Notes | \$ 459,905 | \$ 441,963 |
| River Valley Notes | <u>160,425</u> | <u>166,875</u> |
| Total | <u>\$ 620,330</u> | <u>\$ 608,838</u> |

See Note 9 to the basic financial statements for more detail on the Board's long-term debt obligations.

Contacting the Board's Financial Management

This financial report is designed to provide our citizens, taxpayers, and community with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information please contact Ms. Wendy Williams, Executive Director, Mental Health and Recovery for Licking and Knox Counties, 1435B West Main Street, Newark, Ohio 43055.

Mental Health and Recovery for
Licking and Knox Counties

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

| | <u>Governmental Activities</u> |
|-------------------------|------------------------------------|
| Assets | |
| Cash with Fiscal Agent | <u>\$ 5,320,219</u> |
| <i>Total Assets</i> | <u><u>\$ 5,320,219</u></u> |
| | |
| Net Assets | |
| Restricted for: | |
| Grant Programs | \$ 672,590 |
| Unrestricted | <u>4,647,629</u> |
| <i>Total Net Assets</i> | <u><u>\$ 5,320,219</u></u> |

See accompanying notes to the basic financial statements.

Mental Health and Recovery for
Licking and Knox Counties

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

| | Cash Disbursements | Charges for Services and Sales | Program Cash Receipts Operating Grants and Contributions | Net (Cash Disbursements) Cash Receipts and Changes in Net Assets Governmental Activities |
|--|-----------------------|--------------------------------------|--|--|
| Governmental Activities | | | | |
| Salaries | \$ 379,585 | \$ - | \$ - | \$ (379,585) |
| Supplies | 9,389 | - | - | (9,389) |
| Equipment/Maintenance | 27,553 | - | - | (27,553) |
| Agencies Contract Services | 12,020,456 | - | 4,860,564 | (7,159,892) |
| Grants | 208,371 | - | - | (208,371) |
| Rentals | 46,529 | 11,000 | - | (35,529) |
| Utilities/Phone | 16,175 | - | - | (16,175) |
| Travel and Board Expense | 7,776 | - | - | (7,776) |
| Public Employees Retirement | 52,164 | - | - | (52,164) |
| Workers Compensation | 7,718 | - | - | (7,718) |
| Hospitalization | 57,422 | - | - | (57,422) |
| Medicare | 5,393 | - | - | (5,393) |
| Printing/Marketing | 23,934 | - | - | (23,934) |
| Medicaid Out of County Services | 4,007,050 | - | - | (4,007,050) |
| Professional Services | 297,953 | - | - | (297,953) |
| Other | 173,635 | - | - | (173,635) |
| Reimbursements | 202,977 | - | - | (202,977) |
| <i>Total Governmental Activities</i> | <u>\$ 17,544,080</u> | <u>\$ 11,000</u> | <u>\$ 4,860,564</u> | <u>(12,672,516)</u> |
| General Receipts: | | | | |
| Property Taxes Levied for General Purposes | | | | 4,896,564 |
| Entitlements - Unrestricted | | | | 8,347,446 |
| General Donations | | | | 71,030 |
| Reimbursements | | | | 75,050 |
| Proceeds from Note | | | | 31,918 |
| Total General Receipts | | | | <u>13,422,008</u> |
| Change in Net Assets | | | | 749,492 |
| Net Assets at Beginning of Year | | | | <u>4,570,727</u> |
| Net Assets at End of Year | | | | <u>\$ 5,320,219</u> |

See accompanying notes to the basic financial statements.

Mental Health and Recovery for
Licking and Knox Counties

Statement of Cash Basis Assets and Fund Balances
Governmental Funds
As of December 31, 2011

| | <u>General</u> | <u>Capital Projects</u> | <u>Total Governmental Funds</u> |
|----------------------------|---------------------|-----------------------------|---|
| Assets | | | |
| Cash with Fiscal Agent | \$ 5,320,219 | \$ - | \$ 5,320,219 |
| <i>Total Assets</i> | <u>\$ 5,320,219</u> | <u>\$ -</u> | <u>\$ 5,320,219</u> |
| Fund Balances | | | |
| Restricted for: | | | |
| Grant Programs | \$ 672,590 | \$ - | \$ 672,590 |
| Assigned: | | | |
| Levy Reserve | 37,500 | - | 37,500 |
| Unassigned | 4,610,129 | - | 4,610,129 |
| <i>Total Fund Balances</i> | <u>\$ 5,320,219</u> | <u>\$ -</u> | <u>\$ 5,320,219</u> |

See accompanying notes to the basic financial statements.

Mental Health and Recovery for
Licking and Knox Counties

Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

| | General | Capital Projects | Total Governmental Funds |
|---|---------------------|---------------------|--------------------------------|
| Cash Receipts: | | | |
| Property and Other Local Taxes | \$ 4,896,564 | \$ - | \$ 4,896,564 |
| Intergovernmental | 13,208,010 | - | 13,208,010 |
| Donations | 71,030 | - | 71,030 |
| Rental Receipts | 11,000 | - | 11,000 |
| Reimbursements | 75,050 | - | 75,050 |
| <i>Total Cash Receipts</i> | <u>18,261,654</u> | <u>-</u> | <u>18,261,654</u> |
| Cash Disbursements: | | | |
| Current: | | | |
| Salaries | 379,585 | - | 379,585 |
| Supplies | 9,389 | - | 9,389 |
| Equipment/Maintenance | 27,553 | - | 27,553 |
| Agencies Contract Services | 12,020,456 | - | 12,020,456 |
| Grants | 208,371 | - | 208,371 |
| Rentals | 46,529 | - | 46,529 |
| Utilities/Phone | 16,175 | - | 16,175 |
| Travel and Board Expense | 7,776 | - | 7,776 |
| Public Employees Retirement | 52,164 | - | 52,164 |
| Workers Compensation | 7,718 | - | 7,718 |
| Hospitalization | 57,422 | - | 57,422 |
| Medicare | 5,393 | - | 5,393 |
| Printing/Marketing | 23,934 | - | 23,934 |
| Medicaid Out of County Services | 4,007,050 | - | 4,007,050 |
| Professional Services | 297,953 | - | 297,953 |
| Other | 171,684 | 1,951 | 173,635 |
| Reimbursements | 202,977 | - | 202,977 |
| <i>Total Cash Disbursements</i> | <u>17,542,129</u> | <u>1,951</u> | <u>17,544,080</u> |
| <i>Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements</i> | <u>719,525</u> | <u>(1,951)</u> | <u>717,574</u> |
| Other Financing Sources (Uses) | | | |
| Proceeds from Note | - | 31,918 | 31,918 |
| Advance In | 150,000 | - | 150,000 |
| Advance Out | - | (150,000) | (150,000) |
| <i>Total Other Financing Sources (Uses)</i> | <u>150,000</u> | <u>(118,082)</u> | <u>31,918</u> |
| <i>Net Change in Fund Balances</i> | 869,525 | (120,033) | 749,492 |
| <i>Fund Balances Beginning of Year</i> | <u>4,450,694</u> | <u>120,033</u> | <u>4,570,727</u> |
| <i>Fund Balances End of Year</i> | <u>\$ 5,320,219</u> | <u>\$ -</u> | <u>\$ 5,320,219</u> |

See accompanying notes to the basic financial statements.

Statement of Cash Receipts, Cash Disbursements and Changes
in Fund Cash Balance - Budget and Actual (Budgetary Basis)
General Fund
For the Year Ended December 31, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Budgetary Basis Receipts: | | | | |
| Property and Other Local Taxes | \$ 4,810,938 | \$ 4,810,938 | \$ 4,896,564 | \$ 85,626 |
| Intergovernmental | 12,977,041 | 12,977,041 | 13,208,010 | 230,969 |
| Donations | 69,788 | 69,788 | 71,030 | 1,242 |
| Rental Revenue | 10,808 | 10,808 | 11,000 | 192 |
| Reimbursements | 73,738 | 73,738 | 75,050 | 1,312 |
| <i>Total Budgetary Basis Receipts</i> | <u>17,942,312</u> | <u>17,942,312</u> | <u>18,261,654</u> | <u>319,342</u> |
| Budgetary Basis Disbursements: | | | | |
| Current: | | | | |
| Salaries | 439,606 | 407,040 | 379,585 | 27,455 |
| Supplies | 13,916 | 12,885 | 12,016 | 869 |
| Equipment/Maintenance | 31,910 | 29,546 | 27,553 | 1,993 |
| Agencies Contract Services | 15,399,664 | 14,258,861 | 13,297,090 | 961,771 |
| Grants | 241,319 | 223,442 | 208,371 | 15,071 |
| Rentals | 53,886 | 49,894 | 46,529 | 3,365 |
| Utilities/Phone | 20,264 | 18,763 | 17,497 | 1,266 |
| Travel and Board Expense | 11,565 | 10,708 | 9,986 | 722 |
| Public Employees Retirement | 60,412 | 55,937 | 52,164 | 3,773 |
| Workers Compensation | 8,938 | 8,276 | 7,718 | 558 |
| Hospitalization | 66,502 | 61,575 | 57,422 | 4,153 |
| Medicare | 6,246 | 5,783 | 5,393 | 390 |
| Printing/Marketing | 27,719 | 25,665 | 23,934 | 1,731 |
| Medicaid Out of County Services | 4,640,656 | 4,296,878 | 4,007,050 | 289,828 |
| Professional Services | 345,066 | 319,504 | 297,953 | 21,551 |
| Other | 226,254 | 209,493 | 195,363 | 14,130 |
| Reimbursements | 235,072 | 217,658 | 202,977 | 14,681 |
| <i>Total Budgetary Basis Disbursements</i> | <u>21,828,996</u> | <u>20,211,910</u> | <u>18,848,601</u> | <u>1,363,309</u> |
| <i>Excess (Deficiency) of Budgetary Basis Receipts Over (Under) Budgetary Basis Disbursements</i> | (3,886,684) | (2,269,598) | (586,947) | 1,682,651 |
| Other Financing Uses | | | | |
| Advances In | 150,000 | 150,000 | 150,000 | - |
| <i>Net Change in Fund Balance</i> | (3,736,684) | (2,119,598) | (436,947) | 1,682,651 |
| <i>Fund Balance at Beginning of Year</i> | 2,833,607 | 2,833,607 | 2,833,607 | - |
| Prior Year Encumbrances Appropriated | 1,617,087 | 1,617,087 | 1,617,087 | - |
| <i>Fund Balance at End of Year</i> | <u>\$ 714,010</u> | <u>\$ 2,331,096</u> | <u>\$ 4,013,747</u> | <u>\$ 1,682,651</u> |

See accompanying notes to the basic financial statements.

Note 1 – Reporting Entity

Mental Health & Recovery for Licking and Knox Counties, Ohio (the Board) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. In early 2012, the Board officially changed the name of the Board from the Community Mental Health & Recovery Board of Licking and Knox Counties to Mental Health and Recovery for Licking and Knox Counties. The Board is made up of eighteen members and provides alcohol, drug addiction, and mental health services and programs to citizens of Knox and Licking counties. These services are provided primarily through contracts with private and public agencies.

A. Primary Government

A reporting entity is comprised of the primary government, component units and other organizations included in ensuring that the basic financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Board.

B. Component Units

Component units are legally separate organizations for which the Board is financially accountable. The Board is financially accountable for an organization if the Board appoints a voting majority of the organization's governing board and (1) the Board is able to significantly influence the programs or services performed or provided by the organization; or (2) the Board is legally entitled to or can otherwise access the organization's resources; the Board is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Board is obligated for the debt of the organization. The Board is also financially accountable for any organizations that are fiscally dependent on the Board in that the Board approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Board, are accessible to the Board and are significant in amount to the Board. The Board does not have any component units.

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

Note 2 – Summary of Significant Accounting Policies

These financial statements are presented on the cash basis of accounting as prescribed and permitted by the Auditor of State of Ohio. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The following are the more significant of the Board's accounting policies.

Note 2 – Summary of Significant Accounting Policies (Continued)

A. Basis of Accounting

The Board's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Board's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Board are described in the appropriate section in this note.

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

B. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Board as a whole. These statements include the financial activities of the primary government. The Board's statements are presented as governmental activities, and are generally financed through taxes, intergovernmental receipts, or other nonexchange transactions.

The statement of net assets presents the financial position of the Board at year end. The statement of activities compares cash disbursements with program cash receipts for each of the Board's governmental activities. Cash disbursements are reported by functional expense accounts used to accomplish a major service or regulatory program for which the Board is responsible. Program cash receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General cash receipts are all receipts not classified as program cash receipts, with certain limited exceptions. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the Board's general cash receipts.

Fund Financial Statements

During the year, the Board segregates transactions related to certain Board functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Board at this more detailed level. The focus of governmental fund financial statements is on major funds.

Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The Board did not present any nonmajor funds for the year ended 2011. The Board had two major funds for the year ended 2011 which are described below.

Note 2 – Summary of Significant Accounting Policies (Continued)

C. Fund Accounting

The Board uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The funds of the Board are categorized as governmental funds.

Governmental Funds

The Board classifies funds financed primarily from taxes, intergovernmental cash receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Board's major governmental funds are the General fund and the Capital Projects fund.

General - 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 Board for any purpose provided it is expended or transferred according to the general laws of Ohio.

Capital Projects - The Capital Projects fund is used to account for Board improvements.

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board may appropriate.

The appropriations ordinance is the Board's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established at the fund and functional (object) expense account level.

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

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

Note 2 – Summary of Significant Accounting Policies (Continued)

E. Cash and Cash Equivalents

As required by Ohio Revised Code, the Licking County Treasurer is custodian for the Board's cash and serves as fiscal agent. The Board's cash is held in Licking County's cash and investment pool, and is valued at the County Treasurer's carrying amount.

For the purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. The Board values investments and cash equivalents at cost.

F. Restricted Assets

Cash, cash equivalents, and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Board did not report any restricted assets at December 31, 2011.

G. Inventory and Prepaid Items

The Board reports cash disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

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

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

The Board recognizes the cash disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Note 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Note 2 – Summary of Significant Accounting Policies (Continued)

K. Long-Term Obligations

The Board's cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor capital outlay disbursement is reported at inception. Lease payments are reported when paid.

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Board did not have net assets restricted by enabling legislation.

M. Fund Balance Reserves/Minimum Fund Balance

In 2011, the Board adopted a policy that requires the Board to maintain a minimum operating reserve. The Board uses a formula to determine the appropriate reserve amount and at December 31, 2011 the amount determined for operating reserve by the Board was \$2,953,000. Due to the nature of the policy, the operating reserve has been included in the unassigned fund balance.

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

Nonspendable - The Board classifies assets as nonspendable when legally or contractually required to maintain the amounts intact.

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

Committed - The Board can commit amounts via formal action (resolution). The Board must adhere to these commitments unless the Board amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned - Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as restricted or committed. Governmental funds other than the general fund report all fund balances as assigned unless they are restricted or committed. In the general fund, assigned amounts represent intended uses established by the Board or a Board official delegated that authority by resolution, or by State Statute.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

M. Fund Balance Reserves/Minimum Fund Balance (Continued)

The Board applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. At December 31, 2011 the Board reported no nonspendable or committed fund balance.

N. Interfund Transactions

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Temporary financial assistance from one fund to another with the expectation of repayment in the future is reported as advances. Transfers and advances are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

In 2010, the Board approved an interfund advance totaling \$150,000 from the General Fund to the Capital Projects Fund to finance project expenditures until reimbursements from the State were received. In March 2011, that advance was repaid in full.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. No such items occurred during 2011.

Note 3 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, cash disbursements, and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances). The encumbrances outstanding at year end (budgetary basis) amounted to \$1,306,472 for the General fund.

Note 4 – Deposits and Investments

The Licking County Treasurer serves as the fiscal agent for the Board and is responsible for investing funds in active, inactive and interim deposits.

The Ohio Revised Code restricts deposits and investments to the following:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

In addition, authorized investments may include investments in commercial paper and bankers acceptances with appropriate limitations if ORC training requirements have been met.

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Board, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Note 4 – Deposits and Investments (Continued)

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Board will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Licking County Treasurer serves as the fiscal agent for the Board and the investments of Licking County funds, including the Board's cash. The Board maintains no control over the investment of its cash. At December 31, 2011, the carrying amount of the Board's deposits was \$5,320,219.

The Board relies on the Licking County Treasurer to monitor interest rate, credit and concentration of credit risk associated with the Board's deposits.

Note 5 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the County. Real property tax receipts received in 2011 represent the collection of 2010 taxes. Real property taxes received in 2011 were levied after October 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentage of true value; public utility real property is assessed at 6.25 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

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

Note 6 – Risk Management

The Board is exposed to various risks of loss related to torts, theft, or damage/destruction of assets, errors and omissions, injuries to employees and natural disasters. The Board has obtained commercial insurance for the following risks:

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

There have been no significant reductions in insurance coverage during the fiscal year 2011. Settled claims have not exceeded commercial excess coverage in any of the past three years.

Note 7 – Defined Benefit Pension Plan

The Board participates in the Ohio Public Employees Retirement System (OPERS). OPERS provides retirement, disability, survivor and death benefits, as well as post-employment health care coverage to qualifying members. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code (ORC). OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multi-employer defined benefit plan; the Member-Directed Plan – a defined contribution plan in which employer contributions vest over five years at 20 percent per year; and the Combined Plan – a cost-sharing, multi-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan.

The Ohio Revised Code provides statutory authority for member and employer contributions. The 2011 member contribution rates were 10.0 percent for members in state and local classifications. The 2011 employer contribution rate for state and local employers was 14.0 percent of covered payroll.

The rates stated above are the contractually required contribution rates for OPERS. The Board's contributions to OPERS for the years ending December 31, 2011, 2010 and 2009, were \$37,958, \$41,311 and \$40,618 respectively, equal to the required contributions for each year.

Note 8 – Postemployment Benefits

OPERS maintains a cost-sharing, multi-employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.00 percent of covered payroll. The ORC currently limits the employer contributions to a rate not to exceed 14.00 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

Note 8 – Postemployment Benefits (Continued)

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits.

The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for the calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2011. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The portion of the Board's contributions that was used to fund post-employment benefits for the years ending December 31, 2011, 2010 and 2009 were \$10,845, \$14,999 and \$23,863, respectively; equal to the required contributions of each year.

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

Note 9 – Debt

The Board's long-term debt at the beginning of the year was restated to report only the amount drawn against the 2010 Main Place addition note as of December 31, 2010 as opposed to the full amount of the note which was previously reported. The activity of long-term debt for the year was as follows:

| <u>Governmental Activities</u> | <u>Interest Rate</u> | <u>Restated Balance at 12/31/10</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at 12/31/11</u> | <u>Due Within One Year</u> |
|--------------------------------|----------------------|-------------------------------------|------------------|--------------------|----------------------------|----------------------------|
| 1995 River Valley Note | 0% | \$ 113,400 | \$ - | \$ (4,725) | \$ 108,675 | \$ 4,725 |
| 1998 Main Place Note | 0% | 161,663 | - | (5,987) | 155,676 | 5,987 |
| 2001 River Valley Note | 0% | 53,475 | - | (1,725) | 51,750 | 1,725 |
| 2010 Main Place Addition | 0% | <u>280,300</u> | <u>29,967</u> | <u>(7,989)</u> | <u>302,278</u> | <u>7,989</u> |
| Total Long-Term Debt | | <u>\$ 608,838</u> | <u>\$ 29,967</u> | <u>\$ (20,426)</u> | <u>\$ 618,379</u> | <u>\$ 20,426</u> |

The terms of the mortgages are 40 year loans with fixed amounts to be amortized annually. The mortgages represent capital grants provided by ODMH to the Board.

The properties purchased with the grants are used to provide grant program services; therefore, for each year the property is used in this manner, the fixed payment is amortized based on an amortization schedule provided by ODMH. If the Board ceased to use the property for program services, the remaining unamortized balance would be due to ODMH and the Board would be liable for the payment. The Board does not anticipate a change in the use of these properties.

Note 9 – Debt (Continued)

During 2010 the Board obtained a note through ODMH for construction on the Main Place, an amount not to exceed \$319,541. The Board drew the final \$31,918 against this note during the year ended December 31, 2011.

The following is a summary of the Board’s future annual debt service requirements:

| <u>Year</u> | <u>1995 River Valley Note Principal</u> | <u>1998 Main Place Note Principal</u> | <u>2001 River Valley Note Principal</u> | <u>2010 Main Place Additon Note Principal</u> |
|-------------|---|---|---|---|
| 2012 | \$ 4,725 | \$ 5,987 | \$ 1,725 | \$ 7,989 |
| 2013 | 4,725 | 5,987 | 1,725 | 7,989 |
| 2014 | 4,725 | 5,987 | 1,725 | 7,989 |
| 2015 | 4,725 | 5,987 | 1,725 | 7,989 |
| 2016 | 4,725 | 5,987 | 1,725 | 7,989 |
| 2017-2021 | 23,625 | 29,938 | 8,625 | 39,943 |
| 2022-2026 | 23,625 | 29,938 | 8,625 | 39,943 |
| 2027-2031 | 23,625 | 29,938 | 8,625 | 39,943 |
| 2032-2036 | 14,175 | 29,938 | 8,625 | 39,943 |
| 2037-2041 | - | 5,989 | 8,625 | 39,943 |
| 2042-2046 | - | - | - | 39,943 |
| 2047-2050 | - | - | - | 22,675 |
| Totals | <u>\$ 108,675</u> | <u>\$ 155,676</u> | <u>\$ 51,750</u> | <u>\$ 302,278</u> |

Note 10 – Recovery of Advances

To alleviate cash flow issues at the provider agencies, the Board may make advances to a provider agency for services to be rendered. When advances cannot be covered by services provided in the same year, plans may be implemented and/or outstanding balances are placed on contingency for future services. At December 31, 2011, the Board had outstanding advances to Behavioral Health Care Partners (BHP), formally known as Moundbuilders Guidance Center, Inc. (MGC) which totaled \$898,316.

On April 26, 2011 the Board approved a repayment schedule that sets minimum monthly repayment amounts which commenced July 1, 2011. As part of this agreement, the Board approved a reduction of \$444,097 from the total outstanding advances owed by BHP as a credit for unreimbursed cost of services provided during the period July 1, 2004 through June 30, 2008. The Board approved additional offsets in September 2011, totaling \$78,185. The remaining \$898,316 owed to the Board, shall be repaid by June 30, 2026 with a balloon payment of \$137,068 due with the last payment. No interest shall accrue or be required to be repaid under this agreement.

Note 10 – Recovery of Advances (Continued)

A summary schedule of the repayment of the advance amount is shown below:

| <u>Year</u> | <u>Scheduled Repayment</u> |
|-------------|--------------------------------|
| 2012 | \$ 35,964 |
| 2013 | 35,964 |
| 2014 | 35,964 |
| 2015 | 35,964 |
| 2016 | 41,958 |
| 2017-2021 | 251,748 |
| 2022-2026 | 460,754 |
| Total | <u>\$ 898,316</u> |

Note 11 – Contingent Liabilities

A. Grants

Amounts grantor agencies pay to the Board are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any such disallowed claims could have a material adverse effect on the overall financial position of the Board at December 31, 2011.

B. Litigation

The Board has been named a defendant in a matter regarding the termination of an employee of one of the Board's contractual provider agencies. The case is still ongoing and the ultimate outcome of any legal proceedings cannot be reasonably predicted. It is the opinion of management, that any potential liability to the Board, if any, would not have a material effect on the financial position or activities of the Board.

Note 12 – Related Party Transactions

The Board has allowed The Main Place, a provider agency of the Board, to use a building free of rent since September 1986. Additionally, as of February 2007, the Board leases to The Main Place a house which is used for program participants. The lease arrangement required The Main Place to establish a property repair account within their general ledger which they are to deposit \$200 per month for the first year of the lease and \$250 per month for all subsequent years of the lease. These funds may only be used for related property expenses.

The Board has allowed the River Valley facility to use a building free of rent since November 1995. River Valley is a resident complex that Behavioral Health Care Partners, a provider agency of the Board, uses to house program participants.

The Board entered into a lease agreement on July 1, 2010 with The Main Place. The lease agreement requires The Main Place to pay rent of \$1,000 to the Board for real property on Third Street and East Harrison in Newark, Ohio. These funds may only be used for major repairs to the properties.

Note 13 - Operating Leases

The Board currently leases various office space and equipment including copiers and a postage machine. The terms of noncancellable leases vary from 36 months up to 60 months and began on various dates. Future annual minimum payments for the office space are as follows:

| <u>For the Year Ending</u> | <u>Amount</u> |
|----------------------------|---------------|
| 2011 | \$ 54,892 |

Lease expense for the year ending December 31, 2011 totaled \$54,892.

Note 14 – Change in Accounting Principle

For fiscal year 2011, the Board has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of the statement did not impact the Board’s ending fund balances but did result in a change in how the fund balances are classified and reported.

Mental Health and Recovery for
Licking and Knox Counties
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

| <u>Federal Grantor/Pass-Through Agency/Program Title</u> | <u>Federal CFDA Number</u> | <u>Award Year</u> | <u>Pass Through Number</u> | <u>Expenditure</u> |
|--|------------------------------------|-----------------------|------------------------------------|---------------------|
| <u>U.S. DEPARTMENT OF JUSTICE:</u> | | | | |
| Second Chance Act Prisoner Reentry Initiative | 16.812 | 2011 | (1) | \$ <u>4,298</u> |
| Total U.S. Department of Justice | | | | <u>4,298</u> |
| <u>U.S. DEPARTMENT OF HUMAN SERVICES:</u> | | | | |
| <i>(Passed through Ohio Department of Mental Health)</i> | | | | |
| Block Grants: | | | | |
| Community Plan BG | | 2011 | (1) | 117,392 |
| Child/Adolescent BG | | 2011 | (1) | <u>31,232</u> |
| Total Block Grants | 93.958 | | | <u>148,624</u> |
| Medicaid | | | | |
| Medicaid - ARRA funds | | 2010 | (1) | 3,390,598 |
| Total Medicaid | 93.778 | 2010 | (1) | <u>261,328</u> |
| | | | | <u>3,651,926</u> |
| CHIPS Mental Health | 93.767 | 2010 | (1) | 261,328 |
| Title XX | 93.667 | 2010 | (1) | 113,491 |
| <i>Total Passed through Ohio Department of Mental Health:</i> | | | | <u>4,175,369</u> |
| <i>(Passed through Ohio Department of Alcohol and Drug Addiction)</i> | | | | |
| Block Grants: | | | | |
| Women's Federal | | 2011 | (1) | 146,057 |
| Women's Prevention | | 2011 | (1) | 42,675 |
| SAPT Per Capital Treatment | | 2011 | (1) | 485,635 |
| SAPT Per Capital Prevention | | 2011 | (1) | 176,830 |
| Community Prevention - Wellness | | 2011 | (1) | 58,085 |
| Federal Prevention Services | | 2011 | (1) | 80,056 |
| Federal Youth Led Prevention | | 2011 | (1) | <u>3,708</u> |
| Total Block Grants | 93.959 | | | <u>993,046</u> |
| Medicaid | | | | |
| Medicaid - ARRA funds | | 2010 | (1) | 660,107 |
| Total Medicaid | 93.778 | 2010 | (1) | <u>36,441</u> |
| | | | | <u>696,548</u> |
| CHIPS | 93.767 | 2010 | (1) | 137,271 |
| Rehabilitation Services - Vocational Rehabilitation Grant | 84.126 | 2011 | (1) | 51,747 |
| <i>Total Passed Through Ohio Department of Alcohol and Drug Addiction Services</i> | | | | <u>1,878,612</u> |
| <i>(Passed through the Children and Family First Council of Licking County)</i> | | | | |
| Drug Free Community Funds | 93.276 | 2010 | | <u>126,631</u> |
| Total U.S. Department of Health and Human Services | | | | <u>6,180,612</u> |
| TOTAL FEDERAL AWARD EXPENDITURES | | | | <u>\$ 6,184,910</u> |

(1) Pass through number not available.

See accompanying notes to the schedule of expenditures of federal awards.

1. Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the Boards federal award programs. This schedule has been prepared on the cash basis of accounting.

2. Subrecipients

The Board passes through certain federal assistance received from the Ohio Department of Alcohol and Drug Addiction Services (ODADAS) and the Ohio Department of Mental Health (ODMH) to other governments or not-for-profit agencies (subrecipients). As described in Note 1 above, the Board records expenditures of federal awards to subrecipients when paid in cash. The subrecipient agencies have certain compliance responsibilities related to administering these federal programs. Under OMB Circular A-133, the Board is responsible for monitoring subrecipients to help assure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

3. Matching Requirements

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

4. Multiple Federal Programs Pass Through Agencies

OMB Circular A-133 requires the total federal awards expended for each individual federal program and CFDA number be presented when such federal expenditures are passed through multiple agencies or other identifying information is not available. During 2011, the Board received funding under the same federal program which was passed through both ODADAS and ODMH. The total expenditures for these programs are as follows:

| <u>Program</u> | <u>CFDA Number</u> | <u>Through ODMH</u> | <u>Through ODADAS</u> | <u>Program Expenditures</u> |
|---------------------|------------------------|-------------------------|---------------------------|---------------------------------|
| Medicaid | 93.778 | \$ 3,390,598 | \$ 660,107 | \$ 4,050,705 |
| Medicaid - ARRA | 93.778 | 261,328 | 36,441 | 297,769 |
| CHIPS Mental Health | 93.767 | 261,328 | 137,271 | 398,599 |

**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**

Mental Health and Recovery for
Licking and Knox Counties, Ohio
1435-B West Main Street
Newark, Ohio 43055

We have audited the financial statements of the governmental activities and each major fund of Mental Health and Recovery for Licking and Knox Counties, Ohio (the Board), as of and for the year ended December 31, 2011, which collectively comprise the Board's basic financial statements and have issued our report thereon dated May 31, 2012, in which it was noted the Board prepared its financial statements on a cash accounting basis, which is a basis other than accounting principles generally accepted in the United States of America and adopted GASB Statement No 54 during the year. 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

Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented or detected and corrected on a timely basis.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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 Board, management, others within the Board, the Auditor of State, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clark, Schaefer, Hackett & Co." The signature is written in black ink on a white background.

Springfield, Ohio
May 31, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mental Health and Recovery for
Licking and Knox Counties, Ohio
1435-B West Main Street
Newark, Ohio 43055

Compliance

We have audited Mental Health and Recovery for Licking and Knox Counties, Ohio (the Board) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended December 31, 2011. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

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

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

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

This report is intended solely for the information and use of the Board, management, others within the Board, the Auditor of State, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
May 31, 2012

Section I – Summary of Auditors’ Results

Financial Statements

| | |
|--|-------------|
| Type of auditors’ report issued: | Unqualified |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | None Noted |
| • Significant deficiency(ies) identified not considered to be material weakness(es)? | None Noted |
| Noncompliance material to financial statements noted? | None Noted |

Federal Awards

| | |
|--|-------------|
| Internal control over major programs: | |
| • Material weakness(es) identified? | None Noted |
| • Significant deficiency(ies) identified not considered to be material weakness(es)? | None Noted |
| Type of auditors’ report issued on compliance for major programs: | Unqualified |
| Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133? | None Noted |
| Identification of major programs: | |
| CFDA 93.778 – Title XIX Medicaid | |
| CFDA 93.767 – Children’s Health Insurance Program (CHIP) | |
| Dollar threshold to distinguish between Type A and Type B programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

None noted

Section III – Federal Awards Findings and Questioned Costs

None noted

There were no audit findings noted in the prior audit.



At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success



Dave Yost • Auditor of State

MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 31, 2012**