



Dave Yost • Auditor of State

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Mental Health and Recovery Board
of Erie and Ottawa Counties
Erie County
416 Columbus Avenue
Sandusky, Ohio 44870-2753

To the Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, Ohio, (the Board) as of and for the year ended December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Board prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38

and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Board as of December 31, 2012, or changes in financial position thereof for the year then ended.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during 2012, the Board changed the classification of certain governmental funds. We did not modify our opinion regarding this matter.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, Ohio as of December 31, 2012, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2013, on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

December 23, 2013

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property Taxes	\$3,512,130		\$3,512,130
Intergovernmental	4,234,200	\$944,620	5,178,820
Miscellaneous	184,668		184,668
<i>Total Cash Receipts</i>	<u>7,930,998</u>	<u>944,620</u>	<u>8,875,618</u>
Cash Disbursements			
Current:			
Health:			
Employee Salary	429,429		429,429
Public Employee Retirement	49,728		49,728
Workers Compensation	3,089		3,089
Supplies/Materials	4,536		4,536
Contract Services	203,078		203,078
Grants	4,706,944	809,713	5,516,657
Rentals	7,650		7,650
Other Expenses	2,457,909		2,457,909
Taxes and Related Fees	35,056		35,056
Capital Outlay	2,893		2,893
Debt Service:			
Principal Retirement	114,014		114,014
Interest and Fiscal Charges	13,427		13,427
<i>Total Cash Disbursements</i>	<u>8,027,753</u>	<u>809,713</u>	<u>8,837,466</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(96,755)</u>	<u>134,907</u>	<u>38,152</u>
Other Financing Receipts			
Proceeds of Debt	102,477		102,477
<i>Net Change in Fund Cash Balances</i>	5,722	134,907	140,629
<i>Fund Cash Balances, January 1, Restated</i>	<u>2,357,048</u>	<u>301,478</u>	<u>2,658,526</u>
Fund Cash Balances, December 31			
Restricted		499,346	499,346
Assigned	74,375		74,375
Unassigned (Deficit)	2,288,395	(62,961)	2,225,434
<i>Fund Cash Balances, December 31</i>	<u>\$2,362,770</u>	<u>\$436,385</u>	<u>\$2,799,155</u>

The notes to the financial statements are an integral part of this statement.

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, Ohio, (the Board) as a body corporate and politic. A seventeen-member Board is the governing body. Eight members of the Board are appointed by the Erie County Board of County Commissioners, three members are appointed by the Ottawa County Board of County Commissioners, three members are appointed by the Ohio Department of Alcohol and Drug Addiction Services, and three members are appointed by the Ohio Department of Mental Health. The Board provides alcohol, drug addiction and mental health services and programs to citizens of Erie and Ottawa Counties. Private and public agencies are the primary service providers, through Board contracts.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

As required by the Ohio Revised Code, the Erie County Treasurer is custodian for the Board's deposits. The County's deposit and investment pool holds the Board's assets, valued at the Treasurer's reported carrying amount.

D. Fund Accounting

The Board uses fund accounting to segregate cash and investments that are restricted as to use. The Board classifies its funds into the following types:

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Board had the following significant Special Revenue Funds:

ODADAS Fund – This fund receives grant monies to help those struggling with alcohol and other drug addictions through prevention, treatment and recovery support services.

Medicaid ODMH Fund – This fund receives grant monies to provide financial assistance to programs for the delivery of mental health treatment services.

E. Budgetary Process

The Ohio Revised Code requires the Board to adopt a budget for each fund annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, object level of control and appropriations may not exceed estimated resources. The Board must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Board to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2012 budgetary activity appears in Note 3.

F. 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:

1. Nonspendable

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

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. 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.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Board must adhere to these commitments unless the Trustees amend 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.

4. 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 Board or a Board official delegated that authority by resolution, or by State Statute.

5. 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.

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

G. Property, Plant, and Equipment

The Board records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. CHANGE IN FUND CLASSIFICATION

Previously activity of the Board was presented in a single fund, the Mental Health and Recovery Fund. This fund included proceeds of monies that are legally restricted to expenditure for specific purposes. Although all resources received by the Board are used for similar purposes, primarily the

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

provision of services to individuals served by the Board's programs, the Board evaluated the criteria for fund classification and believes reporting these funds separately provides a more accurate reflection of the level of restriction imposed on the use of monies by grantor agencies. This change in fund classification had the following effect on fund balances previously reported:

	General	Special Revenue	Total Governmental
Fund balance as previously reported	\$ 2,658,526		\$ 2,658,526
Fund Reclassifications:			
ODADAS	62,844	\$ (62,844)	
ODMH	33,373	(33,373)	
Title XX	13,573	(13,573)	
Medicaid ODMH	(373,285)	373,285	
Medicaid ODADAS	(16,274)	16,274	
RSC VR for TDH	(21,709)	21,709	
Total fund reclassifications	(301,478)	301,478	
Restated fund balance at January 1, 2012	\$ 2,357,048	\$ 301,478	\$ 2,658,526

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2012 follows:

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$5,913,122	\$8,033,475	\$2,120,353
Special Revenue	1,853,863	944,620	(909,243)
Total	<u>\$7,766,985</u>	<u>\$8,978,095</u>	<u>\$1,211,110</u>

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$8,909,880	\$8,102,128	\$807,752
Special Revenue	809,713	809,713	
Total	<u>\$9,719,593</u>	<u>\$8,911,841</u>	<u>\$807,752</u>

4. PROPERTY TAX

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

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

5. RETIREMENT SYSTEM

The Board's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012, OPERS members contributed 10% of their gross salaries and the Board contributed an amount equaling 14% of participants' gross salaries. The Board has paid all contributions required through December 31, 2012.

6. DEBT

A commercial loan was originally obtained in 1998 to finance the purchase of the property used by the Board for its administrative offices. The original loan was for \$135,000. The original loan was refinanced in both 2003 and 2008. The current loan is for \$88,418, with an interest rate of 7.90%, requiring 59 payments of \$1,074 through May 2013, and a final estimated payment due June 2013 of \$53,048. The outstanding principal at December 31, 2012 was \$57,004.

Amortization of the debt, including \$2,485 of interest, is as follows:

Year	Total
2013	\$ 59,489

A commercial loan was obtained in 2009 to finance the purchase of property used by the Board for the Beacon project. The original loan was for \$118,000, with an interest rate of 6.29%, requiring 35 payments of \$1,021 through July 2012. This loan was refinanced in August of 2012. Prior to refinancing the total principal paid was \$3,706. The principal balance at time of refinancing was \$102,477. The current loan is for \$102,477 with an interest rate of 5.5%, requiring 119 payments of \$978 through July 2022, and a final estimated payment due August 2022 of \$23,135. The outstanding principal at December 31, 2012 was \$100,462.

Amortization of the above debt, including \$35,128 of interest, is as follows:

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

Year	Total
2013	\$ 11,734
2014	11,734
2015	11,734
2016	11,734
2017	11,734
2018-2022	76,917
	<u>\$ 135,587</u>

7. RISK MANAGEMENT

Commercial Insurance

The Board has obtained commercial insurance for the following risks:

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

8. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Board are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

9. DEFICIT FUND BALANCES

The Federal ODADAS and Federal ODMH funds reported deficit fund cash balances of \$30,083 and \$32,878, respectively, at December 31, 2012. The deficit balances in these funds resulted from the payment of obligations that will be submitted to grantor agencies for reimbursement.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Mental Health and Recovery Board
of Erie and Ottawa Counties
Erie County
416 Columbus Avenue
Sandusky, Ohio 44870-2753

To the Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, Ohio, (the Board) as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2013, wherein we noted the Board followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also noted the Board changed the classification of certain governmental funds during 2012.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Board's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Board's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts.

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However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State

Columbus, Ohio

December 23, 2013



Dave Yost • Auditor of State

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES

ERIE 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
JANUARY 14, 2014**