

**AUDITED BASIC FINANCIAL STATEMENTS  
OF THE  
COMMUNITY MENTAL HEALTH AND RECOVERY  
BOARD OF LICKING AND KNOX COUNTIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**





**Auditor of State  
Betty Montgomery**

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

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

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

June 23, 2006

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

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## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Community Mental Health and Recovery Board of Licking and Knox Counties, Ohio (the Board) as of and for the year ended December 31, 2005, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above are presented fairly, in all material respects, the respective cash basis financial position of the governmental activities and each major fund, of the Community Mental Health and Recovery Board of Licking and Knox Counties, Ohio as of December 31, 2005, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANTS**  
Ten West Locust Street  
Newark, Ohio 43055  
(740) 345-6611  
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Community Mental Health & Recovery Board  
Licking and Knox Counties  
Independent Auditor's Report

For the year ended December 31, 2005, the Board revised its financial presentation comparable to the requirements of GASB No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In addition, as discussed in Note 4, the Board adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosure*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2006 on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Wilson, Shuman & Snow, Inc.*

May 1, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

The management's discussion and analysis of the Community Mental Health and Recovery Board of Licking and Knox Counties (the "Board") financial performance provides an overall review of the Board's financial activities for the year ended December 31, 2005, within the limitation of the Board's cash basis of accounting. The intent of this discussion and analysis is to look at the Board's financial performance as a whole; readers should also review the cash-basis basic financial statements and the notes to the basic financial statements to enhance their understanding of the Board's financial performance.

***Financial Highlights***

Key financial highlights for 2005 are as follows:

- Net assets of the Board's governmental activities decreased \$1,137,242 from 2004, or 21%.
- General cash receipts accounted for \$8,919,234 or 62% of total governmental activities cash receipts. Program specific cash receipts accounted for \$5,515,109 or 38% of total governmental activities cash receipts. Total governmental activities cash receipts for 2005 were \$14,434,343.
- The Board had \$15,571,585 in cash disbursements related to governmental activities; \$5,515,109 of these cash disbursements was offset by program specific operating grants or contributions. The remaining cash disbursements of the governmental activities of \$10,056,476 were offset by general cash receipts (primarily property taxes and unrestricted grants and entitlements) of \$8,919,234.
- The Board's major governmental funds are the General and Capital Projects funds. The General fund had cash receipts and other financing sources of \$14,584,343 and cash disbursements of \$15,382,945. The net decrease in fund balance for the general fund was \$798,602 or 16%.
- The Capital Projects fund had cash disbursements and other financing uses \$338,640. The net decrease in fund balance was \$338,640 or 81%.

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

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

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

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



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

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

*Statement of Net Assets and the Statement of Activities*

A general question typically asked about the Board's finances is "How did we do financially during 2005?" The Statement of Net Assets-Cash Basis and the Statement of Activities-Cash Basis answers this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's cash receipts and cash disbursements if the cash is actually received or paid.

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

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

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

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

*Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board uses two funds to account for financial transactions and has segregated these funds into major funds. Information for major funds is presented separately in the governmental fund financial statements. The Board's major governmental funds are the General and the Capital Projects 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 Board, these funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Since the Board is reporting on the cash basis of accounting, there are no differences between net assets and fund balances or changes in net assets and changes in fund balances. Therefore, no such reconciliation is necessary between such financial statements. However, differences will be apparent when comparing gross cash receipts and cash disbursements on the Fund Financial Statements to the Statement of Activities – Cash Basis, which is attributed to transfers between governmental funds being eliminated for reporting in the Statement of Activities – Cash Basis.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

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

***The Board as a Whole***

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

The table below provides a summary of the Board's net assets for 2005. Since this is the first year the Board has elected to present its cash basis financial statements in a format similar to the requirements of GASB Statement No. 34, comparative statements to 2004 have not been presented. However, a comparison will be presented for future years:

	<b>Net Assets</b>
	Governmental Activities <u>2005</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 4,294,831
Total assets	<u>\$ 4,294,831</u>
<u>Net Assets</u>	
Restricted	\$ 79,274
Unrestricted	<u>4,215,557</u>
Total net assets	<u>\$ 4,294,831</u>

Net assets of the Board's governmental activities decreased \$1,137,242 from 2004, or 21%.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

The table below provides a summary of changes in the Board's net assets for 2005. Since this is the first year the Board has elected to present its cash basis financial statements in a format similar to the requirements of GASB Statement No. 34, comparative statements to 2004 have not been presented. However, a comparison will be presented for future years:

	<b>Change in Net Assets</b>
	Governmental Activities <u>2005</u>
<b>Cash receipts</b>	
Program cash receipts:	
Operating grants and contributions	\$ <u>5,515,109</u>
Total program cash receipts	<u>5,515,109</u>
General cash receipts:	
Property taxes	3,075,520
Unrestricted grants and entitlements	5,507,085
Reimbursements	<u>336,629</u>
Total general cash receipts	<u>8,919,234</u>
<b>Cash disbursements:</b>	
Salaries	\$ 399,249
Supplies	15,553
Unemployment	24
Equipment/Maintenance	19,677
Agencies Contract Services	13,225,842
Grants	311,150
Rentals	34,151
Utilities/Phone	23,008
Travel and Expense	14,734
Public Employees Retirement	52,746
Workers Compensation	5,419
Hospitalization	40,233
Medicare	5,718
Printing/Marketing	117,979
Medicaid Out of County Services	953,884
Professional Services	332,509
Other	7,271
Debt Service:	<u>12,438</u>
Total cash disbursements	<u>15,571,585</u>
<b>Change in net cash assets</b>	<b><u>\$ (1,137,242)</u></b>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

Agency Contract Services, which consists of payments to provider agencies, accounted for \$13,225,842 of the total cash disbursements of the Board. These services were offset by \$5,515,109 in operating grants and contributions. General cash receipts totaled \$8,919,234 and amounted to 62% of total cash receipts. General cash receipts primarily consist of property taxes, unrestricted grant entitlements, and reimbursement receipts of \$8,919,234.

The Statement of Activities-Cash Basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen below, the Board is highly dependent upon property taxes as well as unrestricted grants and entitlements to support its governmental activities. In future years, when prior year information has been provided, a comparative analysis of governmental data will be presented.

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

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program Cash Disbursements:		
Salaries	\$ 399,249	\$ 399,249
Supplies	15,553	15,553
Unemployment	24	24
Equipment/Maintenance	19,677	19,677
Agencies Contract Services	13,225,842	7,710,733
Grants	311,150	311,150
Rentals	34,151	34,151
Utilities/Phone	23,008	23,008
Travel and Expenses	14,734	14,734
Public Employees Retirement	52,746	52,746
Workers Compensation	5,419	5,419
Hospitalization	40,233	40,233
Medicare	5,718	5,718
Printing/Marketing	117,979	117,979
Medicaid Out of County Services	953,884	953,884
Professional Services	332,509	332,509
Other	7,271	7,271
Debt service:		
Principal retirement	12,438	12,438
	<u>15,571,585</u>	<u>10,056,476</u>
Total	<u>\$ 15,571,585</u>	<u>\$ 10,056,476</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

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

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

***Governmental Funds***

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

The Board's governmental funds reported a combined fund cash balance of \$4,294,831, which is \$1,137,242 lower than last year's combined total of \$5,432,073. The schedule below indicates the fund cash balance and the total change in fund cash balances as of December 31, 2005 and December 31, 2004, for all major governmental funds.

	Fund Balances 12/31/05	Fund Balances 12/31/04	(Decrease)
Major funds:			
General	\$ 4,215,557	\$ 5,014,159	\$ (798,602)
Capital Projects	79,274	417,914	(338,640)
Total	\$ 4,294,831	\$ 5,432,073	\$ (1,137,242)

***Budgeting Highlights - General Fund***

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

Budgetary information is presented for the General fund. In the General fund, the actual cash receipts and other financing sources came in \$2,768,574 lower than they were in the final budget and actual cash disbursements were \$230,579 less than the amount in the final budget. Budgeted cash disbursements increased \$3,790,170 from the original to the final budget due primarily to changes in appropriations for Agency Contract Services.

***Capital Assets and Debt Administration***

***Capital Assets***

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

*Debt Administration*

The Board had the following long-term obligations outstanding at December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Main Place Note	\$ 191,600	\$ 197,588
River Valley Note	<u>199,124</u>	<u>205,574</u>
Total	<u>\$ 390,724</u>	<u>\$ 403,162</u>

See Note 11 to the basic financial statements for more detail on the Board's long-term debt obligations.

**Economic Conditions and Outlook**

The receipts of the Board remain stagnant from the state and federal departments, with potential reductions. Although the Board replaced a ten year levy in State fiscal year '06, those funds were designated prior to passage and the system will continue to struggle to increase allocations and services to its increased population. The Board contracts with nine provider agencies to deliver mental health and substance abuse services to the residents of Licking and Knox Counties. The Board will be challenged to maintain the current level of services and programs due to increased demands and potential reduction of funds. The Board and its administration must maintain careful financial planning and prudent fiscal management in order to continue to secure the safety net for its most vulnerable population. The Board, as well as others in the state, is facing the challenge of increased need for Medicaid match. This will potentially jeopardize the Board's ability to provide services at the needed level for non-Medicaid clients.

**Contacting the Board's Financial Management**

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

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

**STATEMENT OF NET ASSETS - CASH BASIS  
DECEMBER 31, 2005**

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,294,831</u>
<i>Total Assets</i>	<u><u>\$4,294,831</u></u>
<b>Net Assets</b>	
Restricted for:	
Capital Projects	\$79,274
Unrestricted	<u>4,215,557</u>
<i>Total Net Assets</i>	<u><u>\$4,294,831</u></u>

See accompanying notes to the basic financial statements



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

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Cash Disbursements	Program Cash Receipts Operating Grants and Contributions	Net (Cash Disbursements) Cash Receipts and Changes in Net Assets  Governmental Activities
<b>Governmental Activities</b>			
Salaries	\$ 399,249	\$ -	\$ (399,249)
Supplies	15,553	-	(15,553)
Unemployment	24	-	(24)
Equipment/Maintenance	19,677	-	(19,677)
Agencies Contract Services	13,225,842	5,515,109	(7,710,733)
Grants	311,150	-	(311,150)
Rentals	34,151	-	(34,151)
Utilities/Phone	23,008	-	(23,008)
Travel and Expense	14,734	-	(14,734)
Public Employees Retirement	52,746	-	(52,746)
Workers Compensation	5,419	-	(5,419)
Hospitalization	40,233	-	(40,233)
Medicare	5,718	-	(5,718)
Printing/Marketing	117,979	-	(117,979)
Medicaid Out of County Services	953,884	-	(953,884)
Professional Services	332,509	-	(332,509)
Other	7,271	-	(7,271)
Debt Service:			
Principal Retirement	12,438	-	(12,438)
<i>Total Governmental Activities</i>	<u>\$ 15,571,585</u>	<u>\$ 5,515,109</u>	<u>(10,056,476)</u>
 <b>General Receipts:</b>			
Property Taxes Levied for General Purposes			3,075,520
Entitlements - Unrestricted			5,507,085
Reimbursements			336,629
Total General Receipts			<u>8,919,234</u>
Change in Net Assets			(1,137,242)
Net Assets at Beginning of Year			<u>5,432,073</u>
Net Assets at End of Year			<u>\$ 4,294,831</u>

See accompanying notes to the basic financial statements

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

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	General	Capital Projects	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$4,215,557	\$79,274	\$4,294,831
<i>Total Assets</i>	\$4,215,557	\$79,274	\$4,294,831
<b>Fund Balances</b>			
Reserved:			
Reserved for Encumbrances	\$1,013,099	\$79,274	\$1,092,373
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	3,202,458	-	3,202,458
<i>Total Fund Balances</i>	\$4,215,557	\$79,274	\$4,294,831

See accompanying notes to the basic financial statements

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Capital Projects	Total Governmental Funds
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$ 3,075,520	\$ -	\$ 3,075,520
Intergovernmental	11,022,194	-	11,022,194
Reimbursements	336,629	-	336,629
<i>Total Cash Receipts</i>	14,434,343	-	14,434,343
<b>Cash Disbursements:</b>			
Current:			
Salaries	399,249	-	399,249
Supplies	15,553	-	15,553
Unemployment	24	-	24
Equipment/Maintenance	19,677	-	19,677
Agencies Contract Services	13,037,202	188,640	13,225,842
Grants	311,150	-	311,150
Rentals	34,151	-	34,151
Utilities/Phone	23,008	-	23,008
Travel and Expense	14,734	-	14,734
Public Employees Retirement	52,746	-	52,746
Workers Compensation	5,419	-	5,419
Hospitalization	40,233	-	40,233
Medicare	5,718	-	5,718
Printing/Marketing	117,979	-	117,979
Medicaid Out of County Services	953,884	-	953,884
Professional Services	332,509	-	332,509
Other	7,271	-	7,271
Debt Service:			
Principal Retirement	12,438	-	12,438
<i>Total Cash Disbursements</i>	15,382,945	188,640	15,571,585
<i>Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements</i>	(948,602)	(188,640)	(1,137,242)
<b>Other Financing Sources (Uses)</b>			
Advances In	150,000	-	150,000
Advances Out	-	(150,000)	(150,000)
<i>Total Other Financing Sources (Uses)</i>	150,000	(150,000)	-
<i>Net Change in Fund Balances</i>	(798,602)	(338,640)	(1,137,242)
<i>Fund Balances Beginning of Year</i>	5,014,159	417,914	5,432,073
<i>Fund Balances End of Year</i>	\$ 4,215,557	\$ 79,274	\$ 4,294,831

See accompanying notes to the basic financial statements

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

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Budgetary Basis Receipts:</b>				
Property and Other Local Taxes	\$ 3,697,379	\$ 3,697,379	\$ 3,075,520	\$ (621,859)
Intergovernmental	13,250,844	13,250,844	11,022,194	(2,228,650)
Reimbursements	404,694	404,694	336,629	(68,065)
<i>Total Budgetary Basis Receipts</i>	17,352,917	17,352,917	14,434,343	(2,918,574)
<b>Budgetary Basis Disbursements:</b>				
Current:				
Salaries	450,693	450,693	399,249	51,444
Supplies	8,556	9,112	7,628	1,484
Unemployment	10,000	10,000	24	9,976
Equipment/Maintenance	10,000	10,000	7,239	2,761
Agencies Contract Services	10,241,469	13,727,088	13,691,042	36,046
Grants	555,749	699,062	678,762	20,300
Rentals	35,000	35,000	34,677	323
Utilities/Phone	23,000	23,000	22,932	68
Travel and Expense	13,063	19,126	17,586	1,540
Public Employees Retirement	61,069	61,089	52,745	8,344
Workers Compensation	8,112	8,112	5,419	2,693
Hospitalization	84,511	84,511	40,233	44,278
Medicare	6,535	6,535	5,718	817
Printing/Marketing	17,161	159,322	126,728	32,594
Medicaid Out of County Services	957,579	957,579	953,844	3,735
Professional Services	346,682	346,682	332,509	14,173
Other	7,274	7,274	7,271	3
Debt Service:				
Principal Retirement	-	12,438	12,438	-
<i>Total Budgetary Basis Disbursements</i>	12,836,453	16,626,623	16,396,044	230,579
<i>Excess (Deficiency) of Budgetary Basis Receipts Over (Under) Budgetary Basis Disbursements</i>	4,516,464	726,294	(1,961,701)	(2,687,995)
<b>Other Financing Sources (Uses)</b>				
Advances In	-	-	150,000	150,000
<i>Total Other Financing Sources (Uses)</i>	-	-	150,000	150,000
<i>Net Change in Fund Balance</i>	4,516,464	726,294	(1,811,701)	(2,537,995)
<i>Fund Balance at Beginning of Year</i>	4,893,991	4,893,991	4,893,991	-
Prior Year Encumbrances Appropriated	120,168	120,168	120,168	-
<i>Fund Balance at End of Year</i>	\$ 9,530,623	\$ 5,740,453	\$ 3,202,458	\$ (2,537,995)

See accompanying notes to the basic financial statements

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**Note 1 – Reporting Entity**

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

**A. Primary Government**

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

**B. Component Units**

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

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

**A. Basis of Accounting**

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

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

**B. Basis of Presentation**

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

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

Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The Board had two major funds for the year ended 2005 which is described below.

**C. Fund Accounting**

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

Governmental Funds

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

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

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

**D. Budgetary Process**

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

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

**E. Cash and Cash Equivalents**

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

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

**F. Restricted Assets**

Cash, cash equivalents, and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Board did not report any restricted assets at December 31, 2005.

**G. Inventory and Prepaid Items**

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

**H. Capital Assets**

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

**I. Interfund Receivables/Payables**

The Board reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements. There were no outstanding advances at December 31, 2005.

**J. Accumulated Leave**

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

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

The Board recognizes the cash disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Note 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

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

**L. Long-Term Obligations**

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

**M. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

The Board reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. No monies were designated by the Board during 2005. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

**O. Interfund Transactions**

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

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating cash receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements. There were no interfund transactions during 2005.

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. The Board had no extraordinary or special items during 2005.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

**Note 3 – Change in Basis of Accounting**

Last year the Board reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the Auditor of the State of Ohio. This year the Board has revised its financial presentation comparable to the requirements of GASB Statement No. 34. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

**Note 4 – Change in Accounting Principle**

In March of 2003 GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). This statement amends Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks in four principle areas: investment credit risks, including credit quality information issued by rating agencies; interest rate disclosures that included investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; and foreign exchange exposures that would indicate the foreign investment's denomination. The provisions of this statement are effective for financial statements for the year ending December 31, 2005. The implementation of this GASB had no impact on the financial position of the Board at December 31, 2005.

**Note 5 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, cash disbursements, and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances). The encumbrances outstanding at year end (budgetary basis) amounted to \$1,013,099 for the General fund.

**Note 6 – Deposits and Investments**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

**Note 6 – Deposits and Investments** (Continued)

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

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

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

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Board will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Licking County Treasurer serves as the fiscal agent for the Board and the investments of Licking County funds, including the Board's cash. The Board maintains no control over the investment of its cash. At December 31, 2005, the carrying amount of the Board's deposits was \$4,294,831.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

**Note 6 – Deposits and Investments (Continued)**

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

**Note 7 – 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 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, 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 property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

**Note 8 – Interfund Transactions**

During 2005 the following advances were made:

Advance from the Capital Projects Fund to:	
General Fund	\$150,000

Advances during the year were for repayment of advances from the General Fund in prior years.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

**Note 9 – Risk Management**

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

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

There have been no significant reductions in insurance coverages during the fiscal year 2005. Settled claims have not exceeded commercial excess coverages in any of the past three years.

**Note 10 – Defined Benefit Pension Plans**

All of the Board's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit plans.

**A. Ohio Public Employees Retirement System**

The following information was provided by the Ohio PERS to assist the Board in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers.*"

All employees of the Board participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple employer defined pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan, employer contributions are invested in the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to member of the TP Plan and CO Plan. Member of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

**Note 10 – Defined Benefit Pension Plans (Continued)**

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, employee and employer contribution rates were consistent across all three plans (TP, MD, and CO). The employee contribution rate is 8.5%. The 2005 employer contribution rate for local government employer units was 13.55% of covered payroll, 9.55% to fund pension and 4.0% to fund health care. The contribution requirements of plan members and the Board are established and may be amended by the Public Employees Retirement Board. The Board remitted the full amount of required retirement contributions for 2005, 2004, and 2003.

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit under the TP and CO plans and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS.

The significant actuarial assumptions and calculations to postemployment health care benefits were based on the Ohio Public Employees Retirement System's last actuarial review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2004 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants for the TP and CO Plans was 376,109. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2004 is \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$1.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, Ohio PERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

**Note 11 – Debt**

The Board's long-term debt activity for the year ended December 31, 2005, was as follows:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Balance at December 31, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2005</u>	<u>Due Within One Year</u>
1995 River Valley Note	0%	\$141,750	\$ -	(\$4,725)	\$137,025	\$4,725
1998 Main Place Note	0%	197,588	-	(5,988)	191,600	\$5,988
2001 River Valley Note	0%	63,824	-	(1,725)	62,099	1,725
Total Long-Term Debt		<u>\$403,162</u>	<u>\$ -</u>	<u>(\$12,438)</u>	<u>\$390,724</u>	<u>\$12,438</u>

The terms of the mortgages are 40 year loans with fixed amount annual payments that are paid to ODMH through reduction payments reimbursed to the Board.

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

Year	<u>1995 River Valley Note Principal</u>	<u>1998 Main Place Note Principal</u>	<u>2001 River Valley Note Principal</u>
2006	\$4,725	\$5,988	\$1,725
2007	4,725	5,987	1,725
2008	4,725	5,987	1,725
2009	4,725	5,987	1,725
2010	4,725	5,987	1,725
2011 – 2015	23,625	29,938	8,625
2016 – 2020	23,625	29,938	8,625
2021 – 2025	23,625	29,938	8,625
2026 – 2030	23,625	29,938	8,625
2031 – 2035	18,900	29,937	8,625
2036 – 2040	-	11,975	8,625
2041 – 2045	-	-	1,724
Totals	<u>\$137,025</u>	<u>\$191,600</u>	<u>\$62,099</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

**Note 12 – Repayment of Loans**

Prior to 2004, the Board loaned monies to provider agencies to remedy cash flow problems. However, in March 2004, the Board changed this policy to comply with Ohio law, and any subsequent monies to provider agencies will be considered advances or grants. Repayment plans were also implemented in 2004. Methods of repayment included cash payments to the Board from the provider agency, or the provider agency could provide verification that services were rendered by the provider agency that were not previously reimbursed by the Board. On October 27, 2005, the Board approved the Licking County Alcoholism Prevention Program’s (LAPP) request to repay \$35,401 in over billed intervention services by applying \$11,720 held from this agencies fiscal year 2004 allocation and paying the remaining balance of \$23,681 in eight monthly installments of \$2,960. Balances owed to the Board as of December 31, 2005 are as follows:

Agency	Balance at 12/31/2004	New Loans	Payments Received	Balance at 12/31/2005
LAPP	\$ -	\$23,681	(\$5,920)	\$17,761

**Note 13 – Contingent Liabilities**

**A. Grants**

Amounts grantor agencies pay to the Board are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any such disallowed claims could have a material adverse effect on the overall financial position of the Board at December 31, 2005.

**B. Litigation**

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

**Note 14 – Related Party Transactions**

The Board has allowed The Main Place, a provider agency of the Board, to use a building free of rent since September 1986. The Board has allowed the River Valley facility to use a building free of rent since November 1995. River Valley is a resident complex that Moundbuilders Guidance Center, a provider agency of the Board, uses to house program participants.



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Continued)

**Note 15 - Operating Leases**

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

<u>For the Year Ending</u>	<u>Amount</u>
2006	36,438
2007	35,280
2008	29,588
	<u>\$101,306</u>

Lease expense for the year ending December 31, 2005 totaled \$37,596.

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor / Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services:</i>			
Safe and Drug-Free Schools and Communities State Grants	DFSCA-P-05	84.186	\$ 99,934
Total U.S. Department of Education			<u>99,934</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	N/A--Direct Award	93.243	196,555
<i>Passed Through Ohio Department of Mental Health:</i>			
Promoting Safe and Stable Families	CS-26-05 & CS-26-06	93.556	71,023
Social Services Block Grant	MH-26-05	93.667	159,509
State Children's Health Insurance Program	MC-26-05	93.767	255,986
Medical Assistance Program	MC-26-05	93.778	3,400,960
Block Grants for Community Mental Health Services	BG-26-05	93.958	174,059
<i>Total Passed Through Ohio Department of Health</i>			<u>4,061,537</u>
<i>Passed Through Ohio Department of Alcohol and Drug Addiction Services:</i>			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	SIG-P-05	93.243	137,756
State Children's Health Insurance Program	MC-26-05	93.767	60,317
Medical Assistance Program	MC-26-05	93.778	442,321
Block Grant for Prevention and Treatment of Substantive Abuse	P-05 & T-05	93.959	828,552
<i>Total Passed Through Ohio Department of Alcohol and Drug Addiction Services</i>			<u>1,468,946</u>
Total U.S. Department of Health and Human Services			<u>5,727,038</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 5,826,972</u></u>

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

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - SUBRECIPIENTS**

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

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

**NOTE C - MATCHING REQUIREMENTS**

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



**Report on Internal Control over Financial Reporting and on Compliance and Other Matters**  
**Based on an Audit of Financial Statements Performed in Accordance with**  
**Government Auditing Standards**

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

We have audited the financial statements of the governmental activities and each major fund of the Community Mental Health and Recovery Board of Licking and Knox Counties, Ohio (the Board) as of and for the year ended December 31, 2005, and have issued our report thereon dated May 1, 2006. For the year ended December 31, 2005, the Board revised its financial presentation comparable to the requirements of GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. In addition, as disclosed in Note 4, the Board adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Board’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements cause by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

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

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANTS**  
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Board of Trustees  
Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements in Accordance with *Government Auditing Standards*  
Page 2

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

*Wilson, Shuman & Snow, Inc.*

Newark, Ohio  
May 1, 2006



**Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

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

**Compliance**

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

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

In our opinion, the Board complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2005.

*Wilson, Shannon & Snow, Inc.*

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### **Internal Control over Compliance**

The management of the Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

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

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

*Wilson, Shuman & Snow, Inc.*

Newark, Ohio  
May 1, 2006

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under §.510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Medical Assistance Program - CFDA #93.778; State Children's Insurance Program – CFDA #93.767; Substance Abuse and Mental Health Services— Projects of Regional and National Significance – CFDA #93.243
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

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**COMMUNITY MENTAL & RECOVERY BOARD  
OF LICKING & 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  
JULY 06, 2006**