



**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2016**



**Dave Yost • Auditor of State**



**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

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

We have audited the accompanying cash-basis financial statements of the governmental activities and the major fund of the Mental Health and Recovery for Licking and Knox Counties, Licking County, Ohio (the MHR Board), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the MHR Board's basic financial statements as listed in the table of contents.

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

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

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

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the MHR 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 MHR Board's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities and the major fund of the Mental Health and Recovery for Licking and Knox Counties, Licking County, Ohio, as of December 31, 2016, and the respective change in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2017 on our consideration of the MHR 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 MHR Board's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio  
May 1, 2017

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**STATEMENT OF NET POSITION-CASH BASIS  
DECEMBER 31, 2016**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash with Fiscal Agent	\$ 9,060,992
Total Assets	<u>\$ 9,060,992</u>
<b>Net Position</b>	
Restricted for Grant Programs	345,712
Unrestricted	<u>8,715,280</u>
Total Net Position	<u>\$ 9,060,992</u>

See accompanying notes to the basic financial statements.

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**STATEMENT OF ACTIVITIES-CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b><u>Governmental Activities</u></b>	Cash Disbursements	<u>Program Cash Receipts</u>		Net (Cash Disbursements) Cash Receipts and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	
Salaries	\$ 428,211	\$ 76,341		\$ (351,870)
Supplies	4,494			(4,494)
Equipment/Maintenance	1,895			(1,895)
Program & Contract Services	5,887,727	56,639	1,729,781	(4,101,307)
Rentals	50,778			(50,778)
Utilities/Phone	10,823	1,043		(9,780)
Travel and Board Expense	11,409	237		(11,172)
Public Employees Retirement	58,129	10,225		(47,904)
Workers Compensation	6,709	1,025		(5,684)
Hospitalization	71,652			(71,652)
Medicare	5,996	1,059		(4,937)
Printing/Marketing	23,761			(23,761)
Professional Services	96,423			(96,423)
Other	36,309	18,000		(18,309)
Capital Outlay	128,538			(128,538)
<b>Total Governmental Activities</b>	<b>\$ 6,822,854</b>	<b>\$ 164,569</b>	<b>\$ 1,729,781</b>	<b>\$ (4,928,504)</b>

**General Receipts:**

Property Taxes Levied for General Purposes	4,314,215
Unrestricted Grants	1,504,154
Reimbursements	70,827
<b>Total General Receipts</b>	<b>5,889,196</b>
Change in Net Position	960,692
Net Position at Beginning of Year	8,100,300
<b>Net Position at End of Year</b>	<b>\$ 9,060,992</b>

See accompanying notes to the basic financial statements.



**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUND  
AS OF DECEMBER 31, 2016**

	<u>General</u>
<b>Assets:</b>	
Cash with Fiscal Agent	\$ 9,060,992
Total Assets	<u>\$ 9,060,992</u>
<b>Fund Balances</b>	
Restricted for: Grant Programs	345,712
Assigned: Levy Reserve	93,928
Assigned: Purchase Orders	928,537
Unassigned	<u>7,692,815</u>
Total Fund Balances	<u>\$ 9,060,992</u>

See accompanying notes to the basic financial statements.

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
CASH BASIS FUND BALANCES-GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General
<b>Cash Receipts:</b>	
Property Taxes	\$ 4,314,215
Intergovernmental	3,233,935
Rental Receipts	18,000
Donations	265
Reimbursements	217,131
<i>Total Cash Receipts</i>	7,783,546
 <b>Cash Disbursements:</b>	
Salaries	428,211
Supplies	4,494
Equipment/Maintenance	1,895
Program & Contract Services	5,887,727
Rentals	50,778
Utilities/Phone	10,823
Travel and Board Expense	11,409
Public Employees Retirement	58,129
Workers Compensation	6,709
Hospitalization	71,652
Medicare	5,996
Printing/Marketing	23,761
Professional Services	96,423
Other	36,309
Capital Outlays	128,538
<i>Total Cash Disbursements</i>	6,822,854
 Net Change in Fund Balance	960,692
 Fund Balance Beginning of Year	8,100,300
Fund Balance End of Year	\$ 9,060,992

See accompanying notes to the basic financial statements.

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH BALANCE - BUDGET AND ACTUAL  
(BUDGETARY BASIS) GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Original	Final	Actual	Variance with Final Budget Positive (Negative)
<b>Cash Receipts:</b>				
Property Taxes	\$ 4,748,000	\$ 4,168,000	\$ 4,314,215	\$ 146,215
Intergovernmental	2,309,000	2,889,000	3,233,935	344,935
Rental Receipts	18,000	18,000	18,000	-
Donations	-	-	265	265
Reimbursements	88,000	88,000	217,131	129,131
<i>Total Cash Receipts</i>	7,163,000	7,163,000	7,783,546	620,546
<b>Cash Disbursements:</b>				
Salaries	522,800	522,800	428,211	94,589
Supplies	8,200	8,566	8,175	391
Equipment/Maintenance	10,000	40,000	36,895	3,105
Program & Contract Services	7,300,000	7,201,337	7,091,848	109,489
Rentals	56,000	56,000	50,778	5,222
Utilities/Phone	17,000	17,178	16,603	575
Travel and Board Expense	13,000	13,485	13,257	228
Public Employees Retirement	66,200	66,200	58,129	8,071
Workers Compensation	8,900	8,900	6,709	2,191
Hospitalization	95,700	95,700	71,652	24,048
Medicare	7,600	7,600	5,996	1,604
Printing/Marketing	25,000	25,000	23,761	1,239
Professional Services	125,000	125,000	96,423	28,577
Other	87,200	87,802	60,128	27,674
Capital Outlays	-	435,000	128,538	306,462
<i>Total Cash Disbursements</i>	8,342,600	8,710,568	8,097,103	613,465
Net Changes in Fund Balance	(1,179,600)	(1,547,568)	(313,557)	1,234,011
Fund Balance Beginning of Year	6,380,415	6,380,415	6,380,415	-
Prior Year Encumbrances Appropriated	1,719,885	1,719,885	1,719,885	-
Fund Balance End of Year	\$ 6,920,700	\$ 6,552,732	\$ 7,786,743	\$ 1,234,011

See accompanying notes to the basic financial statements.

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**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Note 1 – Reporting Entity**

Mental Health and Recovery for Licking and Knox Counties, Licking County, Ohio (the MHR 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 2012, the MHR Board officially changed the name of the MHR Board from the Community Mental Health and Recovery Board of Licking and Knox Counties to Mental Health and Recovery for Licking and Knox Counties. The MHR Board is made up of eighteen members and provides alcohol and drug addiction prevention and treatment services, mental health treatment services, and other 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 MHR Board.

**B. Component Units**

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

The MHR Board's management believes these financial statements present all activities for which the MHR 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 OCBOA 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. The following are the more significant of the MHR Board's accounting policies.

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**A. Basis of Accounting**

The MHR Board's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the MHR 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 MHR 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 MHR Board's basic financial statements consist of government-wide financial statements, including a Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The Statement of Net Position - Cash Basis and the Statement of Activities – Cash Basis display information about the MHR Board as a whole. These statements include the financial activities of the primary government. The MHR Board's statements are presented as governmental activities, and are generally financed through taxes, intergovernmental receipts, or other nonexchange transactions.

The Statement of Net Position – Cash Basis presents the financial position of the MHR Board at year end. The Statement of Activities – Cash Basis compares cash disbursements with program cash receipts for each of the MHR Board's governmental activities. Cash disbursements are reported by functional expense accounts used to accomplish a major service or regulatory program for which the MHR 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 cash basis or draws from the MHR Board's general cash receipts.

Fund Financial Statements

During the year, the MHR Board segregates transactions related to certain MHR 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 MHR 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 MHR Board did not present any nonmajor funds for the year ended 2016. The MHR Board had one major fund for the year ended 2016 which is described below.

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**C. Fund Accounting**

The MHR 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 MHR Board are categorized as governmental funds.

Governmental Funds

The MHR Board classifies funds financed primarily from taxes, intergovernmental cash receipts (e.g. grants), and other nonexchange transactions as governmental funds. The MHR Board's major governmental fund is the General 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 MHR Board for any purpose provided it is expended or transferred according to the general laws of Ohio.

**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 MHR Board may appropriate.

The appropriations ordinance is the MHR Board's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the MHR 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 statement 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 statement reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the MHR 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 MHR Board during the year.

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**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 MHR Board's cash and serves as fiscal agent. The MHR 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 MHR 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 MHR Board did not report any restricted assets at December 31, 2016.

**G. Inventory and Prepaid Items**

The MHR 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 MHR Board's cash basis of accounting.

**J. Employer Contributions to Cost-Sharing Pension Plans**

The MHR Board recognizes the cash disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Note 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**K. Long-Term Obligations**

The MHR 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 a financing source nor capital outlay disbursement is reported at inception. Lease payments are reported when paid.



**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**L. Net Position**

Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The MHR Board did not have net position restricted by enabling legislation at December 31, 2016.

**M. Fund Balance Reserves/Minimum Fund Balance**

In 2011, the MHR Board adopted a policy that requires the MHR Board to maintain a minimum operating reserve. The MHR Board uses a formula to determine the appropriate reserve amount and at December 31, 2016 the amount determined for operating reserve by the MHR Board was \$2,169,000. 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 MHR Board must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

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

The MHR 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, 2016 the MHR Board reported no nonspendable or committed fund balance.

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**N. 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 2016.

**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 Cash 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 \$1,274,249 for the General Fund.

**Note 4 – Deposits and Investments**

The Licking County Treasurer serves as the fiscal agent for the MHR 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 obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (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;
4. Time certificates of deposit or savings or deposit accounts including, but limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**Note 4 – Deposits and Investments (Continued)**

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of agreement must not exceed thirty days.

Protection of the MHR Board's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the MHR Board by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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 MHR 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.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the MHR 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 MHR Board and the investments of Licking County funds, including the MHR Board's cash. The MHR Board maintains no control over the investment of its cash. At December 31, 2016, the carrying amount of the MHR Board's deposits was \$9,060,992.

The MHR Board relies on the Licking County Treasurer to monitor interest rate, credit and concentration of credit risk associated with the MHR 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 Counties. Real property tax receipts received in 2016 represent the collection of 2015 taxes. Real property taxes received in 2016 were levied after October 1, 2015, on the assessed values as of January 1, 2015, 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.

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**Note 5 – Property Taxes (Continued)**

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. 2016 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

The Counties are responsible for assessing property, billing, collecting, and distributing all property taxes on behalf of the MHR Board.

**Note 6 – Risk Management**

The MHR 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 MHR 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 2016. Settled claims have not exceeded commercial excess coverage in any of the past three years.

**Note 7 – Defined Benefit Pension Plan**

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

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

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

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**Note 7 – Defined Benefit Pension Plan (Continued)**

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

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

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

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

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

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**Note 7 – Defined Benefit Pension Plan (Continued)**

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The MHR Board’s contractually required contribution was \$46,261 for year 2016.

**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 2016, 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.

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**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 and Combined Plan was 2.0 percent for the calendar year 2016. 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 MHR Board's contributions that were used to fund post-employment benefits for the years ending December 31, 2016, 2015 and 2014 were \$7,710, \$8,363, and \$7,476 respectively; equal to the required contributions of each year.

**Note 9 – Recovery of Advances**

To alleviate cash flow issues at provider agencies, the MHR 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, 2016, the MHR Board had outstanding advances to Behavioral Healthcare Partners of Central Ohio, Inc. (BHP), formally known as Moundbuilders Guidance Center, Inc. (MGC) which totaled \$646,074.

The BHP advance amount owed the MHR Board, shall be repaid by June 30, 2026 including a balloon payment of \$70,640 due with the last payment. Any offsets approved by the MHR Board will be applied against the Balloon Payment and then the remaining Loan Balance without reducing the minimum payments required until a repayment of all advanced funds are made. No interest shall accrue or be required to be repaid under this agreement.

A summary schedule of the advance repayment is shown below:

Year	<u>Repayment</u>
2017	47,953
2018	47,953
2019	47,953
2020	47,953
2021	59,941
2022-2026	323,681
Balloon-2026	<u>70,640</u>
Total	<u>\$646,074</u>

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**Note 10 – Contingent Liabilities**

**A. Grants**

Amounts grantor agencies pay to the MHR 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 would not have a material adverse effect on the overall financial position of the MHR Board at December 31, 2016.

**B. Litigation**

The MHR Board does not currently have any current or pending litigation. In addition, the MHR Board is unaware of any potential liability that would have a material effect on the financial position or activities of the MHR Board.

**C. Mortgage Note Amortization**

The MHR Board receives Capital Funds from ODMH and ODMH's Successor Department, Ohio Mental Health and Addiction Services "OhioMHAS" used for capital expenses. In order to assure that the funds are only used for the original purposes, ODMH and OhioMHAS have required the MHR Board to enter into long-term Mortgage Note amortization agreements. The current balances of these Note Agreements at 12/31/16 are as follows:

<u>Governmental Activities</u>	<u>Note Amortization (Years)</u>	<u>Interest Rate</u>	<u>Note Balance at 12/31/15</u>	<u>2016 Note Reductions</u>	<u>Note Balance at 12/31/16</u>
1995 River Valley Note	40	0%	\$ 89,775	\$ (4,725)	\$ 85,050
2001 River Valley Note	40	0%	44,850	(1,725)	43,125
1998 Main Place Note	40	0%	131,725	(5,988)	125,737
2010 Main Place Note	40	0%	272,273	(7,989)	264,284
<b>Total Notes</b>			<b>\$ 538,623</b>	<b>\$ (20,427)</b>	<b>\$ 518,196</b>

The MHR Board entered into a new 30 year Mortgage Note for \$100,000 with OhioMHAS on February 1, 2017 related to property purchased at 77 Granville for a Licking County Recovery House not included in the schedule above.

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



**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**Note 10 – Contingent Liabilities (Continued)**

The following is a summary of the MHR Board's future amortization and debt service requirements:

<u>Year(s)</u>	<u>1995 River Valley Note Principal</u>	<u>2001 River Valley Note Principal</u>	<u>1998 Main Place Note Principal</u>	<u>2010 Main Place Addition Principal</u>
2017	4,725	1,725	5,988	7,989
2018	4,725	1,725	5,988	7,989
2019	4,725	1,725	5,988	7,989
2020	4,725	1,725	5,988	7,989
2021	4,725	1,725	5,988	7,989
2022-2026	23,625	8,625	29,935	39,945
2027-2031	23,625	8,625	29,935	39,945
2032-2036	14,175	8,625	29,935	39,945
2037-2041		8,625	5,992	39,945
2042-2046	-		-	39,945
2047-2051	-	-	-	24,614
<b>Totals</b>	<b>\$ 85,050</b>	<b>\$ 43,125</b>	<b>\$ 125,737</b>	<b>\$ 264,284</b>

**Note 11 – Related Party Transactions**

River Valley is a resident complex that Behavioral Health Care Partners of Central Ohio, Inc. (BHP), a provider agency of the MHR Board, uses to provide Adult Care housing to program participants. In July 2014, the existing Lease Agreement was amended and restated to require BHP to pay rent of \$500 per month to the MHR Board for real property on East Main Street in Newark and to pay the MHR Board \$20,000 to establish a replacement reserve for the benefit of the River Valley Facility to be managed by the MHR Board.

The MHR 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 per month to the MHR Board for real property on Third Street and East Harrison in Newark, Ohio. The Main Place is a provider agency for the MHR Board.

The MHR Board entered into a lease agreement on December 1, 2016 with Behavioral Health Care Partners of Central Ohio, Inc. (BHP). The lease agreement requires BHP to pay rent of \$250 per month to the MHR Board for real property on 77 Granville Street in Newark and to pay the MHR Board a one-time Property Repair fund payment of \$10,000. The Behavioral Healthcare Partners of Central Ohio is a provider agency for the MHR Board.

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES  
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**Note 12 - Operating Leases**

The MHR Board currently leases office space and equipment including a copier and a postage machine. The terms of non-cancellable leases vary from 12 months up to 60 months and began on various dates. Future annual minimum payments for the equipment and office space are as follows:

For The Year Ending	Amounts
2017	59,023
2018	59,475
<u>2019</u>	<u>34,039</u>
Total	\$152,537

Lease expense for the year ending December 31, 2016 totaled \$58,700.



# Dave Yost • Auditor of State

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

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities and the major fund of the Mental Health and Recovery for Licking and Knox Counties, Licking County, Ohio (the MHR Board) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the MHR Board's basic financial statements and have issued our report thereon dated May 1, 2017, wherein we noted the MHR Board uses a special purpose framework other than generally accepted accounting principles.

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

As part of our financial statement audit, we considered the MHR Board's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the MHR 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 a 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 MHR 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 MHR Board's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***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 MHR Board's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the MHR Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

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

May 1, 2017



# 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  
MAY 25, 2017**