



Dave Yost • Auditor of State

**MENTAL HEALTH RECOVERY SERVICES OF WARREN & CLINTON COUNTIES
WARREN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Mental Health Recovery Services of Warren and Clinton Counties
Warren County
212 Cook Road
Lebanon, Ohio 45036

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Mental Health Recovery Services of Warren and Clinton Counties, Warren County, (the Government) as of and for the year ended December 31, 2015.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 Government'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 Government'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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Government prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

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Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Government does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Government as of December 31, 2015 or changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Mental Health and Recovery Services of Warren and Clinton Counties, Warren County, as of December 31, 2015, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2016, on our consideration of the Government'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 Government's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

August 11, 2016

**MENTAL HEALTH RECOVERY SERVICES OF WARREN AND CLINTON COUNTIES
WARREN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | |
|--|----------------------------|
| Cash Receipts: | |
| Taxes | \$5,217,500 |
| Intergovernmental: | |
| Federal | 736,479 |
| State | 4,764,555 |
| Grants | 18,000 |
| Other Receipts | <u>79,707</u> |
| <i>Total Cash Receipts</i> | <u>10,816,241</u> |
| Cash Disbursements: | |
| Current: | |
| Salaries & Fringe Benefits | 802,606 |
| Supplies & Materials | 5,231 |
| Purchased Services | 211,623 |
| Contract Disbursements - Federal | 639,858 |
| Contract Disbursements - State | 3,355,981 |
| Contract Disbursements - Local | 5,483,742 |
| Capital Equipment | 23,587 |
| Dues, Fees, Travel & Other | <u>126,594</u> |
| <i>Total Cash Disbursements</i> | <u>10,649,222</u> |
| <i>Excess of Receipts Over Disbursements</i> | <u>167,019</u> |
| Other Financing Receipts: | |
| Reimbursements | <u>1,017</u> |
| <i>Total Other Financing Receipts</i> | <u>1,017</u> |
| <i>Net Change in Fund Cash Balances</i> | 168,036 |
| <i>Fund Cash Balances, January 1, 2015</i> | <u>11,834,970</u> |
| Fund Cash Balances, December 31, 2015 | |
| Restricted | 516,625 |
| Assigned | 6,369,736 |
| Unassigned | <u>5,116,645</u> |
| <i>Fund Cash Balances, December 31, 2015</i> | <u><u>\$12,003,006</u></u> |

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

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**MENTAL HEALTH RECOVERY SERVICES OF WARREN & CLINTON COUNTIES
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Mental Health Recovery Services of Warren & Clinton Counties, Warren County, (MHRS) as a body corporate and politic. Effective July 1, 2013, the Ohio Department of Mental Health (ODMH) and the Ohio Department of Alcohol & Drug Addiction Services (ODADAS) merged and became the Ohio Department of Mental Health and Addiction Services (OhioMHAS). This legislation also allowed Boards to elect to move from eighteen members to fourteen members based on a resolution by the Board, approval by the County Commissioners and notification to OhioMHAS by January 1, 2014.

At the September 11, 2013 meeting the Board passed a resolution to move from an eighteen member board to a fourteen member board whereby six members are appointed by OhioMHAS and the remaining eight members are appointed by the Warren County Commissioners and the Clinton County Commissioners. The County Commissioners from both Counties approved of the change in membership and the OhioMHAS was properly notified. MHRS's main sources of revenue are grants and other allocations from the OhioMHAS and a property tax levy in both counties.

MHRS provides alcohol, drug addiction and mental health services and programs to citizens of Warren and Clinton Counties. Private and public agencies are the primary service providers, through MHRS contracts.

MHRS management believes these financial statements present all activities for which MHRS is financially accountable.

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. MHRS recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

As required by the Ohio Revised Code, the Warren County Treasurer is custodian for MHRS deposits. The County's deposit and investment pool holds MHRS assets, valued at the Treasurer's reported carrying amount.

**MENTAL HEALTH RECOVERY SERVICES OF WARREN & CLINTON COUNTIES
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting

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

General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

E. Budgetary Process

The Ohio Revised Code requires MHRS to adopt a budget for each fund annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the function level of control, and appropriations may not exceed estimated resources. MHRS must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2015 budgetary activity appears in Note 2.

F. Fund Balance

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

1. Nonspendable

This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. MHRS had no fund balances in this classification at December 31, 2015.

**MENTAL HEALTH RECOVERY SERVICES OF WARREN & CLINTON COUNTIES
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

2. 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.

3. Committed

These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions by the Board members. Those committed amounts cannot be used for any other purpose unless the Board members remove the specified use by taking the same type of action imposing the commitment. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements. MHRS had no fund balances in this classification at December 31, 2015.

4. 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 MHRS or a Board official delegated that authority by resolution, or by State Statute.

5. Unassigned

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

MHRS policy is to apply 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.

G. Property, Plant, and Equipment

MHRS records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**MENTAL HEALTH RECOVERY SERVICES OF WARREN & CLINTON COUNTIES
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

2. Budgetary Activity

Budgetary activity for the year ending December 31, 2015 follows:

| 2015 Budgeted vs. Actual Receipts | | | | |
|-----------------------------------|-------|----------------------|--------------------|-------------|
| Fund Type | | Budgeted Receipts | Actual Receipts | Variance |
| General | | \$11,017,454 | \$10,817,258 | (\$200,196) |
| | Total | \$11,017,454 | \$10,817,258 | (\$200,196) |

| 2015 Budgeted vs. Actual Budgetary Basis Expenditures | | | | |
|---|-------|----------------------------|---------------------------|-------------|
| Fund Type | | Appropriation Authority | Budgetary Expenditures | Variance |
| General | | \$21,095,813 | \$12,869,903 | \$8,225,910 |
| | Total | \$21,095,813 | \$12,869,903 | \$8,225,910 |

Budgetary Receipts are higher than actual receipts due to a non-cash receipt and expense transaction related to state hospital inpatient bed days. Actual bed days were lower than budgeted causing a variance in both receipts and expenses. Budgeted receipts adjusted for the non-cash transaction would be \$10,493,949 for a variance of \$323,309.

3. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by February 25. If the property owner elects to pay semiannually, the first half is due February 25. The second half payment is due the following July 29.

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

4. Retirement Systems

MHRS' employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2015 OPERS members contributed 10% of their gross salaries and the Board contributed an amount equaling 14% of participants' gross salaries. The Board has paid all contributions required as of December 31, 2015.

**MENTAL HEALTH RECOVERY SERVICES OF WARREN & CLINTON COUNTIES
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

5. Risk Management

Commercial Insurance

MHRS has obtained commercial insurance for the following risks:

- Directors and Officers insurance;
- Comprehensive property and general liability;
- Bond Insurance and
- Errors and omissions.

MHRS also provides health insurance and dental coverage to its employees through a private carrier which is provided through its fiscal agency, Warren County.

6. Contingent Liabilities

Grants

Amounts grantor agencies pay to MHRS are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Medicaid Funding

Effective July 1, 2011 the match requirements under the Medicaid program transitioned to the State of Ohio. As such, MHRS will act only in a vendor capacity. Effective July 1, 2012, the processing of Medicaid services was elevated to the State of Ohio.

7. Lease Revenue

MHRS has entered into a lease as lessor with Solutions Community Counseling and Recovery Centers, Inc. (SRC), a funded agency of MHRS for the following locations:

- 204 Cook Road, Lebanon, Ohio
- 201 Reading Road, Mason, Ohio

Rental Income for the year ended December 31, 2015 totaled \$79,607.

8. Long-Term Obligations

MHRS has entered into two non-interest bearing mortgage agreements with the Ohio Department of Mental Health. In accordance with the mortgage agreements, the loans are forgiven by the State of Ohio over a period of 40 years, under the condition that the facilities are used exclusively for the purpose of providing mental health services.

**MENTAL HEALTH RECOVERY SERVICES OF WARREN & CLINTON COUNTIES
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

8. Long-Term Obligations (Continued)

As of December 31, 2015, these obligations consist of:

| | |
|--|----------|
| Mortgage, ODMH, original loan balance of \$245,450, non-interest bearing note, forgiven by ODMH in monthly installments of \$511, Term expiring January 2020. Location: 204 Cook Road, Lebanon, Ohio | \$24,965 |
| Mortgage, ODMH, original loan balance of \$230,000, non-interest bearing note, forgiven by ODMH in monthly installments of \$483, Term expiring January 2028. Location: 201 Reading Road, Mason, Ohio | \$69,357 |
| Total Outstanding Obligation | \$94,322 |

Principal amounts of long-term obligations are expected to be forgiven for the following periods:

| | |
|--------------|-----------------|
| Year Ending: | |
| 12/31/16 | \$11,928 |
| 12/31/17 | \$11,928 |
| 12/31/18 | \$11,928 |
| 12/31/19 | \$11,928 |
| 2020-2024 | \$29,417 |
| 2025-2028 | <u>\$17,193</u> |
| | <u>\$94,322</u> |

Principal forgiven by ODMH during the year ended December 31, 2015 totaled \$11,928.

9. Fund Balance Classification

Fund balance is classified as non-spendable, restricted, committed assigned and/or unassigned based primarily on the extent to which the Board is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| | |
|---|---------------------|
| Fund Balance | <u>General Fund</u> |
| Restricted by: | |
| Grants | \$57,156 |
| Mental Health, drug and alcohol programs and related administration | <u>\$459,469</u> |
| Total Restricted | \$516,625 |
| Assigned by: | |
| Encumbrances | \$2,220,680 |
| Reserve | <u>\$4,149,056</u> |
| Total Assigned | \$6,369,736 |
| Unassigned | <u>\$5,116,645</u> |
| Total Fund Balance | <u>\$12,003,006</u> |



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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 Recovery Services of Warren and Clinton Counties
Warren County
212 Cook Road
Lebanon, Ohio 45036

To the Board of Directors:

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 Mental Health Recovery Services of Warren and Clinton Counties, Warren County, (the Government) as of and for the year ended December 31, 2015, and the related notes to the financial statements and have issued our report thereon dated August 11, 2016 wherein we noted the Government followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Government's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Government'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 Government'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 Government'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*.

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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 Government's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Government'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 initial "D".

Dave Yost
Auditor of State

Columbus, Ohio

August 11, 2016



Dave Yost • Auditor of State

MENTAL HEALTH RECOVERY SERVICES OF WARREN AND CLINTON COUNTIES

WARREN 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 25, 2016**