

**HAMILTON COUNTY COMMUNITY
MENTAL HEALTH BOARD**

Financial Statements

June 30, 2002

With

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

88 East Broad Street
P. O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490
www.auditor.state.oh.us

Board of Trustees
Hamilton County Community Mental Health Board
2350 Auburn Avenue
Cincinnati, Ohio 45219

We have reviewed the Independent Auditor's Report of the Hamilton County Community Mental Health Board, Hamilton County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2001 through June 30, 2002. 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 Hamilton County Community Mental Health Board is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 21, 2003

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HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
Hamilton County Community Mental Health Board:

We have audited the accompanying general purpose financial statements of the Hamilton County Community Mental Health Board, of the County of Hamilton, Ohio, as of and for the year ended June 30, 2002 (with comparative memorandum totals for 2001). These general purpose financial statements are the responsibility of the Hamilton County Community Mental Health Board's management. Our responsibility is to express an opinion 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Hamilton County Community Mental Health Board are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the County of Hamilton, Ohio that is attributable to the transactions of the Hamilton County Community Mental Health Board.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Hamilton County Community Mental Health Board as of June 30, 2002 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2002 on our consideration of the Hamilton County Community Mental Health Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
November 14, 2002

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Balance Sheet - All Fund Types and Account Groups

June 30, 2002

(with comparative memorandum totals for 2001)

	<u>Governmental Fund Types</u>			<u>Account Groups</u>			<u>2002 Totals</u> <u>(Memorandum</u> <u>Only)</u>	<u>2001</u> <u>(Memorandum</u> <u>Only)</u>
	<u>General</u>	<u>Special</u> <u>Revenue</u>	<u>Fixed</u> <u>Assets</u>	<u>General</u>				
				<u>Long-Term</u> <u>Debt</u>	<u>Debt</u>			
ASSETS AND OTHER DEBITS:								
Equity in pooled investments with County Treasurer	\$ 19,265,698	-	-	-	-	-	19,265,698	23,926,390
Levy receivable	31,546,618	-	-	-	-	-	31,546,618	27,784,100
Due from other governments	-	8,265,708	-	-	-	-	8,265,708	7,535,240
Prepaid contract services	691,665	-	-	-	-	-	691,665	692,592
Fixed assets	-	-	15,614,635	-	-	-	15,614,635	15,603,231
Interfund receivable	2,356,670	-	-	-	-	-	2,356,670	544,940
Long-term receivables from contract agencies	1,539,049	-	-	-	-	-	1,539,049	1,388,653
Amount to be provided for general long-term obligations	-	-	-	-	5,736,140	-	5,736,140	5,901,793
Total assets and other debits	\$ 55,399,700	8,265,708	15,614,635	5,736,140	5,736,140	-	85,016,183	83,376,939

The accompanying notes are an integral part of the financial statements.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Balance Sheet - All Fund Types and Account Groups, Continued

June 30, 2002

(with comparative memorandum totals for 2001)

	Governmental Fund Types				Account Groups			2001 (Memorandum Only)
	General	Special Revenue	General Fixed Assets	General Long-Term Debt	General Fixed Assets	Long-Term Debt	2002 Totals (Memorandum Only)	
LIABILITIES, EQUITY AND OTHER CREDITS:								
Liabilities:								
Compensated absences payable	\$ 420,318	-	-	170,659	-	-	590,977	532,272
Contracts payable	6,312,833	5,742,230	-	-	-	-	12,055,063	16,074,236
Accrued other	159,212	166,808	-	-	-	-	326,020	229,519
Deferred levy revenue	30,314,186	-	-	-	-	-	30,314,186	27,784,100
Mortgage payable	-	-	-	5,565,481	-	-	5,565,481	5,750,103
Interfund payable	-	2,356,670	-	-	-	-	2,356,670	544,940
Total liabilities	37,206,549	8,265,708	-	5,736,140	-	-	51,208,397	50,915,170
Fund equity and other credits:								
Investment in general fixed assets	-	-	15,614,635	-	-	-	15,614,635	15,603,231
Unreserved - undesignated	15,660,776	-	-	-	-	-	15,660,776	14,740,556
Reserved for encumbrances	301,661	-	-	-	-	-	301,661	36,737
Reserved for prepaid contract services	691,665	-	-	-	-	-	691,665	692,592
Reserved for long-term receivables	1,539,049	-	-	-	-	-	1,539,049	1,388,653
Total fund equity and other credits	18,193,151	-	15,614,635	-	-	-	33,807,786	32,461,769
Total liabilities, fund equity and other credits	\$ 55,399,700	8,265,708	15,614,635	5,736,140	-	-	85,016,183	83,376,939

The accompanying notes are an integral part of the financial statements.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types

Year Ended June 30, 2002

(with comparative memorandum totals for 2001)

	<u>General</u>	<u>Special Revenue</u>	<u>2002 Totals (Memorandum Only)</u>	<u>2001 (Memorandum Only)</u>
Revenues:				
Mental health levy	\$ 28,397,524	-	28,397,524	27,803,003
Intergovernmental:				
State grants	-	24,641,330	24,641,330	22,394,625
Medicaid	-	18,436,368	18,436,368	15,891,990
Title XX	-	727,758	727,758	757,974
Federal grants	-	33,534	33,534	397,957
ODMH direct payments	-	1,187,644	1,187,644	1,975,548
Other revenues:				
Capital and rental income	-	261,696	261,696	294,592
Other match	-	2,333,511	2,333,511	1,367,023
Miscellaneous	-	342,154	342,154	1,024
Total revenues	28,397,524	47,963,995	76,361,519	70,883,736
Expenditures:				
Agency provider contracts	22,199,706	46,776,351	68,976,057	61,521,181
ODMH direct payments	-	1,187,644	1,187,644	1,975,548
Salaries, benefits and taxes	2,549,911	-	2,549,911	2,308,584
Operating expenses	476,682	-	476,682	732,300
Capital outlay	1,836,612	-	1,836,612	2,623,630
Debt service:				
Principal retirement	184,622	-	184,622	184,622
Forgiveness by ODMH	(184,622)	-	(184,622)	(184,622)
Total expenditures	27,062,911	47,963,995	75,026,906	69,161,243
Excess of revenues over expenditures	1,334,613	-	1,334,613	1,722,493
Fund balance, beginning of year	16,858,538	-	16,858,538	15,136,045
Fund balance, end of year	\$ 18,193,151	-	18,193,151	16,858,538

The accompanying notes are an integral part of the financial statements.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - All Governmental Fund Types

Year Ended June 30, 2002

	General Fund			Special Revenue Funds			Total (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Mental health levy	\$ 27,784,100	28,397,524	613,424	-	-	-	27,784,100	28,397,524	613,424
Intergovernmental:									
State grants	-	-	-	22,058,355	24,641,330	2,582,975	22,058,355	24,641,330	2,582,975
Medicaid	-	-	-	21,610,315	18,436,368	(3,173,947)	21,610,315	18,436,368	(3,173,947)
Title XX	-	-	-	751,004	727,758	(23,246)	751,004	727,758	(23,246)
Federal grants	-	-	-	150,000	33,534	(116,466)	150,000	33,534	(116,466)
ODMH direct payments	-	-	-	1,187,644	1,187,644	-	1,187,644	1,187,644	-
Other revenues:									
Capital and rental income	-	-	-	1,442,444	261,696	(1,180,748)	1,442,444	261,696	(1,180,748)
Other match	-	-	-	2,975,100	2,333,511	(641,589)	2,975,100	2,333,511	(641,589)
Miscellaneous	-	-	-	377,800	342,154	(35,646)	377,800	342,154	(35,646)
Total revenues	27,784,100	28,397,524	613,424	50,552,662	47,963,995	(2,588,667)	78,336,762	76,361,519	(1,975,243)
Expenditures:									
Agency provider contracts	25,423,465	22,199,706	3,223,759	49,365,018	46,776,351	2,588,667	74,788,483	68,976,057	5,812,426
ODMH direct payments	-	-	-	1,187,644	1,187,644	-	1,187,644	1,187,644	-
Salaries, benefits and taxes	2,662,278	2,549,911	112,367	-	-	-	2,662,278	2,549,911	112,367
Operating expenses	976,876	476,682	500,194	-	-	-	976,876	476,682	500,194
Capital outlay	2,267,351	1,836,612	430,739	-	-	-	2,267,351	1,836,612	430,739
Debt service:									
Principal retirement	-	184,622	(184,622)	-	-	-	-	184,622	(184,622)
Forgiveness by ODMH	-	(184,622)	184,622	-	-	-	-	(184,622)	184,622
Total expenditures	31,329,970	27,062,911	4,267,059	50,552,662	47,963,995	2,588,667	81,882,632	75,026,906	6,855,726
Excess of revenues over expenditures	(3,545,870)	1,334,613	4,880,483	-	-	-	(3,545,870)	1,334,613	4,880,483
Fund balance at beginning of year	16,858,538	16,858,538	-	-	-	-	16,858,538	16,858,538	-
Fund balance at end of year	\$ 13,312,668	18,193,151	4,880,483	-	-	-	13,312,668	18,193,151	4,880,483

The accompanying notes are an integral part of the financial statements.

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

Notes to Financial Statements

1. Reporting Entity and Basis of Presentation:

Reporting entity

The Hamilton County Community Mental Health Board (the "Board") operates as an administrative arm of the County of Hamilton, Ohio (the "County") government, but has its own policy making Board of Trustees. The Board acts as an umbrella agency that has responsibility for a community-wide mental health system that is accessible to those in need of or desiring mental health services and who do not have the financial means to purchase this care from the private health care market. The Board plans, funds, coordinates, monitors, and evaluates a network of services, which are provided through contract agencies to Hamilton County residents, both children and adults, who need and seek care for mental or emotional illness.

Basis of presentation

The accounts of the Board are organized on the basis of funds or account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The Board has the following fund types and account groups:

Governmental Fund Types: Governmental funds are those from which most governmental functions typically are financed. The acquisitions, use and balances of the Board's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Board's governmental fund types:

General Fund - This 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 relating to the operations of the community-wide mental health systems.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Account Groups: To distinguish between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group accounts for all fixed assets of the Board.

General Long-Term Debt Account Group accounts for all long-term indebtedness of the Board.

2. Summary of Significant Accounting Policies:

Basis of accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

All governmental fund types are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current year. Expenditures are recorded in the accounting period when the liability is incurred.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Board receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes were levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Board must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2002 which are intended to finance fiscal year 2003 operations have been recorded as deferred revenue.

Budgetary basis of accounting

The Board prepares an annual budget for internal use for all governmental types covering the period July 1 through June 30. This budget is prepared on a modified cash basis of accounting, which for the purposes of this report approximates the GAAP basis of accounting, in conjunction with the Board's internal financial statements.

The Board is also required by Ohio law to adopt an annual calendar year budget under the direction of the County Administrator. This budgetary process begins six months prior to the calendar year for which the budget is to be adopted with the Board certifying the proposed tax budget to the County Auditor by July 20. By April 1, the County Commissioners must adopt an annual appropriation resolution. Modifications were made to the original budget during the year. These changes were approved by the Board of County Commissioners throughout the year as allowed by state statute. The budgeted figures included in the financial statements reflect the adjusted totals.

The encumbrance budgetary system of accounting is required by Ohio law. Encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent year expenditures. Unencumbered and unexpended appropriations lapse at year-end.

Cash and cash equivalents

The Hamilton County Treasurer acts as custodian of funds for the Board. Cash of the Board is shown on the balance sheet as equity in pooled investments with the County Treasurer and includes cash, demand deposits, and short-term investments with original maturities of three months or less, stated at cost. State statute authorizes the County Treasurer to invest in obligations of the U.S. Treasury, certificates of deposits and repurchase agreements.

Fixed assets and depreciation

Fixed assets are recorded based on historical cost or estimated historical cost if actual historical cost is not available. The Board has elected not to record depreciation in the General Fixed Asset Account Group. The Board owns no infrastructure.

Interfund transactions

During the course of normal operations, the Board will, as necessary, transfer cash between funds to meet current obligations. Interfund transfers outstanding at June 30, 2002 have been recorded as interfund receivables and payables.

Compensated absences

The Board maintains a liability for unpaid vacation, sick and compensatory time relating to the payment of the obligation when earned by the employee. For governmental funds, the portion of the liability, which is not currently due and payable is recorded in the General Long-Term Debt Account Group.

Fund balance reserves

The Board records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, prepaid contract services and long-term receivables.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Total columns on financial statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with general accepted accounting principles; neither is such data comparable to a consolidation.

3. Pooling of Cash and Investments:

Statutes require the classification of monies held by the County into three categories. Category 1 consists of "active" monies, those monies are required to be kept in a "cash or near cash" status for immediate use by the County. Such monies must be maintained either as cash in the County treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” monies, those monies which are not needed for immediate use but will be needed before the end of the current period of designations. Interim monies may be invested or deposited in the following securities:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal agency;
3. Repurchase agreements in the securities enumerated above;
4. Bonds and other obligations of the state of Ohio; and
5. The State Treasurer’s investment pool (STAROhio).

Public depositories must give collateral for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities the face value of which is at least 110% of the total value of public monies on deposit at the institution.

Repurchase agreements must be collateralized by the specific government securities upon which repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require that collateral for public deposits and investments be maintained in the name of the County.

During 2002, the County monitored its compliance with the provisions of these statutes pertaining to the types of investments held and institutions in which deposits were made. At June 30, 2002 the County also monitored compliance with the provisions of the statutes concerning collateral requirements. The County will continue to monitor compliance with applicable statutes in the future pertaining to public deposits and investments.

4. Property Taxes:

Property taxes include amounts levied against real, public utility and tangible property. The assessed value upon which the 2002 tax collection was based as follows:

Real Property - 2001 Valuation	
Residential/Agricultural	\$ 10,158,601,710
Commercial/Industrial/Public Utilities	4,330,791,740
Public Utilities	718,507,110
 Tangible Personal Property - 2002 Valuation	
General	<u>2,054,197,910</u>
 Total Valuation	 \$ <u>17,262,098,470</u>

Real Property taxes are levied each October on the assessed values of the preceding January 1st, the lien date. Assessed values are established the preceding year by the County Auditor at 35% of appraised market value. A revaluation of real property is required to be completed no less than every six years, with a statistical update every third year. The most recent revaluation was a full physical revaluation in 1999 for taxes collected in 2000. Public Utility property taxes are assessed on tangible personal property, as well as land improvements at true value, which is, in general, net book value. Tangible personal property is assessed at 25% of true value except for inventories, which are assessed at 25% of average value. In 2002, each business was eligible to receive a ten thousand dollar exemption in assessed value, which was reimbursed by the state.

The County Auditor periodically remits to the taxing districts their portions of the taxes collected. The final settlements of real and public utility property taxes are made in April and September and tangible taxes in July and November for the first and second halves of the year, respectively. Collections of the taxes and remittance of them to the taxing districts are accounted for in agency funds of the County. The County Treasurer collects property tax on behalf of all taxing districts within the County, including the Board. The County Auditor periodically remits to the Board its portion of the taxes collected.

5. Fixed Assets:

Changes in fixed assets during the year ended June 30, 2002 were as follows:

	Balance July 1, <u>2001</u>	<u>Purchases</u>	<u>Retirements</u>	Balance June 30, <u>2002</u>
Buildings and building improvements	\$ 15,169,051	-	-	15,169,051
Furniture and fixtures	<u>434,180</u>	<u>294,336</u>	<u>282,932</u>	<u>445,584</u>
Total	\$ <u>15,603,231</u>	<u>294,336</u>	<u>282,932</u>	<u>15,614,635</u>

6. Long-Term Obligations:

Long-term obligations of the Board consist of loan contracts made with the Ohio Department of Mental Health (ODMH), for the purchase of and improvement to various properties in the County for use in providing mental health services. The loan contracts between the Board and ODMH provide that the property must be used to provide mental health services for a specified period of time.

The terms of the contract are essentially equivalent to a mortgage on the property, with the Board being obligated to provide mental health services for a period of 40 years from the inception of the contract.

Should the Board discontinue mental health services at a particular facility, the balance of the contract would become due immediately. The balance due is reduced on a month-by-month basis over the term of the contract as a forgiveness of debt, as long as the facility is used for mental health services. The amount outstanding on these loan contracts at June 30, 2002 amounted to \$5,565,481 and is reported in the General Long-Term Obligations Account Group. No interest is charged on these obligations.

Annual commitments under long-term obligations, assuming no forgiveness by ODMH for long-term obligations as of June 30, 2002, are as follows:

<u>Year Ended June 30</u>	<u>General Long-Term Obligations Account Group</u>
2003	\$ 184,622
2004	184,622
2005	184,622
2006	184,622
2007	184,622
2008 and thereafter	<u>4,642,371</u>
Total	\$ <u>5,565,481</u>

7. Defined Benefit Pension Plan:

All employees of the Board participate in the Public Employees Retirement System of Ohio (PERS). PERS is a cost sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides the authority to establish and amend benefit provisions.

The plan issues a separate, publicly available stand-alone financial report that includes financial statements and required supplementary information. This report may be obtained by writing to PERS, 277 East Town Street, Columbus, Ohio 43215, or by calling (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions, which represent the actuarially determined contribution rates. The employee contribution rate in 2002 was 8.5%. A temporary employer contribution rate rollback was instituted for calendar year 2000. The Board was required to contribute 10.84% of covered payroll for employees in 2000 and 13.55% for 2001 and 2002. The Board's required contributions to PERS for the years ending June 30, 2002, 2001, 2000 were approximately \$267,000, \$203,000, and \$253,000. All of the required contributions were paid within the respective fiscal years.

8. Postemployment Benefits:

The Public Employees Retirement System of Ohio (PERS) provides postemployment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate was 13.55% of covered payroll for employees of which 4.3% was the portion used to fund health care.

The OPEB are advance-funded on an actuarially determined basis. The principal assumptions and calculations were based on the latest actuarial review as of December 31, 2000. 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) becomes part of unfunded actuarial accrued liability.

All investments are carried at fair 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 2000 was 7.75%. An annual increase of 4.75% 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 4.75% base increase, were assumed to range from 0.54% to 5.1%. Health care costs were assumed to increase 4.75% annually.

At December 31, 2000 (latest information available), the actuarial value of the Retirement System's net assets available for OPEB was \$11.7 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14.4 billion and \$2.6 billion, respectively. At December 31, 2000, the number of active contributing participants was 411,076. The Board's contributions for the year ended June 30, 2002 used to fund OPEB were approximately \$85,000.

9. Other Employee Benefits:

Employees earn vacation at differing rates based upon length of service. An employee may accumulate no more vacation leave than the amount earned in one and a half years of service, at the applicable rate. Upon separation from the Board, an employee (or estate) is paid for his or her accumulated unused vacation leave balance.

Sick time not taken by a Board Employee may be accumulated until retirement. Upon retirement from the Board an eligible employee may receive one half of sick leave accrued while employed at the Board up to a maximum of 675 hours. Monetary compensation is at employee's hourly rate of compensation at the time of retirement or separation.

As of June 30, 2002, the Board's liability for compensated absences was \$590,977.

10. Risk Management:

As a component unit of the County, the Board is covered by the County for various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health claims; unemployment compensation claims; and environmental damage. The County purchases commercial insurance to cover losses due to theft of, damage to or destruction of assets and purchases general liability insurance for specific operations and professional liability insurance for certain operations. All other risks of loss are self-insured by the County. There has been no reduction in insurance coverage from the prior year. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in any of the past three years.

The County is self-insured for court judgments resulting from tort and general liability claims of County officials and employees.

In 1990, the County began to account for and finance its risk of loss due to workers' compensation claims and established an internal service fund entitled "Workers' Compensation Reserve". The County reimburses the Bureau of Ohio Workers' Compensation for injured workers' claims. All departments of the County, including the Board, participate in the program and make payments to the internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a long-term liability for future claims.

11. Leases with Contractual Agencies:

As of June 30, 2002, the Board leases approximately 56 scattered-site housing facilities to Excel Development Company, a non-profit organization responsible for renting the units to the mentally disabled of the County. These leases contain terms of 20 years contingent upon Excel fulfilling the agreed upon programmatic and reporting responsibilities as required by the Board. Annual lease payments to the Board are at the reduced rate of \$1 per year, per unit. The aggregate value of these leased housing facilities (including furniture and fixtures) at June 30, 2002 is approximately \$9,746,000.

In addition, the Board owns three housing facilities that are leased to various community social service agencies under operating leases. The agencies are required, by the lease agreement, to provide mental health services to County residents; if such services cease, the lease agreement is terminated.

Minimum rentals receivable under existing leases as of June 30, 2002, were as follows:

<u>Year Ended June 30</u>	<u>Operating Leases</u>
2003	\$ 192,331
2004	192,331
2005	192,331
2005	192,331
2007	<u>192,331</u>
Total	\$ <u>961,655</u>

12. Contingencies:

The Board has received federal and state grants for specific purposes that are subject to review and audit by the respective grantor agencies. These audits could result in a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the Board believes these disallowances, if any, will be immaterial.

As part of the financial reporting entity of the County of Hamilton, Ohio, the Board is included in the financial statements of the County. The annual audit of the County is performed in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Thus, since the Board is included in the scope of the County audit, the Board has elected to not have its separate audit performed in accordance with the audit requirement noted above.

13. Related Parties:

The County provides various administrative functions for the Board such as payroll, research and budgeting. Included in the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types as operating expense for 2002, is approximately \$70,000 of fees paid for these services.

14. State Direct Payments:

During the year ended June 30, 2002, the Ohio Department of Mental Health made direct payments to providers totaling \$1,187,644 for contracts entered into by the Board. These payments have been recorded as intergovernmental revenue with a corresponding contract expense.

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of the
Hamilton County Community Mental Health Board:

We have audited the financial statements of Hamilton County Community Mental Health Board as of and for the year ended June 30, 2002, and have issued our report thereon dated November 14, 2002. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hamilton County Community Mental Health 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 assurance 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 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 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 operations that we consider to be material weaknesses.

This report is intended for the information of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than those specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
November 14, 2002



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

HAMILTON COUNTY COMMUNITY MENTAL HEALTH BOARD

HAMILTON 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
JANUARY 30, 2003**