

**COMMUNITY MENTAL HEALTH AND RECOVERY  
BOARD OF LICKING & KNOX COUNTIES**

**Basic Financial Statements – Cash Basis**

**December 31, 2007**

**with**

**Independent Auditors' Report**





# Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Community Mental Health and Recovery Board of Licking and Knox Counties, Licking County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

August 12, 2008

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**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD OF  
LICKING & KNOX COUNTIES, OHIO**

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Statement of Net Assets – Cash Basis	10
Statement of Activities – Cash Basis	11
Statement of Cash Basis Assets and Fund Balances – Governmental Funds	12
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balance – Governmental Funds	13
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance - Budget and Actual (Budgetary Basis) – General Fund	14
Notes to the Basic Financial Statements	15-26
Schedule of Expenditures of Federal Awards	27
Notes to the Schedule of Expenditures of Federal Awards	28
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	31-32
Schedule of Findings	33-34
Schedule of Prior Audit Findings	35



**Clark, Schaefer, Hackett & Co.**  
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**Independent Auditors' Report**

Community Mental Health and Recovery  
Board of Licking & Knox Counties, Ohio  
1435-B West Main Street  
Newark, Ohio 43055

We have audited the accompanying financial statements of the governmental activities and each major fund of the Community Mental Health and Recovery Board of Licking and Knox Counties, Ohio (the Board) as of and for the year ended December 31, 2007, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and each major fund of the Community Mental Health and Recovery Board of Licking and Knox Counties, Ohio, as of December 31, 2007, and the respective changes in cash basis financial position, thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2008, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
June 30, 2008

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

The management's discussion and analysis of the Community Mental Health and Recovery Board of Licking and Knox Counties (the "Board") financial performance provides an overall review of the Board's financial activities for the year ended December 31, 2007, within the limitation of the Board's cash basis of accounting. The intent of this discussion and analysis is to look at the Board's financial performance as a whole; readers should also review the cash-basis basic financial statements and the notes to the basic financial statements to enhance their understanding of the Board's financial performance.

***Financial Highlights***

Key financial highlights for 2007 are as follows:

- Net assets of the Board's governmental activities increased \$497,429 from 2006, or 12%.
- General cash receipts accounted for \$11,162,719 or 69% of total governmental activities cash receipts. Program specific cash receipts accounted for \$4,911,232 or 31% of total governmental activities cash receipts. Total governmental activities cash receipts for 2007 were \$16,073,951.
- The Board had \$15,576,522 in cash disbursements related to governmental activities; \$4,911,232 of these cash disbursements was offset by program specific operating grants or contributions. The remaining cash disbursements of the governmental activities of \$10,665,290 were offset by general cash receipts (primarily property taxes and unrestricted grants and entitlements) of \$11,162,719.
- The Board's major governmental funds are the General and Capital Projects funds. The General fund had cash receipts of \$16,073,951 and cash disbursements of \$15,576,522. The net increase in fund balance for the General Fund was \$497,429 or 12%.
- The Capital Projects fund had no cash receipts or cash disbursements. The fund balance was \$7,115.

***Using the Basic Financial Statements (BFS)***

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

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

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



**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

***Reporting the Board as a Whole***

*Statement of Net Assets and the Statement of Activities*

A general question typically asked about the Board's finances is "How did we do financially during 2007?" The Statement of Net Assets-Cash Basis and the Statement of Activities-Cash Basis answers this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's cash receipts and cash disbursements if the cash is actually received or paid.

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

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

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

***Reporting the Board's Most Significant Funds***

*Fund Financial Statements*

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

*Governmental Funds*

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

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

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

*The Board as a Whole*

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

The table below provides a summary of the Board's net assets for 2007 and a comparison of 2006.

	<u>Net Assets</u>	
	<u>2007</u>	<u>2006</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ <u>4,599,002</u>	\$ <u>4,101,573</u>
Total Assets	\$ <u>4,599,002</u>	\$ <u>4,101,573</u>
Net Assets		
Restricted	\$ 7,115	\$ 7,115
Unrestricted	<u>4,591,887</u>	<u>4,094,458</u>
Total net asset	\$ <u>4,599,002</u>	\$ <u>4,101,573</u>

Net assets of the Board's governmental activities increased \$497,429 from 2006, or 12%.

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

The table below provides a summary of changes in the Board's net assets for 2007 in comparison to 2006.

	Change in Net Assets	
	<u>2007</u>	<u>2006</u>
<b>Cash Receipts:</b>		
Program cash receipts:		
Operating grants and contributions	\$ <u>4,911,232</u>	\$ <u>5,222,295</u>
Total program cash receipts	<u>4,911,232</u>	<u>5,222,295</u>
General Cash Receipts:		
Property taxes	4,498,201	3,106,647
Unrestricted grants and entitlements	6,607,463	6,933,167
Reimbursements	<u>57,055</u>	<u>677,013</u>
Total general cash receipts	<u>11,162,719</u>	<u>10,716,827</u>
<b>Cash disbursements:</b>		
Salaries	375,764	445,409
Supplies	14,748	16,690
Unemployment	6,174	2,744
Equipment/Maintenance	30,198	19,384
Agencies Contract Services	12,677,906	13,423,400
Grants	391,302	412,434
Rentals	34,236	34,236
Utilities/Phone	23,253	21,546
Travel	9,901	18,282
Public/Employees Retirement	53,366	56,719
Workers Compensation	7,807	6,715
Hospitalization	79,714	68,255
Medicare	5,247	6,300
Printing/Marketing	41,526	39,052
Medicaid Out of County Services	1,424,375	1,059,525
Professional Services	302,173	418,017
Other	98,832	11,513
Capital Outlay	<u>-</u>	<u>72,159</u>
Total cash disbursements	<u>15,576,522</u>	<u>16,132,380</u>
Change in net cash assets	497,429	(193,258)
Net cash assets at beginning of year	<u>4,101,573</u>	<u>4,294,831</u>
Net cash assets at end of year	<u>\$ 4,599,002</u>	<u>\$ 4,101,573</u>

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

Agency Contract Services, which consists of payments to provider agencies, accounted for \$12,677,906 of the total cash disbursements of the Board. These services were offset by \$4,911,232 in operating grants and contributions. General cash receipts totaled \$11,162,719 and amounted to 69% of total cash receipts. General cash receipts primarily consist of property taxes, unrestricted grant entitlements, and reimbursement receipts.

Principal retirement of debt service of \$12,438 is reported as Grants cash disbursements because repayments are made via reductions of amounts paid to the agency for services rendered. See Note 8 for the Debt footnote disclosure.

The Statement of Activities-Cash Basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen below, the Board is highly dependent upon property taxes as well as unrestricted grants and entitlements to support its governmental activities. The table below provides a summary of program cash receipts compared to total cash disbursements for 2007 in comparison to 2006.

**Governmental Activities – Program Cash Receipts vs. Total Cash Disbursements**

	<u>Total Cost of Services 2007</u>	<u>Net Cost of Services 2007</u>	<u>Total Cost of Services 2006</u>	<u>Net Cost of Services 2006</u>
Program Cash Disbursements				
Salaries	\$ 375,764	\$ 375,764	\$ 445,409	\$ 445,409
Supplies	14,748	14,748	16,690	16,690
Unemployment	6,174	6,174	2,744	2,744
Equipment/Maintenance	30,198	30,198	19,384	19,384
Agencies Contract Services	12,677,906	7,766,674	13,423,400	8,201,105
Grants	391,302	391,302	412,434	412,434
Rentals	34,236	34,236	34,236	34,236
Utilities/Phone	23,253	23,253	21,546	21,546
Travel	9,901	9,901	18,282	18,282
Public/Employees Retirement	53,366	53,366	56,719	56,719
Workers Compensation	7,807	7,807	6,715	6,715
Hospitalization	79,714	79,714	68,255	68,255
Medicare	5,247	5,247	6,300	6,300
Printing/Marketing	41,526	41,526	39,052	39,052
Medicaid Out of County Services	1,424,375	1,424,375	1,059,525	1,059,525
Professional Services	302,173	302,173	418,017	418,017
Other	98,832	98,832	11,513	11,513
Capital Outlay	<u>-</u>	<u>-</u>	<u>72,159</u>	<u>72,159</u>
Total cash disbursements	<u>\$15,576,522</u>	<u>\$10,665,290</u>	<u>\$16,132,380</u>	<u>\$10,910,085</u>

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

***Financial Analysis of the Government's Funds***

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

*Governmental Funds*

The Board's governmental funds are accounted for using the cash basis of accounting.

The Board's governmental funds reported a combined fund cash balance of \$4,599,002, which is \$497,429 higher than last year's combined total of \$4,101,573. The schedule below indicates the fund cash balance and the total change in fund cash balances as of December 31, 2007 and December 31, 2006, for all major governmental funds.

	Fund Balances <u>12/31/07</u>	Fund Balances <u>12/31/06</u>	<u>(Decrease)</u>
Major funds:			
General	\$4,591,887	\$4,094,458	\$ 497,429
Capital Projects	<u>7,115</u>	<u>7,115</u>	<u>-</u>
Total	<u>\$4,599,002</u>	<u>\$4,101,573</u>	<u>\$ 497,429</u>

***Budgeting Highlights - General Fund***

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

Budgetary information is presented for the General fund. In the General fund, the actual cash receipts came in \$576,343 lower than they were in the final budget and actual cash disbursements were \$47,877 less than the amount in the final budget.

***Capital Assets and Debt Administration***

*Capital Assets*

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

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED**

*Debt Administration*

The Board had the following long-term obligations outstanding at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Main Place Note	\$179,625	\$185,612
River Valley Notes	<u>186,224</u>	<u>192,674</u>
Total	<u>\$365,849</u>	<u>\$378,286</u>

See Note 8 to the basic financial statements for more detail on the Board's long-term debt obligations.

**Economic Conditions and Outlook**

The receipts of the Board remain stagnant from the state and federal departments, with potential reductions. Although the Board replaced a ten year levy in State fiscal year 2007, those funds were designated prior to passage and the system will continue to struggle to increase allocations and services to its increased population. The Board contracts with nine provider agencies to deliver mental health and substance abuse services to the residents of Licking and Knox Counties. The Board will be challenged to maintain the current level of services and programs due to increased demands and potential reduction of funds. The Board and its administration must maintain careful financial planning and prudent fiscal management in order to continue to secure the safety net for its most vulnerable population. The Board, as well as others in the state, is facing the challenge of increased need for Medicaid match. This will potentially jeopardize the Board's ability to provide services at the needed level for non-Medicaid clients. In addition the Board's ability to assist agencies with continued increased cost may contribute to agencies having to reduce services due to there being no projected increases in revenues.

**Contacting the Board's Financial Management**

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

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
LICKING AND KNOX COUNTIES**

**STATEMENT OF NET ASSETS - CASH BASIS  
DECEMBER 31, 2007**

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 4,599,002</u>
<i>Total Assets</i>	<u><u>\$ 4,599,002</u></u>
<b>Net Assets</b>	
Restricted for:	
Capital Projects	\$ 7,115
Unrestricted	<u>4,591,887</u>
<i>Total Net Assets</i>	<u><u>\$ 4,599,002</u></u>

See accompanying notes to the basic financial statements

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
LICKING AND KNOX COUNTIES**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Cash Disbursements	Program Cash Receipts  Operating Grants and Contributions	Net (Cash Disbursements) Cash Receipts and Changes in Net Assets  Governmental Activities
<b>Governmental Activities</b>			
Salaries	\$ 375,764	\$ -	\$ (375,764)
Supplies	14,748	-	(14,748)
Unemployment	6,174	-	(6,174)
Equipment/Maintenance	30,198	-	(30,198)
Agencies Contract Services	12,677,906	4,911,232	(7,766,674)
Grants	391,302	-	(391,302)
Rentals	34,236	-	(34,236)
Utilities/Phone	23,253	-	(23,253)
Travel and Expense	9,901	-	(9,901)
Public Employees Retirement	53,366	-	(53,366)
Workers Compensation	7,807	-	(7,807)
Hospitalization	79,714	-	(79,714)
Medicare	5,247	-	(5,247)
Printing/Marketing	41,526	-	(41,526)
Medicaid Out of County Services	1,424,375	-	(1,424,375)
Professional Services	302,173	-	(302,173)
Other	98,832	-	(98,832)
<i>Total Governmental Activities</i>	<b>\$ 15,576,522</b>	<b>\$ 4,911,232</b>	<b>(10,665,290)</b>
<b>General Receipts:</b>			
Property Taxes Levied for General Purposes			4,498,201
Entitlements - Unrestricted			6,607,463
Reimbursements			57,055
Total General Receipts			11,162,719
Change in Net Assets			497,429
Net Assets at Beginning of Year			4,101,573
Net Assets at End of Year			<b>\$ 4,599,002</b>

See accompanying notes to the basic financial statements



**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
LICKING AND KNOX COUNTIES**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	General	Capital Projects	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 4,591,887	\$ 7,115	\$ 4,599,002
<i>Total Assets</i>	<u>\$ 4,591,887</u>	<u>\$ 7,115</u>	<u>\$ 4,599,002</u>
<b>Fund Balances</b>			
Reserved:			
Reserved for Encumbrances	\$ 1,518,733	\$ -	\$ 1,518,733
Unreserved:			
General Fund	3,073,154	-	3,073,154
Capital Projects Fund	-	7,115	7,115
<i>Total Fund Balances</i>	<u>\$ 4,591,887</u>	<u>\$ 7,115</u>	<u>\$ 4,599,002</u>

See accompanying notes to the basic financial statements

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
LICKING AND KNOX COUNTIES**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Capital Projects	Total Governmental Funds
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$ 4,498,201	\$ -	\$ 4,498,201
Intergovernmental	11,518,695	-	11,518,695
Reimbursements	57,055	-	57,055
<i>Total Cash Receipts</i>	16,073,951	-	16,073,951
<b>Cash Disbursements:</b>			
Current:			
Salaries	375,764	-	375,764
Supplies	14,748	-	14,748
Unemployment	6,174	-	6,174
Equipment/Maintenance	30,198	-	30,198
Agencies Contract Services	12,677,906	-	12,677,906
Grants	391,302	-	391,302
Rentals	34,236	-	34,236
Utilities/Phone	23,253	-	23,253
Travel and Expense	9,901	-	9,901
Public Employees Retirement	53,366	-	53,366
Workers Compensation	7,807	-	7,807
Hospitalization	79,714	-	79,714
Medicare	5,247	-	5,247
Printing/Marketing	41,526	-	41,526
Medicaid Out of County Services	1,424,375	-	1,424,375
Professional Services	302,173	-	302,173
Other	98,832	-	98,832
<i>Total Cash Disbursements</i>	15,576,522	-	15,576,522
<i>Net Change in Fund Balances</i>	497,429	-	497,429
<i>Fund Balances Beginning of Year</i>	4,094,458	7,115	4,101,573
<i>Fund Balances End of Year</i>	\$ 4,591,887	\$ 7,115	\$ 4,599,002

See accompanying notes to the basic financial statements

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
LICKING AND KNOX COUNTIES**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Budgetary Basis Receipts:</b>				
Property and Other Local Taxes	\$ 4,659,487	\$ 4,659,487	\$ 4,498,201	\$ (161,286)
Intergovernmental	11,931,706	11,931,706	11,518,695	(413,011)
Reimbursements	59,101	59,101	57,055	(2,046)
<i>Total Budgetary Basis Receipts</i>	<u>16,650,294</u>	<u>16,650,294</u>	<u>16,073,951</u>	<u>(576,343)</u>
<b>Budgetary Basis Disbursements:</b>				
Current:				
Salaries	445,108	445,108	445,108	-
Supplies	9,482	16,288	16,288	-
Unemployment	7,500	7,500	7,500	-
Equipment/Maintenance	21,202	32,505	32,505	-
Agencies Contract Services	13,921,692	13,934,129	13,922,556	11,573
Grants	604,083	582,229	572,283	9,946
Rentals	35,000	35,000	34,236	764
Utilities/Phone	23,457	26,000	26,000	-
Travel and Expense	25,154	25,154	13,393	11,761
Public Employees Retirement	64,694	64,694	53,366	11,328
Workers Compensation	8,500	8,500	7,807	693
Hospitalization	80,000	80,000	79,714	286
Medicare	6,773	6,773	5,247	1,526
Printing/Marketing	41,526	41,526	41,526	-
Medicaid Out of County Services	1,424,375	1,424,375	1,424,375	-
Professional Services	302,173	302,173	302,173	-
Other	122,413	111,178	111,178	-
<i>Total Budgetary Basis Disbursements</i>	<u>17,143,132</u>	<u>17,143,132</u>	<u>17,095,255</u>	<u>47,877</u>
<i>Net Change in Fund Balance</i>	(492,838)	(492,838)	(1,021,304)	(528,466)
<i>Fund Balance at Beginning of Year</i>	3,976,856	3,976,856	3,976,856	-
Prior Year Encumbrances Appropriated	117,602	117,602	117,602	-
<i>Fund Balance at End of Year</i>	<u>\$ 3,601,620</u>	<u>\$ 3,601,620</u>	<u>\$ 3,073,154</u>	<u>\$ (528,466)</u>

See accompanying notes to the basic financial statements

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**Note 1 – Reporting Entity**

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

**A. Primary Government**

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

**B. Component Units**

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

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

**Note 2 – Summary of Significant Accounting Policies**

As discussed further in Note 2, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The following are the more significant of the Board's accounting policies.

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

(Continued)

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

**A. Basis of Accounting**

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

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

**B. Basis of Presentation**

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The Board did not present any nonmajor funds for the year ended 2007. The Board had two major funds for the year ended 2007 which is described below.

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

(Continued)

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

**C. Fund Accounting**

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

Governmental Funds

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

*General* - The General fund is used to account for all financial resources, except those required to be accounted for in another fund. The General fund balance is available to the Board for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**D. Budgetary Process**

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

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

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

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

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

(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 Board's cash. The Board's cash is held in Licking County's cash and investment pool, and is valued at the County Treasurer's carrying amount.

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

**F. Restricted Assets**

Cash, cash equivalents, and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Board did not report any restricted assets at December 31, 2007.

**G. Inventory and Prepaid Items**

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

**H. Capital Assets**

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

**I. Interfund Receivables/Payables**

The Board reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements. There were no outstanding advances at December 31, 2007.

**J. Accumulated Leave**

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

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

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

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

(Continued)

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

**L. Long-Term Obligations**

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

**M. Net Assets**

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

**N. Fund Balance Reserves/Fund Designations**

The Board reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. No monies were designated by the Board during 2007. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

**O. Interfund Transactions**

Transfers between governmental fund financial statements are reported in the same manner as general cash receipts.

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating cash receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements. There were no interfund transactions during 2007.

**P. 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. The Board had no extraordinary or special items during 2007.



**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

(Continued)

**Note 3 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, cash disbursements, and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances). The encumbrances outstanding at year end (budgetary basis) amounted to \$1,518,733 for the General fund.

**Note 4 – Deposits and Investments**

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

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

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

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

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

(Continued)

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

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Board will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Licking County Treasurer serves as the fiscal agent for the Board and the investments of Licking County funds, including the Board's cash. The Board maintains no control over the investment of its cash. At December 31, 2007, the carrying amount of the Board's deposits was \$4,599,002.

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

**Note 5 – Property Taxes**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the County. Real property tax receipts received in 2007 represent the collection of 2006 taxes. Real property taxes received in 2007 were levied after October 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentage of true value; public utility real property is assessed at 12.5 percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes.

2007 tangible personal property taxes are levied after October 1, 2007, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments for inventory, including machinery and equipment, were 18.75 percent. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009.

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

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

(Continued)

**Note 6 – Risk Management**

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

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

There have been no significant reductions in insurance coverages during the fiscal year 2007. Settled claims have not exceeded commercial excess coverages in any of the past three years.

**Note 7 – Ohio Public Employees Retirement System**

**Plan Description** – All employees of the Board are eligible to participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans; the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The authority to establish and amend benefits is provided in Chapter 145 of the Ohio revised Code. OPERS issues a publicly available comprehensive annual financial report which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-PERS (7377).

**Funding Policy** – The Board and covered employees contribute at actuarially determined rates for 2007, 13.85% and 9.5%, respectively, of covered employee payroll to OPERS. The Board's contributions to OPERS for the years ended December 31, 2007, 2006, and 2005 were \$53,366, \$61,021, and \$57,098, respectively. The employee's contributions to OPERS for the years ended December 31, 2007, 2006, and 2005 were \$36,605, \$40,087, and \$33,936, respectively. Required contributions are equal to 100% of the dollar amount billed.

**Other Postretirement Benefits** - OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit, and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available under OPERS. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB). The portion of employer contributions, for all employers, allocated to health care was 5.00% from January 1 through June 30, 2007 and 6.00% from July 1 through December 31, 2007. The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to OPERS.

Employer contributions are advance-funded on an actuarially determined basis and are determined by state statute. The Traditional Pension and Combined Plans had 374,979 active contributing participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 362,130.

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

(Continued)

**Note 7 – Ohio Public Employees Retirement System (Continued)**

The portion of the Board’s contributions made to fund post-employment benefits during 2007 was \$21,392.

The assumptions and calculations below were based on the System’s latest Actuarial Review performed as of December 31, 2006 (latest actuarial review). An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actual gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment assumption rate for 2006 was 6.5 percent.

OPERS (assuming the number of active employees remains constant) assumes an annual increase of 4.00% compounded annually for the base portion of an individual’s pay increase. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.3%.

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 5% for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase 4% (the projected wage inflation rate).

As of December 31, 2006, the audited estimated net assets available for OPEB were \$12 billion. The actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Fund (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

**Note 8 – Debt**

The Board’s long-term debt activity for the year ended December 31, 2007, was as follows:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Balance at December 31, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2007</u>	<u>Due Within One Year</u>
1995 River Valley Note	0%	\$132,300	\$ -	\$ (4,725)	\$127,575	\$ 4,725
1998 Main Place Note	0%	185,612	-	(5,987)	179,625	5,987
2001 River Valley Note	0%	<u>60,374</u>	<u>-</u>	<u>(1,725)</u>	<u>58,649</u>	<u>1,725</u>
Total Long-Term Debt		<u>\$378,286</u>	<u>\$ -</u>	<u>\$(12,437)</u>	<u>\$365,849</u>	<u>\$12,437</u>

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

(Continued)

**Note 8 – Debt** (Continued)

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

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

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

<u>Year</u>	<u>1995 River Valley Note Principal</u>	<u>1998 Main Place Note Principal</u>	<u>2001 River Valley Note Principal</u>
2008	\$ 4,725	\$ 5,987	\$ 1,725
2009	4,725	5,987	1,725
2010	4,725	5,987	1,725
2011	4,725	5,987	1,725
2012	4,725	5,987	1,725
2013 – 2017	23,625	29,938	8,625
2018 – 2022	23,625	29,938	8,625
2023 – 2027	23,625	29,938	8,625
2028 – 2032	23,625	29,938	8,625
2033 – 2037	9,450	29,938	8,625
2038 – 2041	<u>-</u>	<u>-</u>	<u>6,899</u>
Totals	<u>\$127,575</u>	<u>\$179,625</u>	<u>\$58,649</u>

**Note 9 – Recovery of Advances**

To alleviate cash flow issues at the provider agencies, the Board may make advances to the 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. Methods of recovery included cash payments to the Board from the provider agency, or the provider agency could provide verification that services were rendered by the provider agency that were not previously reimbursed by the Board.

Moundbuilders Guidance Center (MGC) received advances during 2007 to aid in resolving cash flow deficits.

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

(Continued)

**Note 9 – Recovery of Advances (Continued)**

Balances owed to the Board as of December 31, 2007 are as follows:

<u>Agency</u>	<u>Restated Balance at 12/31/2006</u>	<u>New Advances</u>	<u>Amounts Recovered</u>	<u>Balance at 12/31/2007</u>
MGC	\$769,910	\$1,126,669	(\$457,999)	\$1,438,580

Additional advances were made during 2006, which were not previously included in the 12/31/06 balance.

**Note 10 – Contingent Liabilities**

**A. Grants**

Amounts grantor agencies pay to the Board are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any such disallowed claims could have a material adverse effect on the overall financial position of the Board at December 31, 2007.

**B. Litigation**

The Board is unaware of any outstanding lawsuits or other contingencies.

**Note 11 – Related Party Transactions**

The Board has allowed The Main Place, a provider agency of the Board, to use a building free of rent since September 1986. Additionally, as of February 2006, the Board leases to The Main Place a house which is used for program participants. The lease arrangement required The Main Place to establish a property repair account within their general ledger which they are to deposit \$200 per month for the first year of the lease and \$250 per month for all subsequent years of the lease. These funds are restricted and may only be used for related property expenses.

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

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

(Continued)

**Note 12 - Operating Leases**

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

<u>For the Year Ending</u>	<u>Amount</u>
2008	\$ 38,084
2009	<u>3,885</u>
	\$ <u>41,969</u>

Lease expense for the year ending December 31, 2007 totaled \$40,851.

**Community Mental Health & Recovery Board of Licking & Knox Counties**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2007**

<u>Grant Title</u>	<u>Federal CFDA Number</u>	<u>Award Year</u>	<u>Pass Through Number</u>	<u>Expenditure</u>
<b>U.S. DEPARTMENT OF EDUCATION:</b>				
<i>Passed through Ohio Department of Alcohol and Drug Addiction Services:</i>				
Safe and Drug-Free Schools and Communities State Grants	84.186	2007	COME-ADA-WPO73B	\$ <u>149,420</u>
Total U.S. Department of Education				<u>149,420</u>
<b>U.S. DEPARTMENT OF HUMAN SERVICES:</b>				
<i>Passed through Ohio Department of Mental Health:</i>				
Promoting Safe and Stable Families				
FAST \$		2007	26-CS-06-02	31,793
Incredible Years		2007	29-CS-07-01	<u>9,829</u>
Total Promoting Safe and Stable Families	93.556			41,622
Network of Care	93.243	2007	26-TSIG-017-01	18,215
Block Grants:				
Community Plan BG		2007	BG-26-06	69,950
Child/Adolescent BG		2007	BG-26-06	11,336
Strategic Planning (TMP)		2007	26-AD-07-01	<u>1,600</u>
Total Block Grants	93.958			82,886
Social Services Block Grants:				
Medicaid	93.778	2006	MC-26-06	3,101,799
CHIS Mental Health	93.767	2006	BG-26-06	269,722
Title XX	93.667	2006	MH-26-06	<u>163,678</u>
Total Social Services Block Grant				3,535,199
<i>Total Passed through Ohio Department of Mental Health:</i>				<u>3,677,922</u>
<i>Passed through Ohio Department of Alcohol and Drug Addiction:</i>				
Block Grants:				
Women's Federal		2007	COME-ADA-WPO73B	181,087
SAPT Per Capital Treatment		2007	45-45506	490,309
SAPT Per Capital Prevention		2007	45-45506	173,287
Prevention Svs. (Big Buddy)		2007	COME-ADA-WPO73B	38,970
Community Prevention - Wellness		2007	COME-ADA-WPO73B	<u>62,424</u>
Total Block Grants	93.959			946,077
Social Services Block Grants:				
Medicaid	93.778	2006	MC-26-06	413,824
CHIS Mental Health	93.767	2006	BG-26-06	51,147
Total Social Services Block Grant				<u>464,971</u>
<i>Total Passed Through Ohio Department of Alcohol and Drug Addiction Services</i>				<u>1,411,048</u>
Total U.S. Department of Health and Human Services				<u>5,088,970</u>
TOTAL FEDERAL AWARDS				\$ <u>5,238,390</u>

See accompanying notes to the schedule of expenditures of federal awards



**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

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

**2. SUBRECIPIENTS**

The Board passes through certain federal assistance received from the Ohio Department of Alcohol and Drug Addiction Services (ODADAS) and the Ohio Department of Mental Health (ODMH) to other governments or not-for-profit agencies (subrecipients). As described in Note 1 above, the Board records expenditures of federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these federal programs. Under OMB Circular A-133, the Board is responsible for monitoring subrecipients to help assure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

**3. MATCHING REQUIREMENTS**

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

**4. MUTIPLE FEDERAL PROGRAM PASS THROUGH AGENCIES**

OMB Circular A-133 requires the total federal awards expended for each individual federal program and CFDA number be presented when such federal expenditures are passed through multiple agencies or other identifying information is not available. During 2007, the Board received funding under the same federal program which was passed through both ODADAS and ODMH. The total expenditures for these programs are as follows:

<u>Program</u>	<u>CFDA Number</u>	<u>Passed Through ODMH</u>	<u>Passed Through ODADAS</u>	<u>Total Program Expenditures</u>
Medicaid	93.778	\$ 3,101,799	\$ 413,824	\$ 3,515,623
CHIS Mental Health	93.767	269,722	51,147	320,869



**Clark, Schaefer, Hackett & Co.**  
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BUSINESS CONSULTANTS  
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**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

Community Mental Health and Recovery  
Board of Licking & Knox Counties, Ohio  
1435-B West Main Street  
Newark, Ohio 43055

We have audited the financial statements of the governmental activities and each major fund of the Community Mental Health and Recovery Board of Licking & Knox Counties, Ohio (the Board), as of and for the year ended December 31, 2007, which collectively comprise the Board's basic financial statements and have issued our report thereon dated June 30, 2008, in which it was noted the Board prepared its financial statements on a cash accounting basis, which is a basis other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
June 30, 2008



**Clark, Schaefer, Hackett & Co.**  
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**Report on Compliance with Requirements Applicable to Each Major  
Program and on Internal Control Over Compliance in  
Accordance with OMB Circular A-133**

Community Mental Health and Recovery  
Board of Licking & Knox Counties, Ohio  
1435-B West Main Street  
Newark, Ohio 43055

Compliance

We have audited the compliance of the Community Mental Health and Recovery Board of Licking & Knox Counties, 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 are applicable to each of its major federal programs for the year ended December 31, 2007. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

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

In our opinion, the Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

### Internal Control Over Compliance

The management of the Board 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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

*Clark, Schufer, Hackett & Co.*

Springfield, Ohio  
June 30, 2008

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2007**

**1. SUMMARY OF AUDITORS' RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified						
(d)(1)(ii)	Were there any material weakness conditions reported at the financial statement level (GAGAS)?	No						
(d)(1)(ii)	Were there any other significant deficiencies reported at the financial statement level (GAGAS)?	No						
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	No						
(d)(1)(iv)	Were there any material weakness conditions reported for major federal programs?	No						
(d)(1)(iv)	Were there any other significant deficiencies 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):	<table border="0"> <tr> <td><u>Program</u></td> <td><u>CFDA#</u></td> </tr> <tr> <td>Title XIX - Medicaid</td> <td>93.778</td> </tr> <tr> <td>Block Grants for Prevention &amp; Treatment of Substance Abuse</td> <td>93.959</td> </tr> </table>	<u>Program</u>	<u>CFDA#</u>	Title XIX - Medicaid	93.778	Block Grants for Prevention & Treatment of Substance Abuse	93.959
<u>Program</u>	<u>CFDA#</u>							
Title XIX - Medicaid	93.778							
Block Grants for Prevention & Treatment of Substance Abuse	93.959							
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: All others						
(d)(1)(ix)	Low Risk Auditee?	Yes						

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2007**

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

NONE NOTED DURING YEAR ENDED DECEMBER 31, 2007.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE NOTED DURING THE YEAR ENDED DECEMBER 31, 2007.

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD  
OF LICKING AND KNOX COUNTIES**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2007**

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NO FINDINGS WERE REPORTED IN THE PRIOR AUDIT.





**Mary Taylor, CPA**  
Auditor of State

**COMMUNITY MENTAL HEALTH AND RECOVERY BOARD OF 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  
AUGUST 26, 2008**