



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

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2012



Dave Yost • Auditor of State

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

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Mental Health and Recovery for Licking and Knox Counties, Licking County, Ohio (the MHR Board), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the MHR Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities and the major fund of the Mental Health and Recovery for Licking and Knox Counties, Licking County, Ohio, as of December 31, 2012, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplemental and Other Information

We audited to opine on the MHR Board's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position, changes in net position, governmental activities and long-term debt. This information provides additional analysis and is not a required part of the basic financial statements.

The Schedule of Federal Award Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

These tables and the Schedule are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Schedule are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2013, on our consideration of the MHR Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the MHR Board's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

August 26, 2013

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The management's discussion and analysis of Mental Health and Recovery for Licking and Knox Counties (the "MHR Board") financial performance provides an overall review of the MHR Board's financial activities for the year ended December 31, 2012, within the limitation of the MHR Board's cash basis of accounting. The intent of this discussion and analysis is to look at the MHR 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 MHR Board's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- Net position of the MHR Board's governmental activities increased \$179,481 from 2011.
- Total cash receipts were \$7,702,083 which reflected a \$10,590,489 reduction from 2011 receipts of \$18,293,572. The reduction in receipts is primarily due to the State transferring responsibility for Mental Health and Alcohol/Drug Addiction Treatment Medicaid Services after June 2012 from the Board to the Ohio Jobs and Family Service Department and the MHR Board only serving in a custodial capacity for the Medicaid funds through June 2012.
- The MHR Board had \$7,523,602 in cash disbursements which reflect a \$10,020,478 reduction from 2011 cash disbursements of \$17,544,088. The reduction in disbursements is primarily due to the State transferring responsibility for Medicaid payments from the MHR Board to the Ohio Jobs and Family Service Department and the MHR Board only serving in a custodial capacity for the Medicaid funds through June 2012.

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 MHR Board's cash basis of accounting.

The Statement of Net Position – Cash Basis and Statement of Activities - Cash Basis provide information about the activities of the MHR Board as a whole, presenting both an aggregate view of the MHR 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 MHR Board's most significant funds.

Since the MHR 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Reporting the MHR Board as a Whole

Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis

A general question typically asked about the MHR Board's finances is "How did we do financially during 2012?" The Statement of Net Position-Cash Basis and the Statement of Activities-Cash Basis answers this question. These statements include only net position 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 MHR Board's net position and changes in that position on a cash basis. This change in net position is important because it tells the reader that, for the MHR Board as a whole, the financial position of the MHR 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 MHR 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 Position-Cash Basis and the Statement of Activities-Cash Basis, the MHR Board has the following type of activity:

Governmental Activities – The MHR 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 MHR 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 MHR Board uses one fund to account for financial transactions. Information for the major fund is presented separately in the governmental fund financial statements. The MHR Board's major governmental fund is the General Fund.

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 MHR Board, this fund is 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 MHR Board is reporting on the cash basis of accounting, there are no differences between net position and fund balances or changes in net position and changes in fund balances. Therefore, no such reconciliation is necessary between such financial statements.

The MHR Board's budgetary process accounts for certain transactions on the cash basis. The budgetary statement for the General Fund is presented to demonstrate the MHR 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The MHR Board as a Whole

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

The table below provides a summary of the MHR Board's net position for 2012 and a comparison of 2011.

**Table 1
Net Cash Position**

	Governmental Activities	
	2012	2011
Assets:		
Cash with Fiscal Agent	\$ 5,499,700	\$ 5,320,219
Total Assets	5,499,700	5,320,219
Net Position:		
Restricted	764,888	672,590
Unrestricted	4,734,812	4,647,629
Total Net Position	\$ 5,499,700	\$ 5,320,219

Net position of the MHR Board's governmental activities increased \$179,481 from 2011. The restricted net position increased by \$92,298 to \$764,888 due to ordinary timing differences between when grant subsidies are received by the MHR Board.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The table below provides a summary of changes in the MHR Board's net position for 2012 in comparison to 2011.

**Table 2
Changes in Net Cash Position**

	<u>2012</u>	<u>2011</u>
<u>Cash Receipts</u>		
<i>Program Cash Receipts</i>		
Operating Grants and Contributions	\$ 1,625,383	\$ 4,860,564
Charges for Sales and Services	13,000	11,000
General Cash Receipts		
Property Taxes	4,815,918	4,896,564
Unrestricted grants and entitlements	1,111,950	8,347,446
Donations	77,633	71,030
Reimbursements	59,199	75,050
Proceeds from Note	-	31,918
Total Cash Receipts	<u>7,703,083</u>	<u>18,293,572</u>
 <u>Cash Disbursements</u>		
<i>Program Cash Disbursements</i>		
Salaries	396,927	379,585
Supplies	7,797	9,389
Equipment/Maintenance	28,221	27,553
Agencies Contract Services	6,285,009	12,020,456
Grants	131,326	208,371
Rentals	49,607	46,529
Utilities/Phone	16,367	16,175
Travel and Board Expense	9,173	7,776
Public Employees Retirement	51,642	52,164
Workers Compensation	7,582	7,718
Hospitalization	62,385	57,422
Medicare	5,539	5,393
Printing/Marketing	33,845	23,934
Medicaid Out of County Services	-	4,007,050
Professional Services	231,560	297,953
Other	178,349	173,635
Reimbursement	28,273	202,977
Total Cash Disbursements	<u>7,523,602</u>	<u>17,544,080</u>
Changes in Net Position	179,481	749,492
Net Position, Beginning of Year	<u>5,320,219</u>	<u>4,570,727</u>
Net Position, End of Year	<u>\$ 5,499,700</u>	<u>\$ 5,320,219</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Agency Contract Services, which consists of \$6,285,009 in payments to contracted provider agencies, accounted for 83% of the total cash disbursements of the MHR Board. This service was offset by \$1,625,383 in operating grants and contributions. General cash receipts totaled \$6,064,700 and amounted to 79% of total cash receipts. General cash receipts primarily consist of property taxes, unrestricted grant entitlements, donations, and reimbursement receipts.

In addition to a \$7,235,496 reduction in Unrestricted grant and entitlements, there was a \$3,235,181 decrease in the operating grants and contributions, which is mainly comprised of Medicaid. There was a corresponding reduction of \$9,742,497 in Contracted Services and Out of County Medicaid. Any new Medicaid after July 2012 has been transferred to the State from the MHR Board which accounts for the reduction in receipts and disbursements.

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 MHR 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 2012 in comparison to 2011.

**Table 3
Analysis of Program Expenditures of Governmental Activities
Program Cash Receipts vs Total Cash Disbursements**

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
Salaries	\$ 396,927	\$ 396,927	\$ 379,585	\$ 379,585
Supplies	7,797	7,797	9,389	9,389
Equipment/Maintenance	28,221	28,221	27,553	27,553
Agencies Contract Services	6,285,009	4,659,626	12,020,456	7,159,892
Grants	131,326	131,326	208,371	208,371
Rentals	49,607	36,607	46,529	35,529
Utilities/Phone	16,367	16,367	16,175	16,175
Travel and Board Expense	9,173	9,173	7,776	7,776
Public Employees Retirement	51,642	51,642	52,164	52,164
Workers Compensation	7,582	7,582	7,718	7,718
Hospitalization	62,385	62,385	57,422	57,422
Medicare	5,539	5,539	5,393	5,393
Printing/Marketing	33,845	33,845	23,934	23,934
Medicaid Out of County Services	-	-	4,007,050	4,007,050
Professional Services	231,560	231,560	297,953	297,953
Other	178,349	178,349	173,635	173,635
Reimbursement	28,273	28,273	202,977	202,977
Total	\$ 7,523,602	\$ 5,885,219	\$ 17,544,080	\$ 12,672,516

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Financial Analysis of the Government's Funds

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

Governmental Funds

The MHR Board's governmental fund is accounted for using the cash basis of accounting. Therefore explanation of change in fund account will be the same as those noted above.

The MHR Board's governmental fund reported a cash balance of \$5,499,700, which is \$179,481 higher than last year's combined total of \$5,320,219. The schedule below indicates the fund cash balance and the total change in fund cash balance as of December 31, 2012 and December 31, 2011.

	Fund Balance 12/31/12	Fund Balance 12/31/11	Increase
General	\$ 5,499,700	\$ 5,320,219	\$ 179,481

Budgeting Highlights - General Fund

The MHR Board's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the MHR 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 MHR 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 \$802,287 lower than the budget and actual cash disbursements were \$342,836 less than the budget due to timing and estimates of Medicaid receipts and disbursements. Actual expenditures were less than original budget amounts in many non-Medicaid accounts due to management's on-going efforts to minimize discretionary spending within the General Fund.

Capital Assets and Debt Administration

Capital Assets

The MHR Board does not record capital assets in the accompanying basic financial statements.

Debt Administration

The MHR Board had the following long-term obligations outstanding at December 31, 2012 and 2011:

	2012	2011
River Valley Notes	\$ 153,975	\$ 160,425
Main Place Notes	445,929	459,905
Total	\$ 599,904	\$ 620,330

See Note 9 to the basic financial statements for more detail on the MHR Board's long-term debt obligations.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Contacting the MHR Board's Financial Management

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

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

**STATEMENT OF NET POSITION - CASH BASIS
DECEMBER 31, 2012**

	<u>Governmental Activities</u>
Assets	
Cash with Fiscal Agent	\$ 5,499,700
Total Assets	<u>\$ 5,499,700</u>
Net Position	
Restricted for Grant Programs	\$ 764,888
Unrestricted	<u>4,734,812</u>
Total Net Position	<u>\$ 5,499,700</u>

See accompanying notes to the basic financial statements

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

**STATEMENT OF ACTIVITIES - CASH BAIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

		Program Cash Receipts			Net (Cash Disbursements) Cash Receipts and <u>Changes in</u> <u>Net Assets</u>
Governmental Activities	Cash	Charges for	Operating	Grants and	<u>Governmental Activities</u>
	<u>Disbursements</u>	<u>Services</u>	<u>Contributions</u>	<u>Contributions</u>	
		<u>and Sales</u>			
Salaries	396,927	\$ -	\$ -		(396,927)
Supplies	7,797				(7,797)
Equipment/Maintenance	28,221				(28,221)
Agencies Contract Services	6,285,009			1,625,383	(4,659,626)
Grants	131,326				(131,326)
Rentals	49,607	13,000			(36,607)
Utilities/Phone	16,367				(16,367)
Travel and Board Expense	9,173				(9,173)
Public Employees Retirement	51,642				(51,642)
Workers Compensation	7,582				(7,582)
Hospitalization	62,385				(62,385)
Medicare	5,539				(5,539)
Printing/Marketing	33,845				(33,845)
Professional Services	231,560				(231,560)
Other	178,349				(178,349)
Reimbursement	28,273				(28,273)
Total Governmental Activities	\$7,523,602	\$13,000	\$1,625,383		(5,885,219)
General Receipts:					
					4,815,918
Property Taxes Levied for General Purposes					1,111,950
Entitlements-Unrestricted					77,633
Donations					59,199
Reimbursements					6,064,700
Total General Receipts					179,481
Change in Net Position					5,320,219
Net Position Beginning of Year					\$ 5,499,700
Net Position End of Year					

See accompanying notes to the basic financial statements

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

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>General</u>
Assets:	
Cash with Fiscal Agent	\$ 5,499,700
Total Assets	<u>\$ 5,499,700</u>
Fund Balances	
Restricted for: Grant Programs	\$ 764,888
Assigned: Levy Reserve	77,243
Unassigned	4,657,569
Total Fund Balance	<u>\$ 5,499,700</u>

See accompanying notes to the basic financial statements

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General
Cash Receipts:	
Property Taxes	\$ 4,815,918
Intergovernmental	2,737,333
Donations	77,633
Rental Receipts	13,000
Reimbursements	59,199
<i>Total Cash Receipts</i>	7,703,083
 Cash Disbursements:	
Salaries	396,927
Supplies	7,797
Equipment/Maintenance	28,221
Agencies Contract Services	6,285,009
Grants	131,326
Rentals	49,607
Utilities/Phone	16,367
Travel and Board Expense	9,173
Public Employees Retirement	51,642
Workers Compensation	7,582
Hospitalization	62,385
Medicare	5,539
Printing/Marketing	33,845
Professional Services	231,560
Other	178,349
Reimbursement	28,273
<i>Total Cash Disbursements</i>	7,523,602
 Net Change in Fund Balance	 179,481
 Fund Balance Beginning of Year	 5,320,219
Fund Balance End of Year	\$ 5,499,700

See accompanying notes to the basic financial statements

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES
IN FUND CASH BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)**

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2012

	Original	Final	Actual	Variance with Final Budget Positive (Negative)
Cash Receipts:				
Property & Other Local Taxes	\$ 4,674,300	\$ 4,674,300	\$ 4,815,918	\$ 141,618
Intergovernmental	3,774,070	3,774,070	2,737,333	(1,036,737)
Donations	10,000	10,000	77,633	67,633
Rental Receipts	12,000	12,000	13,000	1,000
Reimbursements	35,000	35,000	59,199	24,199
<i>Total Cash Receipts</i>	8,505,370	8,505,370	7,703,083	(802,287)
Cash Disbursements:				
Salaries	451,282	451,282	396,927	54,355
Supplies	22,600	22,600	8,597	14,003
Equipment/Maintenance	43,800	43,800	30,050	13,750
Agencies Contract Services	7,207,609	7,207,609	7,070,788	136,821
Grants	152,500	152,500	131,326	21,174
Rentals	51,000	51,000	49,607	1,393
Utilities/Phone	18,000	18,000	18,000	-
Travel and Board Expense	20,100	20,100	15,138	4,962
Public Employees Retirement	63,179	63,179	51,642	11,537
Workers Compensation	8,999	8,999	7,582	1,417
Hospitalization	73,100	73,100	62,385	10,715
Medicare	6,544	6,544	5,539	1,005
Printing/Marketing	47,000	47,000	33,845	13,155
Professional Services	236,100	236,100	236,100	-
Other	218,636	218,636	198,746	19,890
Reimbursement	88,437	88,437	49,778	38,659
<i>Total Cash Disbursements</i>	8,708,886	8,708,886	8,366,050	342,836
Net Change in Fund Balance	(551,071)	(551,071)	(662,967)	(111,896)
Fund Balance Beginning of Year	4,013,747	4,013,747	4,013,747	-
Prior Year Encumbrances Appropriated	1,306,472	1,306,472	1,306,472	-
Fund Balance End of Year of Year	\$ 4,769,148	\$ 4,769,148	\$ 4,657,252	\$ (111,896)

See accompanying notes to the basic financial statements

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

**STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
AGENCY FUND
DECEMBER 31, 2012**

Assets

Cash with Fiscal Agent	\$ 5,986
Total Assets	<u>\$ 5,986</u>

Liabilities

Due to Providers	\$ 5,986
Total Liabilities	<u>\$ 5,986</u>

See accompanying notes to the basic financial statements

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Note 1 – Reporting Entity

Mental Health and Recovery for Licking and Knox Counties, Licking County, Ohio (the MHR Board) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. In 2012, the Board officially changed the name of the MHR Board from the Community Mental Health and Recovery Board of Licking and Knox Counties to Mental Health and Recovery for Licking and Knox Counties. The 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 MHR Board.

B. Component Units

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

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

Note 2 – Summary of Significant Accounting Policies

These financial statements are presented on the cash basis of accounting as prescribed and permitted by the Auditor of State of Ohio. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The following are the more significant of the MHR Board's accounting policies.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (Continued)

A. Basis of Accounting

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

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

B. Basis of Presentation

The MHR Board's basic financial statements consist of government-wide financial statements, including a Statement of Net Position-Cash Basis and a Statement of Activities-Cash Basis, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The MHR Board did not present any nonmajor funds for the year ended 2012. The MHR Board had one major fund for the year ended 2012 which is described below.

C. Fund Accounting

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

Governmental Funds

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

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

Fiduciary Fund

Fiduciary fund reporting uses the accrual basis of accounting. Because of their custodial nature, fiduciary funds do not measure results of operations and do not have a measurement focus. The MHR Board uses an agency fund to account for the assets held in a custodial capacity as fiscal agent for the Medicaid programs of the Ohio Department of Mental Health and the Ohio Department of Alcohol and Drug Addiction.

D. Budgetary Process

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (Continued)

D. Budgetary Process (Continued)

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

E. Cash and Cash Equivalents

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

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

F. Restricted Assets

Cash, cash equivalents, and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The MHR Board did not report any restricted assets at December 31, 2012.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Accumulated Leave

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (Continued)

J. Employer Contributions to Cost-Sharing Pension Plans

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

K. Long-Term Obligations

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

L. Net Assets

Net position 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 MHR Board did not have net position restricted by enabling legislation.

M. Fund Balance Reserves/Minimum Fund Balance

In 2011, the MHR Board adopted a policy that requires the MHR Board to maintain a minimum operating reserve. The MHR Board uses a formula to determine the appropriate reserve amount and at December 31, 2012 the amount determined for operating reserve by the MHR Board was \$1,999,000. Due to the nature of the policy, the operating reserve has been included in the unassigned fund balance.

Fund balance is divided into five classifications based primarily on the extent to which the MHR Board must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

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

Restricted - Fund balance is restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed - The MHR Board can commit amounts via formal action (resolution). The MHR Board must adhere to these commitments unless the MHR Board amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned - Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as restricted or committed. Governmental funds other than the General Fund report all fund balances as assigned unless they are restricted or committed. In the General Fund, assigned amounts represent intended uses established by the MHR Board or a Board official delegated that authority by resolution, or by State Statute.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (Continued)

M. Fund Balance Reserves/Minimum Fund Balance (Continued)

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes amounts not included in the other classifications.

The MHR Board applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. At December 31, 2012 the MHR Board reported no nonspendable or committed fund balance.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. No such items occurred during 2012.

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 \$842,448 for the General Fund.

Note 4 – Deposits and Investments

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other 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;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

Note 4 – Deposits and Investments (Continued)

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.

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the MHR Board will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Licking County Treasurer serves as the fiscal agent for the MHR Board and the investments of Licking County funds, including the MHR Board's cash. The MHR Board maintains no control over the investment of its cash. At December 31, 2012, the carrying amount of the MHR Board's deposits was \$5,505,686.

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

Note 5 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the County. Real property tax receipts received in 2012 represent the collection of 2011 taxes. Real property taxes received in 2012 were levied after October 1, 2011, on the assessed values as of January 1, 2011, 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 6.25 percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

Note 6 – Risk Management

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

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

There have been no significant reductions in insurance coverage during the fiscal year 2012. Settled claims have not exceeded commercial excess coverage in any of the past three years.

Note 7 – Defined Benefit Pension Plan

The MHR Board participates in the Ohio Public Employees Retirement System (OPERS). OPERS provides retirement, disability, survivor and death benefits, as well as post-employment health care coverage to qualifying members. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code (ORC). OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multi-employer defined benefit plan; the Member-Directed Plan – a defined contribution plan in which employer contributions vest over five years at 20 percent per year; and the Combined Plan – a cost-sharing, multi-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan.

The Ohio Revised Code provides statutory authority for member and employer contributions. The 2012 member contribution rates were 10.0 percent for members in state and local classifications. The 2012 employer contribution rate for state and local employers was 14.0 percent of covered payroll.

The rates stated above are the contractually required contribution rates for OPERS. The MHR Board's contributions to OPERS for the years ending December 31, 2012, 2011 and 2010, were \$37,008, \$37,958, and \$41,311 respectively, equal to the required contributions for each year.

Note 8 – Postemployment Benefits

OPERS maintains a cost-sharing, multi-employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

Note 8 – Postemployment Benefits (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.00 percent of covered payroll. The ORC currently limits the employer contributions to a rate not to exceed 14.00 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits.

The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for the calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The portion of the MHR Board's contributions that was used to fund post-employment benefits for the years ending December 31, 2012, 2011 and 2010 were \$14,803, \$10,845, and \$14,999, respectively; equal to the required contributions of each year.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

Note 9 – Debt

The MHR Board's long-term debt at the beginning of the year was restated to report the total mortgage amount of the 2010 Main Place addition in February of 2010 when the Mortgage took effect. The activity of long-term debt for the year was as follows:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Restated Balance at 12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/12</u>	<u>Due within one year</u>
1995 River Valley Note	0%	\$ 108,675	\$ -	\$ (4,725)	\$ 103,950	\$ 4,725
2001 River Valley Note	0%	51,750	-	(1,725)	50,025	1,725
1998 Main Place Note	0%	155,676	-	(5,987)	149,689	5,987
2010 Main Place Addition	0%	304,229	-	(7,989)	296,240	7,989
Total Long Term Debt		\$ 620,330	\$ -	\$ (20,426)	\$ 599,904	\$ 20,426

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 MHR Board.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

Note 9 – Debt (Continued)

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

<u>Year</u>	<u>1995 River Valley Note Principal</u>	<u>2001 River Valley Note Principal</u>	<u>1998 Main Place Note Principal</u>	<u>2010 Main Place Addition Principal</u>
2013	\$ 4,725	\$ 1,725	\$ 5,987	\$ 7,989
2014	4,725	1,725	5,987	7,989
2015	4,725	1,725	5,987	7,989
2016	4,725	1,725	5,987	7,989
2017	4,725	1,725	5,987	7,989
2018-2022	23,625	8,625	29,935	39,945
2023-2027	23,625	8,625	29,935	39,945
2028-2032	23,625	8,625	29,935	39,945
2033-2037	9,450	8,625	29,935	39,945
2038-2042	-	6,900	14	39,945
2043-2047	-	-	-	39,945
2048-2050	-	-	-	16,625
Totals	<u>\$ 103,950</u>	<u>\$ 50,025</u>	<u>\$ 149,689</u>	<u>\$ 296,240</u>

Note 10 – Recovery of Advances

To alleviate cash flow issues at the provider agencies, the MHR Board may make advances to a provider agency for services to be rendered. When advances cannot be covered by services provided in the same year, plans may be implemented and/or outstanding balances are placed on contingency for future services. At December 31, 2012, the MHR Board had outstanding advances to Behavioral Health Care Partners (BHP), formally known as Moundbuilders Guidance Center, Inc. (MGC) which totaled \$814,198.

On April 26, 2011 the MHR Board approved a repayment schedule that sets minimum monthly repayment amounts which commenced July 1, 2011. The MHR Board approved additional offsets to the Advance in September 2011, totaling \$78,185, January 2012 of \$30,000, and May 2012 of \$18,153. The remaining \$814,198 owed to the MHR Board, shall be repaid by June 30, 2026 including a balloon payment of \$88,915 due with the last payment. No interest shall accrue or be required to be repaid under this agreement.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

Note 10 – Recovery of Advances (Continued)

A summary schedule of the repayment of the advance amount is shown below:

<u>Year</u>	<u>Scheduled Repayment</u>
2013	\$35,964
2014	35,964
2015	35,964
2016	41,958
2017	47,952
2018-2022	275,724
2023-2026	251,748
Balloon-2026	88,915
Total	<u>\$814,189</u>

Note 11 – Contingent Liabilities

A. Grants

Amounts grantor agencies pay to the MHR Board are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any such disallowed claims would not have a material adverse effect on the overall financial position of the MHR Board at December 31, 2012.

B. Litigation

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

Note 12 – Related Party Transactions

The MHR Board has allowed the River Valley Facility to be used free of rent since November 1995. River Valley is a resident complex that Behavioral Health Care Partners of Central Ohio, Inc. (BHP), a provider agency of the MHR Board, uses to house program participants. In July 2013, the existing Lease Agreement was amended and restated to require BHP to pay rent of \$500 per month to the MHR Board for real property on East Main Street in Newark and to pay the MHR Board \$20,000 to establish a repair fund for the River Valley Facility to be managed by the MHR Board.

The MHR Board entered into a lease agreement on July 1, 2010 with The Main Place. The lease agreement requires The Main Place to pay rent of \$1,000 per month to the MHR Board for real property on Third Street and East Harrison in Newark, Ohio.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)**

Note 13 - Operating Leases

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

<u>For The Year Ending</u>	<u>Amounts</u>
2013	57,124
2014	32,336

Lease expense for the year ending December 31, 2012 totaled \$56,589.

Note 14 – Changes in Accounting Principle

For 2012, the MHR Board implemented GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,” GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position” and GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities”.

Statement No. 62 incorporated into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. GASB 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position.

Statement No. 65 provides guidance on how to properly classify items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. In addition, guidance is provided on recognizing certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The implementation of these GASB Statements had no impact on beginning of year fund balance/net position.

**MENTAL HEALTH AND RECOVERY FOR LICKING AND KNOX COUNTIES
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**FEDERAL AWARDS EXPENDITURE SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Grant Year(s)	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF JUSTICE			
Second Chance Act Prisoner Reentry Initiative	2012	16.812	\$ 21,234
Total U.S. Department of Justice			<u>21,234</u>
U.S. DEPARTMENT OF HUMAN SERVICES			
<i>Passed Through Ohio Department of Mental Health</i>			
Block Grants			
Community Plan Block Grant	2012	93.958	236,850
Child/Adolescent Block Grant	2012	93.958	<u>23,500</u>
Total Block Grants			260,350
Title XIX	2011	93.778	30,351
Title XX	2011	93.667	182,819
<i>Total Passed Through Ohio Department of Mental Health</i>			<u>\$ 473,520</u>
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services</i>			
Block Grants			
Womens Prevention	2012	93.959	\$ 35,396
Womens Treatment	2012	93.959	108,787
Substance Abuse Prevention Treatment Per Capita Prevention	2012	93.959	122,060
Substance Abuse Prevention Treatment Per Capita Treatment	2012	93.959	329,196
Community Prevention - Wellness	2012	93.959	48,802
Federal Prevention Services	2012	93.959	60,099
Federal Youth Led Prevention	2012	93.959	<u>3,745</u>
Total Block Grants			708,085
Title XIX	2011	93.778	274
State Improvement Grant	2012	93.243	20,000
<i>Total Passed Through Ohio Department of Alcohol and Drug Addiction</i>			<u>\$ 728,359</u>
<i>Passed Through Family and Children First Council of Licking County</i>			
Drug Free Community Funds	2011	93.276	\$ 124,475
Total U.S. Department of Human Services			<u>1,326,354</u>
Total Federal Awards Expenditures			<u>\$ 1,347,588</u>

The accompanying notes are an integral part of this schedule.

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

**NOTES TO THE FEDERAL AWARDS EXPENDITURE SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2012**

Note A - Significant Accounting Policies

The accompanying Federal Awards Expenditure Schedule (the Schedule) reports the Community Mental Health and Recovery Board of Licking and Knox Counties' (the Board's) Federal award programs' disbursements. The schedule has been prepared on the cash basis of accounting.

Note B – Subrecipients

The Board passes certain federal awards 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 Note A describes, the Board reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the Board has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

Note C - Matching Requirements

Certain Federal programs require the Board to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Board has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



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

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

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the financial statements of the governmental activities and the major fund of the Mental Health and Recovery for Licking and Knox Counties, Licking County, Ohio (the MHR Board) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the MHR Board's basic financial statements and have issued our report thereon dated August 26, 2013, wherein we noted the MHR Board uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the MHR Board's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

August 26, 2013



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the Mental Health and Recovery for Licking and Knox Counties, Licking County, Ohio (the MHR Board) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Mental Health and Recovery for Licking and Knox Counties' major federal program for the year ended December 31, 2012. The *Summary of Audit Results* in the accompanying schedule of findings identifies the MHR Board's major federal program.

Management's Responsibility

The MHR Board's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the MHR Board's compliance for the MHR Board's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the MHR Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the MHR Board's major program. However, our audit does not provide a legal determination of the MHR Board's compliance.

Opinion on the Major Federal Program

In our opinion, the Mental Health and Recovery for Licking and Knox Counties complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The MHR Board's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the MHR Board's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on the major federal program's compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the MHR Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on *OMB Circular A-133* requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

August 26, 2013

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Block Grants for Prevention and Treatment of Substance Abuse - #93.959
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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MENTAL HEALTH AND RECOVERY BOARD FOR LICKING AND KNOX COUNTIES

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 19, 2013**