

**Mental Health and Recovery Board of Erie and Ottawa Counties**

Financial Condition

As of

December 31, 2005

Together with Auditor's Report





**Auditor of State  
Betty Montgomery**

Members of the Board  
Mental Health and Recovery Board of Erie and Ottawa Counties  
416 Columbus Avenue  
Sandusky, Ohio 44870

We have reviewed the *Independent Auditor's Report* of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, prepared by Kevin L. Penn, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Mental Health and Recovery Board of Erie and Ottawa Counties is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

July 18, 2006

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MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES

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### **Independent Auditor's Report**

Board of Mental Health and Recovery Board of Erie and Ottawa Counties  
Erie County, Ohio

I have audited the accompanying financial statements of Mental Health and Recovery Board of Erie and Ottawa Counties as December 31, 2005 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the financial statements. I believe that my audit provides a reasonable basis for my opinion

As described more fully in Note 1, the Mental Health and Recovery Board of Erie and Ottawa Counties prepares its financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America. Although I cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, I presume they are material.

In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Board as of December 31, 2005, or its changes in financial position for the year then ended.

Also, in my opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Mental Health and Recovery Board of Erie and Ottawa Counties as of December 31, 2005, and its combined cash receipts and disbursements for the year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued a report dated June 9, 2006 on my consideration of Mental Health and Recovery Board of Erie and Ottawa Counties's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. That report describes the scope of my testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the result of my audit.

Kevin L. Penn, Inc.

June 9, 2006

Mental Health and Recovery Board of Erie and Ottawa Counties

Erie County

Combined Statement of Cash Receipts, Disbursements  
and Changes in Fund Cash Balances

All Governmental Fund Types

For the Year Ended December 31, 2005

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
<b>Cash Receipts:</b>			
Local Taxes	\$ 2,136,109		\$ 2,136,109
Intergovernmental	5,484,569	\$ 739,607	6,224,176
Other Revenue	106,830	667	107,497
<b>Total Cash Receipts</b>	<b>7,727,508</b>	<b>740,274</b>	<b>8,467,782</b>
<b>Cash Disbursements:</b>			
<b>Current:</b>			
Salaries	353,650		353,650
Supplies	30,421		30,421
Equipment	11,860		11,860
Contracts - Repair	1,324		1,324
Contracts - Services	7,216,427	600,980	7,817,407
Rentals	11,178		11,178
Advertising and Printing	12,850		12,850
Travel	15,710		15,710
Public Employee's Retirement	51,561		51,561
Worker's Compensation	1,537		1,537
Other	72,051		72,051
Debt Service	12,188		12,188
<b>Total Cash Disbursements</b>	<b>7,790,757</b>	<b>600,980</b>	<b>8,391,737</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>(63,249)</b>	<b>139,294</b>	<b>76,045</b>
Fund Cash Balance - January 1, 2005	2,223,361	(44,481)	2,178,880
Fund Cash Balance - December 31, 2005	\$ 2,160,112	\$ 94,813	\$ 2,254,925
Reserves for Encumbrances, December 31, 2005	\$ 125,900	\$ 100	\$ 126,000

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

Mental Health and Recovery Board of Erie and Ottawa Counties  
 Erie County  
 Combined Statement of Cash Receipts, Disbursements  
 and Changes in Fund Cash Balances  
 Agency Funds  
 For the Year Ended December 31, 2005

	<u>Agency</u>
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	\$ 375,338
Non-Operating Cash Disbursements:	
Other Non-Operating Disbursements	<u>\$ 474,217</u>
Total Receipts Over/(Under) Disbursements	<u>(98,879)</u>
Fund Cash Balance - January 1, 2005	<u>98,864</u>
Fund Cash Balance - December 31, 2005	<u><u>\$ (15)</u></u>
Reserves for Encumbrances, December 31, 2005	<u><u>\$ -</u></u>

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

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2005

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. DESCRIPTION OF THE ENTITY

The Mental Health and Recovery Board of Erie and Ottawa Counties, (the Board) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Board is directed by an eighteen member board. Seven members of the Board are appointed by the Board of the Erie County Commissioners, three members and appointed by the Board of the Ottawa County Commissioners, four members are appointed by the Ohio Department of Alcohol and Drug Addiction Services, and four members are appointed by the Ohio Department of Mental Health. The Board provides alcohol, drug addiction and mental health services and programs to citizens of Erie and Ottawa Counties. These services are provided primarily through contracts with private and public agencies.

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

B. BASIS OF ACCOUNTING:

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosures of material matters, as prescribed or permitted by the Auditor of State.

C. CASH:

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

D. FUND ACCOUNTING:

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

Governmental Fund Types:

General Fund. This fund is the general operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2005

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

D. **FUND ACCOUNTING** (continued)

**Special Revenue Funds.** These funds are used to account for the proceeds of specific sources (other than from trusts or for capital projects) that are legally restricted to expenditure for specified purposes. The Board has the following significant Special Revenue Funds:

- Teen Institute Block Grant Fund – This fund accounts for grant monies received to provide assistance to underprivileged teenagers.

Fiduciary Fund (Agency Fund). This fund is used to account for funds for which the Board is acting in an agency capacity. The Board has the following Fiduciary Fund:

- Family and Children First Funds – This fund accounts for the receipts and disbursements of the Family and Children First Council for which the Board acts as fiscal agent.

E. **BUDGETARY PROCESS**

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

**APPROPRIATIONS**

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

**ESTIMATED RESOURCES**

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

**ENCUMBRANCES**

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

A summary of the 2005 budgetary activity appears in Note 2.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
 ERIE COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2005

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

F. **PROPERTY, PLANT AND EQUIPMENT**

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

G. **UNPAID VACATION AND SICK LEAVE**

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

H. **TOTAL COLUMNS ON FINANCIAL STATEMENTS**

Amounts in the "Totals (Memorandum Only)" columns of the financial statements represent a summation of the financial statements line items of the fund types and account groups. These amounts are presented for analytical purposes only. This data is not comparable to a consolidation. Interfund type eliminations have not been made in the aggregation of this data.

**NOTE 2 – BUDGETARY ACTIVITY**

Budgetary activity for the years ended December 31, 2005 follows:

<u>Fund Type:</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 8,081,867	\$ 7,727,508	\$ 354,359
Special Revenue	574,000	740,274	\$ (166,274)
Total	<u>\$ 8,655,867</u>	<u>\$ 8,467,782</u>	<u>\$ 188,085</u>

<u>Fund Type:</u>	<u>Appropriation Board</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 8,837,218	\$ 7,916,657	\$ 920,561
Special Revenue	574,000	600,980	\$ (26,980)
Total	<u>\$ 9,411,218</u>	<u>\$ 8,517,637</u>	<u>\$ 893,581</u>

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
 ERIE COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2005

**NOTE 3 - PROPERTY TAXES**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, 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.

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

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

**NOTE 4 – DEBT**

A commercial loan was originally obtained in 1998 to finance the purchase of the property used by the Board for its administrative offices. The loan was in the amount of \$135,000; had an interest rate of 8.15%; required monthly payments of \$1,152 through April 2003; and a final estimated payment of \$118,750 due May 2003. The Board had the option of either paying the lump sum balance due at that time, or refinancing this amount. On June 17, 2003, the Board refinanced the loan. The new promissory note was in the amount of \$118,368, with an interest rate 6.17%, requiring 59 monthly payments of \$1,015 through May 2008, and a final payment estimated at \$91,435 due July 2008. The outstanding principal at December 31, 2005 was \$104,708.

The aggregate amounts of long-term debt maturities for the three years following 2005 are as follows:

Year	Principal	Interest	Total
2006	\$ 5,728	\$ 6,460	\$ 12,188
2007	\$ 6,081	\$ 6,107	\$ 12,188
2008	<u>\$ 92,899</u>	<u>\$ 2,865</u>	<u>\$ 95,764</u>
Total	<u>\$104,708</u>	<u>\$ 15,432</u>	<u>\$120,140</u>

**NOTE 5 - PENSION PLAN**

Ohio Public Employees Retirement System

All Board full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2005

**NOTE 5: PENSION PLAN** (continued)

- The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent 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 (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

Ohio Public Employees Retirement System

PERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Board to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory Board for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Board was 13.55 percent of covered payroll. The Board's required contributions to OPERS for the years ended December 31, 2005, 2004, and 2003 were \$51,561, \$49,635, and \$44,806, respectively.

**NOTE 6: POST-EMPLOYMENT BENEFITS**

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory Board for employer contributions. The 2005 employer contribution rate was 13.55 percent of covered payroll, 4 percent was the portion that was used to fund health care for 2005.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2005

**NOTE 6: POST-EMPLOYMENT BENEFITS** (continued)

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

**Ohio Public Employees Retirement System**

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.

At December 31, 2004, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885. The actual contribution and the actuarially required contribution amounts are the same. OPERS' 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.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

**NOTE 7 – RISK MANAGEMENT**

Commercial Insurance

The Board has obtained commercial insurance for the following risks:

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

**NOTE 8 - CONTINGENT LIABILITIES**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any would not be material.

Mental Health and Recovery Board of Erie and Ottawa Counties

Schedule of Federal Awards Expenditures  
For the Year Ended December 31, 2005

Federal Grantor Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through Ohio Department of Alcohol and Drug Addiction Services:			
SIG - Evidence Based Planning	22-00416-SIG-P-06-0417	93.243	\$ 24,784
	22-00416-SIG-P-05-0417		<u>85,767</u>
Total SIG - Evidence Based Planning			110,551
Safe and Drug Free Schools and Communities State Grant	22-06662-00-DFSCA-P-06-9069	84.186A	9,750
	22-06662-00-DFSCA-P-05-9069		<u>21,059</u>
Total Safe and Drug Free Schools and Communities State Grant			30,809
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed Through Ohio Department of Mental Health:			
Medical Assistance Program	ODMH-04	93.778	117,691
	ODMH-05		1,183,917
	ODMH-06		<u>348,929</u>
			1,650,537
Passed Through Ohio Department of Alcohol and Drug Addiction Services:			
Medical Assistance Program	ODADAS-05	93.778	152,719
	ODADAS-06		<u>96,261</u>
			<u>248,980</u>
Total Medical Assistance Program			<u>1,899,517</u>
Social Service Block Grant	MH-15-06	93.667	35,484
	MH-15-05		<u>53,248</u>
Total Social Service Block Grant			<u>88,732</u>
Block Grants for Community Mental Health Services	CPBG-05	93.958	29,387
	BG-06		31,833
	FY05-15-BG-C/A		<u>7,096</u>
Total Block Grants for Community Mental Health Services			<u>68,316</u>
Block Grants for Prevention and Treatment of Substance Abuse	FY05-FA/DBG&F/IVBG	93.959	183,503
	FY06-FA/DBG&F/IVBG		<u>92,870</u>
Total Block Grants for Prevention and Treatment of Substance Abuse			<u>276,373</u>
<b>FAST \$</b>	15-CS-05-01	93.556	24,500
	15-CS-06-01		<u>1,700</u>
<b>Total FAST \$</b>			<u>26,200</u>
<b>TOTAL FEDERAL AWARDS EXPENDITURES</b>			<u>\$ 2,500,498</u>

The accompanying notes to this schedule are an integral part of this schedule.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY  
NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED DECEMBER 31, 2005

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – SUBRECEIPIENTS**

The Board passes-through certain Federal assistance received from the Ohio Department of Mental Health and the Ohio Department of Alcohol and Drug Addiction Services 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 that the Board 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.



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**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards**

Board of Mental Health and Recovery Board of Erie and Ottawa Counties  
Erie County, Ohio

I have audited the financial statements of Mental Health and Recovery Board of Erie and Ottawa Counties as of and for the year ended December 31, 2005, and have issued my report thereon dated June 9, 2006. I conducted my audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered Mental Health and Recovery Board of Erie and Ottawa Counties's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting 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 that would be material in relation to financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operations that I consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mental Health and Recovery Board of Erie and Ottawa Counties's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance, which I have reported to management of Mental Health and Recovery Board of Erie and Ottawa Counties in a separate letter dated June 9, 2006.

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

Kevin L. Penn, Inc.

June 9, 2006



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**Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Mental Health and Recovery Board of Erie and Ottawa Counties  
Erie County, Ohio

Compliance

I have audited the compliance of Mental Health and Recovery Board of Erie and Ottawa Counties with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. Mental Health and Recovery Board of Erie and Ottawa Counties's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mental Health and Recovery Board of Erie and Ottawa Counties's management. My responsibility is to express an opinion on Mental Health and Recovery Board of Erie and Ottawa Counties's compliance based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mental Health and Recovery Board of Erie and Ottawa Counties's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Mental Health and Recovery Board of Erie and Ottawa Counties's compliance with those requirements.

In my opinion, Mental Health and Recovery Board of Erie and Ottawa Counties complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

### Internal Control Over Compliance

The management of Mental Health and Recovery Board of Erie and Ottawa Counties 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 my audit, I considered Mental Health and Recovery Board of Erie and Ottawa Counties's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My 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 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 detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

June 9, 2006

**Mental Health and Recovery Board of Erie and Ottawa Counties**

Schedule of Findings and Questioned Costs

December 31, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Reportable condition(s) identified  
not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over financial reporting:

Material weakness(es) identified? No

Reportable condition(s) identified  
not considered to be material weaknesses? No

Type of auditor's report issued on compliance  
for major program: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section .510(a)? No

Identification of major programs:  
93.778 Medical Assistance Program.

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000 (Type A)

Auditee qualified as low-risk auditee? Yes

Findings related to the financial statements required to be reported in accordance with GAGAS.

None

Findings and Questioned costs for federal awards.

None

**Mental Health and Recovery Board of Erie and Ottawa Counties**  
Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2005

There were no audit findings, during the 2004 calendar year.



**Auditor of State  
Betty Montgomery**

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

**ERIE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 1, 2006**