



**Auditor of State
Betty Montgomery**

**MENTAL HEALTH & RECOVERY SERVICES BOARD
MUSKINGUM COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Mental Health & Recovery Services Board
Muskingum County
1205 Newark Road
Zanesville, Ohio 43701

To Members of the Board:

We have audited the accompanying financial statements of the governmental activities and the major fund, of the Mental Health & Recovery Services Board, Muskingum County, Ohio (the Board), as of and for the year ended December 31, 2004, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, 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.

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 each major fund of the Mental Health & Recovery Services Board, Muskingum County, Ohio, as of December 31, 2004, and the respective changes in cash financial position and the respective budgetary comparison thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2005 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Board's basic financial statements. The Federal Awards Expenditures Schedule presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the financial statements. We subjected this schedule to the auditing procedures applied in our audit of the Board's basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

June 30, 2005

**Mental Health & Recovery Services Board
Muskingum County**

Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The discussion and analysis of the Mental Health & Recovery Board's (the Board), financial performance provides an overall review of the Board's financial activities for the year ended December 31, 2004, within the limitations 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 notes to the basic financial statements and financial statements to enhance their understanding of the Board's financial performance.

Financial Highlights

Key financial highlights for the year 2004 are as follows:

- Net assets decreased \$315,571.
- General receipts accounted for \$7,399,080 in receipts or 40 percent of all receipts. Program specific receipts in the form of operating grants and contributions accounted for \$10,956,056 or 60 percent of total receipts of \$18,355,136.
- The Board had \$18,670,707 in disbursements related to governmental activities; only \$10,956,056 of these disbursements was offset by program specific operating grants and contributions. General receipts of \$7,399,080 were not adequate to provide for the remainder of these programs.
- The Board's major fund had \$18,355,136 in receipts and \$18,670,707 in disbursements. The cash balance decreased \$315,571.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Mental Health & Recovery Board as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions on a cash basis of accounting.

The Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis provide information about the activities of the whole Board, presenting both an aggregate view of the Board's finances and a longer-term view of those finances. Governmental financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending.

Reporting the Board as a Whole

Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis

While this document contains information used by the Board to provide programs and services for its service area, the view of the Board as a whole looks at all financial transactions and asks the question, "How did we do financially during calendar year 2004?" The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis answer this question. These two statements report the Board's net assets and changes in those assets. 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.

In the Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis, all of the Board's activities are considered to be Governmental Activities.

Governmental Activities – The Board's only program and associated services are reported here.

**Mental Health & Recovery Services Board
Muskingum County**

Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited
(Continued)

Reporting the Board's Governmental Financial Statements

Governmental Financial Statements

Governmental financial statements provide detailed information about the Board. The Board's activities are reported in the governmental financial statements, which focus on how money flows and the balance left at year end available for spending in future periods. These governmental financial statements are reported on a cash basis of accounting. The governmental financial statements provide a detailed short-term view of the Board's mental health and dependency rehabilitation operations and the services they provide. Governmental information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance mental health and dependency rehabilitation programs.

The Board as a Whole

Recall that the Statement of Net Assets – Cash Basis provides the perspective of the Board as a whole. Table 1 provides a summary of the Board's net assets for 2004 compared to 2003.

**Table 1
Net Assets – Cash Basis**

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$3,857,660</u>	<u>\$4,173,231</u>
Net Assets		
Unrestricted	<u>3,857,660</u>	<u>4,173,231</u>
Total Net Assets	<u>\$3,857,660</u>	<u>\$4,173,231</u>

Total assets decreased \$315,571. The decrease is due primarily to an over utilization of state hospital bed days and the payment for services provided to residents of the Board service area by out of network providers. The over utilization of state hospital bed days was caused by the delay in opening the Liberty Manor residential facility. The funds needed for match for Medicaid for services provided by out of network providers continue to increase each year putting a strain on the Board's financial resources.

Table 2 shows the changes in net assets for the year ended December 31, 2004. Since this is the first year the Mental Health and Recovery Board has prepared financial statements following GASB Statement 34, receipt and disbursement comparisons to year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Mental Health & Recovery Services Board
Muskingum County**

Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited
(Continued)

**Table 2
Changes in Net Assets**

	Governmental Activities 2004
Receipts	
Program Cash Receipts	
Operating Grants and Contributions	\$10,956,056
Total Program Cash Receipts	10,956,056
General Receipts	
Property Taxes Levied for General Purposes	2,056,190
Entitlements – Unrestricted	5,333,467
Refunds	9,423
Total General Receipts	7,399,080
Total Receipts	18,355,136
Disbursements:	
Mental Health and Dependency Rehabilitation	18,670,707
Total Disbursements	18,670,707
Change in Net Assets	(\$315,571)

In 2004, 40 percent of the Board's total receipts were from general receipts, consisting mainly of property taxes and unrestricted state entitlements. Program cash receipts accounted for 60 percent of the Board's total receipts in year 2004. These receipts consist primarily of Medicaid and its matching funds, and federal operating grants.

The Statement of Activities – Cash Basis shows the cost of program services and the operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by property tax receipts and unrestricted state entitlements. Comparisons to 2003 have not been made since they are not available.

**Mental Health & Recovery Services Board
Muskingum County**

Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited
(Continued)

**Table 3
Governmental Activities**

	Total Cost of Services 2004	Net Cost of Services 2004
Mental Health and Dependency Rehabilitation:		
Salaries	\$385,726	\$340,912
Supplies	12,190	12,190
Materials	345	345
Equipment	13,265	13,265
Contracts – Repairs	2,050	2,050
Contracts-Services	17,998,802	7,105,274
Rentals	22,500	22,500
Advertising and Printing	22,831	22,831
Travel and Expenses	16,680	16,680
Public Employee's Retirement	49,220	49,220
Worker's Compensation	5,095	5,095
Insurance	101,265	101,265
Other Expenses	40,738	23,024
Total Disbursements	\$18,670,707	\$7,714,651

The dependence upon state entitlements for governmental activities is apparent as 39 percent of mental health and dependency rehabilitation costs are supported through unrestricted state entitlements and other general receipts.

The Board's Governmental Financial Statements

The Board's governmental financial statements are accounted for using the cash basis of accounting. The governmental financial statements had total receipts of \$18,355,136 and disbursements of \$18,670,701. The financial statements had a decrease in the cash balance of \$315,571.

Budgeting Highlights

The Board's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

During the course of 2004, the Board amended its appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were no significant changes between the original and the final budget.

Debt and Capital Asset Acquisitions

The Board entered into a contract/note with the Ohio Department of Mental Health concerning the residential facility on Liberty School Road in Cambridge, Ohio. See note 7 for additional details.

**Mental Health & Recovery Services Board
Muskingum County**

Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited
(Continued)

Economic Factors

The Board contracts with nine provider agencies to deliver mental health and substance abuse services to the residents of Coshocton, Guernsey, Morgan, Muskingum, Noble and Perry counties.

The Board will be challenged to maintain the current level of services and programs due to the need for Medicaid match and ordinary inflation. The Board and its administration must maintain careful financial planning and prudent fiscal management in order to balance the budget annually.

Contacting the Board's Financial Management

This financial report is designed to provide our citizens, taxpayers, and providers with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Rod Hollingsworth, Executive Director, at Mental Health and Recovery Services Board, 1205 Newark Road, Zanesville, Ohio 43701.

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**Mental Health & Recovery Services Board
Muskingum County**

*Statement of Net Assets - Cash Basis
For the Fiscal Year Ended December 31, 2004*

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$3,857,660</u>
<i>Total Assets</i>	<u>3,857,660</u>
Net Assets	
Unrestricted	<u>3,857,660</u>
<i>Total Net Assets</i>	<u><u>\$3,857,660</u></u>

See accompanying notes to the basic financial statements

**Mental Health & Recovery Services Board
Muskingum County**

*Statement of Activities - Cash Basis
For the Fiscal Year Ended December 31, 2004*

	Cash Disbursements	Program Cash Receipts Operating Grants and Contributions	Net (Disbursements) Receipts and Changes in Net Assets Governmental Activities
Governmental Activities			
Mental Health and Dependency Rehabilitation:			
Salaries	\$385,726	44,814	(\$340,912)
Supplies (Net of \$479 in contract agency reimbursements)	12,190		(12,190)
Materials	345		(345)
Equipment	13,265		(13,265)
Contracts - Repairs	2,050		(2,050)
Contracts - Services (Net of \$56,710 in contract agency reimbursements)	17,998,802	10,893,528	(7,105,274)
Rentals	22,500		(22,500)
Advertising and Printing	22,831		(22,831)
Travel and Expenses	16,680		(16,680)
Public Employee's Retirement	49,220		(49,220)
Worker's Compensation	5,095		(5,095)
Insurance (Net of \$1,095,399 in contract agency reimbursements)	101,265		(101,265)
Other Expenses	40,738	17,714	(23,024)
<i>Total Governmental Activities</i>	\$18,670,707	\$10,956,056	(7,714,651)
 General Receipts			
Property Taxes Levied for General Purposes			2,056,190
Entitlements - Unrestricted			5,333,467
Refunds			9,423
<i>Total General Receipts</i>			7,399,080
Change in Net Assets			(315,571)
<i>Net Assets Beginning of Year</i>			4,173,231
<i>Net Assets End of Year</i>			\$3,857,660

See accompanying notes to the basic financial statements

**Mental Health & Recovery Services Board
Muskingum County**

*Statement of Cash Basis Assets and Cash Basis Fund Balance - Governmental Fund
December 31, 2004*

	<u>General Fund</u>
Cash Basis Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$3,857,660</u>
<i>Total Assets</i>	<u><u>\$3,857,660</u></u>
Cash Basis Fund Balance	
Reserved for Encumbrances	\$1,395,396
Unreserved, Undesignated	<u>2,462,264</u>
<i>Total Cash Basis Fund Balance</i>	<u><u>\$3,857,660</u></u>

See accompanying notes to the basic financial statements

**Mental Health & Recovery Services Board
Muskingum County**

*Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Balance
For the Fiscal Year Ended December 31, 2004*

Receipts

Taxes	\$2,056,190
Grants	16,289,523
Refunds	9,423
	18,355,136
<i>Total Receipts</i>	18,355,136

Disbursements

Current:	
Salaries	385,726
Supplies (Net of \$479 in contract agency reimbursements)	12,190
Materials	345
Equipment	13,265
Contracts - Repairs	2,050
Contracts - Services (Net of \$56,710 in contract agency reimbursements)	17,998,802
Rentals	22,500
Advertising and Printing	22,831
Travel and Expenses	16,680
Public Employee's Retirement	49,220
Worker's Compensation	5,095
Insurance (Net of \$1,095,399 in contract agency reimbursements)	101,265
Other Expenses	40,738
	18,670,707
<i>Total Disbursements</i>	18,670,707

<i>Excess of Receipts Over/(Under) Disbursements</i>	(315,571)
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<i>Cash Balance Beginning of Year</i>	4,173,231
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<i>Cash Balance End of Year</i>	\$3,857,660
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See accompanying notes to the basic financial statements

**Mental Health & Recovery Services Board
Muskingum County**

*Statement of Cash Receipts, Cash Disbursements, and Changes
In Cash Basis Balance - Budget and Actual (Budget Basis)
For the Fiscal Year Ended December 31, 2004*

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property Taxes	\$1,938,150	\$1,966,954	\$2,056,190	\$89,236
Grants	14,511,681	16,148,344	16,289,523	141,179
Reimbursements	1,112,665	1,139,505	1,152,588	13,083
Refunds	0	5,948	9,423	3,475
<i>Total Receipts</i>	<u>17,562,496</u>	<u>19,260,751</u>	<u>19,507,724</u>	<u>246,973</u>
Disbursements				
Current:				
Salaries	367,350	387,350	385,726	1,624
Supplies	15,700	15,700	14,269	1,431
Materials	1,100	1,100	345	755
Equipment	30,000	30,000	13,265	16,735
Contracts - Repairs	4,500	4,500	2,050	2,450
Contracts - Services	17,271,091	19,791,091	19,441,234	349,857
Rentals	22,500	22,500	22,500	0
Advertising and Printing	18,000	23,000	22,831	169
Travel and Expenses	19,925	19,925	18,180	1,745
Public Employee's Retirement	49,800	49,800	49,220	580
Worker's Compensation	7,000	7,000	5,095	1,905
Unemployment Compensation	2,000	2,000	0	2,000
Insurance	1,113,000	1,243,000	1,196,664	46,336
Other Expenses	36,950	61,950	47,313	14,637
<i>Total Disbursements</i>	<u>18,958,916</u>	<u>21,658,916</u>	<u>21,218,692</u>	<u>440,224</u>
<i>Net Change in Fund Balance</i>	(1,396,420)	(2,398,165)	(1,710,968)	687,197
<i>Cash Balance Beginning of Year</i>	2,754,788	2,754,788	2,754,788	0
Prior Year Encumbrances Appropriated	<u>1,418,443</u>	<u>1,418,443</u>	<u>1,418,443</u>	<u>0</u>
<i>Cash Balance End of Year</i>	<u>\$2,776,811</u>	<u>\$1,775,066</u>	<u>\$2,462,263</u>	<u>\$687,197</u>

See accompanying notes to the basic financial statements

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**Mental Health & Recovery Services Board
Muskingum County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2004

Note 1 - Description of the Reporting Entity

The Mental Health & Recovery Services Board, Muskingum County (the Board), is a body politic and corporate established to exercise the rights and privileges the constitution and laws of the State of Ohio convey to it.

The Board is directed by an eighteen-member Board. Members shall be residents of the district. The Director of the Ohio Department of Mental Health shall appoint four members, the Director of the Ohio Department of Alcohol and Drug Addiction Services shall appoint four members, and the remaining ten members shall be appointed by the County Commissioners of Coshocton, Guernsey, Morgan, Muskingum, Noble and Perry counties proportionate to population. The Board provides alcohol, drug addiction, and mental health services and programs to citizens of the Board area. These services are provided primarily through contracts with not-for-profit agencies.

Reporting Entity

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

Component units are legally separate organizations for which the Board is financially accountable. Component units may also include 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. The Board has no component units.

Note 2 - Summary of Significant Accounting Policies

These financial statements and notes are presented on a cash basis of accounting. The Board recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Government Accounting Standards Board (GASB) pronouncements.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

A. Fund Accounting

The Board uses the General Fund to report its financial position and results of operations. The General Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. The General Fund is established to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

B. Basis of Presentation

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

Government-wide Financial Statements: The Statement of Net Assets presents the financial condition of the governmental activities of the Board at year-end. The Statement of Activities presents a comparison between direct disbursements and program cash receipts for the program of the Board's governmental activities. Direct disbursements are those that are specifically associated with a service,

**Mental Health & Recovery Services Board
Muskingum County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2004
(Continued)

program or department and therefore clearly identifiable to a particular function. Program cash receipts include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program cash receipts are presented as general receipts of the Board. The comparison of direct disbursements with program cash receipts identifies the extent to which each governmental function is self-financing or draws from the general receipts of the Board.

Governmental Financial Statements: During the year, the Board segregates transactions related to certain Board functions or activities in order to aid financial management and to demonstrate legal compliance. Governmental financial statements report more detailed information about the Board. The focus of governmental financial statements is on major funds. Governmental financial statements present each major fund in a separate column.

C. Basis of Accounting

The Government-wide Statement of Net Assets and Statement of Activities and the Governmental Financial Statements are presented using the cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, receipts, and disbursements when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the cash basis of accounting, certain assets and their related receipts and certain liabilities and their disbursements are not recorded in these financial statements. If the Board utilized the basis of accounting recognized as generally accepted, the governmental financial statements for governmental funds would use the modified accrual basis of accounting, while the governmental financial statements for proprietary fund types would use the accrual basis of accounting.

D. Cash, Cash Equivalents and Investments

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

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificate of deposits or short-term investments with an original maturity of three months or less. The Board values investments and cash equivalents at cost.

E. Fund Balance Reserves

The Board reserves those portions of fund balance which are legally segregated for a specific future use or which are not available for appropriation or expenditure. Fund reserves have been established for encumbrances.

F. Budgetary Data

Ohio law requires all funds, other than agency funds, to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use 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 amounts that the Board may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board uses the function as its legal level of control.

**Mental Health & Recovery Services Board
Muskingum County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2004
(Continued)

The certificate of estimated resources may be amended during the year if the Board fiscal officer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

Note 3 – Change in Format

The Board has adopted a new financial statement format prescribed by GASB Statement No. 34 and the related disclosures.

Note 4 - Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board adopts 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 Grants. 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.

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

Property owners assess tangible personal property tax. They must file a list of tangible 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.

Note 5- Deposits and Investments

Ohio law restricts deposits and investments to the following:

1. Commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts;
2. Money market deposits;
3. Savings accounts or certificates of deposit;
4. United States Treasury securities, or securities of its agencies or instrumentalities the federal government guarantees;
5. No-load money market mutual funds consisting exclusively of obligations described in (4) above and repurchase agreements secured by such obligations;
6. Bonds and obligations of the State of Ohio or Ohio local governments;
7. The State Treasurer's investment pool (STAROhio, a Rule 2-a7-like pool);
8. Certain bankers' acceptances and commercial paper notes; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**Mental Health & Recovery Services Board
Muskingum County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2004
(Continued)

An investment must mature within five years from the purchase date unless matched to a specific obligation or debt of the Board and must be purchased with the expectation it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits. The Muskingum County Auditor serves as the fiscal agent for the Board. The Muskingum County Treasurer invests all County funds, as well as funds of those entities for which the County Auditor serves as fiscal agent. The Board maintains no control over the investment of its cash. At year-end, the carrying amount of the Board's deposits was \$3,857,660.

The Board's deposits maintained by the Muskingum County Treasurer are either insured by the Federal Deposit Insurance Corporation or were considered collateralized by securities held by the pledging institutions' trust departments in Muskingum County's name and all State statutory requirements for the deposit of money had been followed.

Note 6 - Risk Management

Commercial Insurance

The Board has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles;
- Errors and omissions;
- Public officials' liability insurance;
- Medical professional liability; and
- Fidelity bond on employees.

The Board provides health, vision, life, and long-term disability insurance to full-time employees through private carriers.

Note 7 – Debt

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Promissory Note	\$147,426	variable 4% - 11%

The promissory note was issued in December 2003 to finance the acquisition and development of 9.89 acres of real property at 9259 Liberty School Road, Cambridge, Ohio. The property was converted into a 16 bed residential facility. Renovations were completed and the facility was operational in October 2004. The note is collateralized by an open-ended mortgage on the property financed and held by a financial institution.

Amortization of the above debt, including interest, is scheduled as follows:

**Mental Health & Recovery Services Board
Muskingum County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2004
(Continued)

Year ending December 31:	<u>Promissory Note</u>
2005	\$10,889
2006	11,879
2007	11,879
2008	11,879
2009	11,879
2010 – 2024	174,573
Total	<u><u>\$232,978</u></u>

On March 11, 2004, the Mental Health & Recovery Services Board entered into a contract/note with the Ohio Department of Mental Health for \$150,000. The note is secured by a mortgage deed on the property located at 9259 Liberty School Road, Cambridge, Ohio. The payment of principal will be forgiven by the Ohio Department of Mental Health in 480 equal installments beginning the first day of April 2004 and forgivable upon the first day of each month thereafter until and including the first day of April 2044 providing there is no transfer by sale, gift, devise, operation of law or otherwise of the title in all or part of the said premises. If such a transfer should occur, the remaining balance shall be immediately due and payable to the Ohio Department of Mental Health. The Mental Health & Recovery Services Board received 90% or \$135,000 of this state funding on May 10, 2004. The final 10% or \$15,000 was paid on December 3, 2004, after completion of the renovation.

Note 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Board participates 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 in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional pension plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6701 or 800-222-7377.

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Board's contribution rate for pension benefits for 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

Note 9 - Postemployment Benefits

Ohio Public Employees Retirement System

**Mental Health & Recovery Services Board
Muskingum County**

Notes to the Basic Financial Statements
For the Fiscal Year Ended December 31, 2004
(Continued)

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional pension or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional pension and combined plans was 369,885. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively. The Board has paid all contributions required through December 31, 2004.

Note 10 – Reimbursements

The Board makes a number of cash disbursements on behalf of provider agencies and is later reimbursed for these out-of-pocket expenses. Cash disbursements made on behalf of provider agencies include payments made for insurance coverage, contract services (audit costs) and office supplies.

The Statement of Activities and the Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balance include neither the reimbursements from provider agencies nor the cash disbursements made on behalf of provider agencies. The Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual (Budget Basis) does include the reimbursement activity since the Board includes this activity within its budget. The budgetary statement also includes encumbrances as disbursements since encumbrances are required by law when purchase commitments are made.

Note 11 - Contingencies

A. Grants

The Board receives financial assistance from federal and state agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the special revenue fund. However, in the opinion of management, any such disallowed claims could have a material adverse effect on the overall financial position of the Board at December 31, 2004.

**MENTAL HEALTH & RECOVERY SERVICES BOARD
MUSKINGUM COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2004**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Federal CFDA Number	Disbursements
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Passed Through Ohio Department of Mental Health</i>		
Social Services Block Grant	93.667	\$251,632
<i>Passed Through Ohio Department of Mental Health</i>		
Medical Assistance Program	93.778	4,961,736
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services</i>		
Medical Assistance Program	93.778	<u>563,225</u>
Total Medical Assistance Program		5,524,961
<i>Passed Through Ohio Department of Mental Health</i>		
Block Grants for Community Mental Health Services	93.958	154,006
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services</i>		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>1,196,457</u>
Total United States Department of Health and Human Services		<u>7,127,056</u>
Total Federal Awards Expenditures		<u>\$7,127,056</u>

The Notes to the Schedule of Federal Awards Expenditures are an integral part of this Schedule.

**MENTAL HEALTH AND RECOVERY SERVICES BOARD
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Mental Health & Recovery Services Board's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - SUBRECIPIENTS

The Board passes-through certain Federal assistance received from the Ohio Department of Mental Health and the Ohio Department of Alcohol and Drug Addition to not-for-profit agencies (subrecipients). As described in Note A, 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 Federal 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.

NOTE C - MATCHING REQUIREMENTS

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



Auditor of State Betty Montgomery

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

Mental Health & Recovery Services Board
Muskingum County
1205 Newark Road
Zanesville, Ohio 43701

To Members of the Board:

We have audited the financial statements of the Mental Health & Recovery Services Board, Muskingum County, Ohio (the Board), as of and for the year ended December 31, 2004, which collectively comprise the Board's basic financial statements and have issued our report thereon dated June 30, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Board's management dated June 30, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

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. However, providing an opinion 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*. In a separate letter to the Board's management dated June 30, 2005, we reported an other matter related to noncompliance we deemed immaterial.

Mental Health & Recovery Services Board
Muskingum County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Mental Health & Recovery Services Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

June 30, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mental Health & Recovery Services Board
Muskingum County
1205 Newark Road
Zanesville, Ohio 43701

To Members of the Board:

Compliance

We have audited the compliance of the Mental Health & Recovery Services Board, Muskingum County, Ohio (the Board), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to its major federal program for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the Board's major federal program. The Board's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing other procedures 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 on the Board's compliance with those requirements.

In our opinion, the Mental Health & Recovery Services Board, Muskingum County, Ohio, complied in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The Board's management is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could directly and materially affect a major federal program to determine our 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.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Mental Health & Recovery Services Board, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

June 30, 2005

**MENTAL HEALTH & RECOVERY SERVICES BOARD
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Medical Assistance Program (Medicaid: Title XIX) CFDA #93.778
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

No findings to report.

3. FINDINGS FOR FEDERAL AWARDS

No findings to report.



**Auditor of State
Betty Montgomery**

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**MENTAL HEALTH AND RECOVERY SERVICES BOARD
MUSKINGUM 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
AUGUST 11, 2005**