

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

**CONSOLIDATED FINANCIAL
STATEMENTS, SUPPLEMENTAL SCHEDULES
AND OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS**

Fifteen Months Ended September 30, 2013
and Year Ended June 30, 2012

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES
AND OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS**

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ***Northern Arizona Regional Behavioral Health Authority, Inc.*** (the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2013 and June 30, 2012, and the related consolidated statements of operations and change in net assets and cash flows for the fifteen months ended September 30, 2013 and year ended June 30, 2012, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Northern Arizona Regional Behavioral Health Authority, Inc.** as of September 30, 2013 and June 30, 2012, and the changes in its net assets and its cash flows for the fifteen months ended September 30, 2013 and year ended June 30, 2012, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2014 on our consideration of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control over financial reporting and compliance.

Mayor Hoffman McCann P.C.

Phoenix, Arizona
January 8, 2014

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2013 and June 30, 2012

| | <u>September 30,</u> <u>2013</u> | <u>June 30,</u> <u>2012</u> |
|---|-------------------------------------|--------------------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 26,564,392 | \$ 27,577,161 |
| Marketable securities | 8,357,327 | 8,595,696 |
| Accounts receivable: | | |
| Grants and contracts | 1,891,683 | 534,966 |
| Providers | 5,919 | 500 |
| Other | 21,565 | 9,008 |
| Prepaid expenses and other current assets | 494,235 | 517,538 |
| TOTAL CURRENT ASSETS | <u>37,335,121</u> | <u>37,234,869</u> |
| OTHER ASSETS | 20,000 | 20,000 |
| PROPERTY AND EQUIPMENT, net | <u>9,363,712</u> | <u>7,283,440</u> |
| TOTAL ASSETS | <u>\$ 46,718,833</u> | <u>\$ 44,538,309</u> |

LIABILITIES AND NET ASSETS

| | | |
|---|----------------------|----------------------|
| CURRENT LIABILITIES | | |
| Amounts payable to providers | \$ 5,017,230 | \$ 8,907,216 |
| Accounts payable and accrued expenses | 915,853 | 809,250 |
| Unreported services payable | 401,743 | 766,267 |
| Payable to funding source | 17,809 | - |
| Accrued leave time | 492,547 | 451,568 |
| Unearned revenue | 15,805 | 36,076 |
| Community reinvestment program payable | - | 22,240 |
| Risk pool payable | 453,770 | 503,770 |
| Current maturities of capital lease obligations | <u>-</u> | <u>4,709</u> |
| TOTAL CURRENT LIABILITIES | 7,314,757 | 11,501,096 |
| UNRESTRICTED NET ASSETS | <u>39,404,076</u> | <u>33,037,213</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 46,718,833</u> | <u>\$ 44,538,309</u> |

See Notes to Consolidated Financial Statements

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

| | Fifteen Months Ended September 30, 2013 | Year Ended June 30, 2012 |
|---|--|---|
| | <u>2013</u> | <u>2012</u> |
| REVENUES AND GAINS | | |
| Arizona Department of Health Services | \$ 184,553,189 | \$ 147,884,132 |
| Provider service fees | 556,211 | 448,160 |
| Interest income | 109,975 | 70,405 |
| Other services | 35,843 | 57,173 |
| Other grants and contract revenue | 163,630 | 11,119 |
| Rental revenue | 29,244 | - |
| Gain on sale of property and equipment | 25,630 | 13,050 |
| Donations | 5,000 | - |
| Miscellaneous | 16,594 | 15,947 |
| TOTAL REVENUES AND GAINS | <u>185,495,316</u> | <u>148,499,986</u> |
| EXPENSES | | |
| Program service fees distributed to providers | 163,952,621 | 132,370,950 |
| Salaries | 8,312,766 | 5,971,857 |
| Employee related expenses | 2,218,814 | 1,725,101 |
| Operating | 1,890,250 | 1,203,227 |
| Professional and outside services | 1,065,140 | 491,076 |
| Depreciation and amortization | 897,220 | 652,986 |
| Occupancy | 317,824 | 229,108 |
| Travel | 163,027 | 130,743 |
| Community reinvestment program | 310,705 | - |
| Interest | 86 | 350 |
| TOTAL EXPENSES | <u>179,128,453</u> | <u>142,775,398</u> |
| CHANGE IN NET UNRESTRICTED ASSETS | 6,366,863 | 5,724,588 |
| UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD | <u>33,037,213</u> | <u>27,312,625</u> |
| UNRESTRICTED NET ASSETS, END OF PERIOD | <u>\$ 39,404,076</u> | <u>\$ 33,037,213</u> |

See Notes to Consolidated Financial Statements

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

| | Fifteen Months Ended September 30, 2013 | Year Ended June 30, 2012 |
|---|--|---|
| | <u> </u> | <u> </u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 6,366,863 | \$ 5,724,588 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 897,220 | 652,986 |
| Gain on sale of property and equipment | (25,630) | (13,050) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Grants and contracts receivable | (1,356,717) | 10,792,481 |
| Providers receivable | (5,419) | 641 |
| Other receivables | (12,557) | 301 |
| Prepaid expenses and other current assets | 23,303 | (174,831) |
| Increase (decrease) in: | | |
| Amounts payable to providers | (3,889,986) | 2,766,568 |
| Accounts payable and accrued expenses | 106,603 | 149,129 |
| Unreported services payable | (364,524) | 69,525 |
| Payable to funding source | 17,809 | - |
| Accrued leave time | 40,979 | 7,017 |
| Unearned revenue | (20,271) | (190,677) |
| Risk pool payable | (50,000) | (312,710) |
| Community reinvestment program payable | (22,240) | (550,465) |
| Net cash provided by operating activities | <u>1,705,433</u> | <u>18,921,503</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of marketable securities | (14,114,959) | (12,144,641) |
| Purchases of property and equipment | (2,977,492) | (2,308,044) |
| Proceeds from maturities of marketable securities | 14,353,328 | 11,958,854 |
| Proceeds from sale of property and equipment | 25,630 | 13,050 |
| Change in other assets | - | (20,000) |
| Net cash used in investing activities | <u>(2,713,493)</u> | <u>(2,500,781)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on capital lease obligations | (4,709) | (6,044) |
| Net cash used in financing activities | <u>(4,709)</u> | <u>(6,044)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (1,012,769) | 16,414,678 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | <u>27,577,161</u> | <u>11,162,483</u> |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | <u>\$ 26,564,392</u> | <u>\$ 27,577,161</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | <u>\$ 86</u> | <u>\$ 350</u> |

See Notes to Consolidated Financial Statements

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

(1) Organization operations and summary of significant accounting policies

Nature of operations - Northern Arizona Regional Behavioral Health Authority, Inc. (NARBHA), located in Flagstaff, Arizona, is an Arizona nonprofit corporation. Through a contract with the Arizona Department of Health Services (ADHS), which expires June 30, 2014 with the potential for an additional extension to September 30, 2015, NARBHA has been designated as the Regional Behavioral Health Authority (RBHA) for the geographic service area of Apache, Coconino, Mojave, Navajo and Yavapai counties. NARBHA is responsible for managing and maintaining an organized, comprehensive behavioral healthcare delivery system for the benefit of eligible members within its geographic service area. NARBHA functions as a behavioral health management organization and does not provide direct healthcare services to eligible members. Direct behavioral healthcare services are provided to eligible members by a network of subcontracted service providers. NARBHA also has other grants and contracts which include two new contracts in 2012 with the Arizona Department of Housing (ADOH) to provide special needs housing in Coconino, Navajo, and Apache counties, which expires September 30, 2014. The contract with ADOH represented approximately \$164,000 and \$11,000 in revenue for the fifteen months ended September 30, 2013 and the year ended June 30, 2012, respectively.

During fiscal year 2012, NARBHA established two for-profit entities, Welltera and Northbound Solutions. The entities were established for the purpose of work in the healthcare industry. NARBHA funded \$10,000 to each entity for initial start-up costs, which is recorded in other assets on the accompanying consolidated statements of financial position. Total aggregate activity of Welltera and Northbound Solutions during fiscal years 2013 and 2012 is immaterial and consisted of organizational expenses. Due to the immateriality of operations of these entities, they have not been consolidated. Furthermore, there is no tax effect.

In June 2013, NARBHA created Well North Communities LLC (WNC) to hold and account for apartment complexes including the collection of rental income from those facilities. NARBHA is the sole member of WNC.

Due to ADHS changing NARBHA's contract year to end September 30 it was approved by NARBHA's Board of Directors to change the fiscal year to also end September 30. Fiscal year 2012-2013 (which ended September 30, 2013) includes an additional quarter to make it a fifteen month year.

The significant accounting policies followed by NARBHA are as follows:

Principles of consolidation - The accompanying consolidated financial statements include the accounts of NARBHA and WNC (collectively, NARBHA or the Organization). All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of presentation - The accompanying consolidated financial statements have been prepared in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 954-205, *Health Care Entities – Presentation of Financial Statements*. NARBHA's consolidated financial statements are also presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under FASB ASC 958-205, NARBHA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Management's use of estimates - The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

(1) Organization operations and summary of significant accounting policies (continued)

Cash and cash equivalents - Cash includes cash deposits in banks and cash equivalents. NARBHA considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

Included within cash and cash equivalents is cash relating to the letter of credit discussed in Note 9. NARBHA is required to maintain a minimum deposit balance of \$5,000,000 with the lending institution.

Marketable securities - NARBHA accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities*. Under FASB ASC 958-320, NARBHA is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair value of equity and debt securities is based on quoted market prices. As of September 30, 2013 and June 30, 2012, marketable securities consist of negotiable bank certificates of deposit and U.S. treasury bills which are recorded at fair value.

Grants and contracts receivable - At September 30, 2013 and June 30, 2012, NARBHA had amounts outstanding from ADHS and ADOH for the provision of comprehensive behavioral healthcare services for the benefit of eligible members within its geographic service area. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants and contracts receivable. Management considers grants and contracts receivable to be fully collectible as of September 30, 2013 and June 30, 2012 and, accordingly, an allowance for doubtful accounts is not considered necessary. At September 30, 2013 and June 30, 2012, grants and contracts receivable consisted entirely of amounts due from the state of Arizona through ADHS of \$1,877,462 and \$525,610 and ADOH of \$14,221 and \$9,356, respectively. Management believes any loss due to a concentration of credit risk will be minimal.

Property and equipment - Purchased property and equipment is recorded at cost. Donated property and equipment is recorded at fair value at the date of contribution to NARBHA. Betterments or renewals in excess of \$2,000 are capitalized. Depreciation is computed using the straight-line method over the following general range of estimated useful lives:

| | <u>Estimated Useful Lives</u> |
|----------------------------|-------------------------------|
| Buildings and improvements | 10 - 30 years |
| Furniture and equipment | 3 - 5 years |
| Vehicles | 3 - 5 years |

Impairment of long-lived assets - NARBHA accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of cost or fair value less costs to sell. No impairment charges were recorded for 2013 and 2012.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

(1) Organization operations and summary of significant accounting policies (continued)

Revenue recognition - NARBHA's contract with ADHS requires NARBHA to manage behavioral healthcare services to all eligible Medicaid (Title XIX) and KidsCare (Title XXI) enrollees within its geographic service area. Under this agreement, NARBHA receives monthly capitation payments from ADHS based on a capitated rate and the number of Medicaid and KidsCare eligible enrollees, regardless of services actually provided by NARBHA and its subcontracted network of providers. NARBHA is responsible for healthcare costs which exceed its capitation, although the contract with ADHS indicates the possibility that NARBHA will receive additional funds from ADHS in situations where it overspends service expenses by at least 3%. Capitation payments are recognized monthly in accordance with NARBHA's contract with ADHS.

NARBHA's contract with ADHS provides for payment to NARBHA at a monthly rate equal to approximately one-twelfth of specified annual contract maximums under ADHS' non-Title XIX/Title XXI programs. NARBHA determines the amount of unexpended State and Federal Block Grant funds at year end, which must be deferred. At September 30, 2013 and June 30, 2012, \$10,811 and \$36,076, respectively, of Federal Block Grant funds were deferred. The amount of Non-TXIX funds unexpended at September 30, 2013 was \$4,994.

The non-Title XIX/Title XXI programs provide behavioral healthcare services to individuals not eligible for behavioral healthcare coverage under Medicaid or Medicare or for those services not covered by Medicaid for eligible Title XIX/Title XXI enrolled individuals. The non-Title XIX/Title XXI programs are funded through a combination of federal mental health block grant funds and State of Arizona appropriated funds administered by ADHS.

In fiscal year 2013, the Arizona State Office of the Governor in partnership with ADHS/DBHS awarded NARBHA a five year federal grant called Arizona Screening, Brief Intervention and Referral to Treatment (SBIRT). The purpose of this grant is to screen individuals for substance abuse, perform brief interventions and refer to treatment those who qualify. Revenue is recognized when the eligible costs are incurred. The request for payment is submitted monthly to DBHS.

For the NARBHA contracts with ADOH, revenue is recognized when the eligible costs are incurred. The request for payment that is submitted is based on the monies expended for rental assistance to qualified participants. These grants are funded with U.S. Department of Housing and Urban Development funds and are included with other grants and contract revenue on the consolidated statements of activities and change in net assets.

ADHS contract revenue is also limited by the terms of the Contract to a maximum profit percentage, as defined, as of September 30, 2013 and June 30, 2012. For the fifteen months ended September 30, 2013 and the year ended June 30, 2012, there was no contract revenue that could not be recognized due to these profit limits (3%).

Provider service fees - NARBHA provides technical assistance and support to a number of its subcontracted providers. This provider support typically includes such things as recruiting, benefits administration, contracting to obtain an audit from an external independent auditor, and telemedicine. The subcontracted providers are charged monthly for these services. NARBHA recognizes revenue in accordance with its contract with each subcontracted provider.

Rental revenue recognition - Rental income consists of rental receipts from tenants related to NARBHA's housing for the seriously mentally ill. Revenue is recognized monthly in accordance with the lease agreement or contract. Most lease agreements are short-term or month to month leases.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

(1) Organization operations and summary of significant accounting policies (continued)

Healthcare service cost recognition - NARBHA contracts with various providers for the provision of a full range of behavioral healthcare services to eligible adults and children for Title XIX, Title XXI and non-Title XIX/Title XXI programs. These subcontracted providers are compensated on a budgeted/block purchase basis for eligible clients in these categories. Under this agreement, providers share the risk with NARBHA for providing behavioral healthcare services to eligible enrollees as specified in the agreements, including costs in some cases which exceed their budgeted amount.

The cost of all other behavioral healthcare services is on a fee-for-service or budgeted/block purchase basis subject to contract ceilings for certain programs. These costs are accrued in the period in which the service is provided to eligible recipients based in part on estimates, including an accrual for behavioral healthcare services incurred but not yet reported to or paid by NARBHA. Under these agreements, providers share the risk with NARBHA for providing behavioral healthcare services to eligible enrollees as specified in the agreements, including costs in some cases which exceed their budgeted amount.

The estimate for unreported services payable is developed using historical experience, a review of unencountered authorized service requests, as well as information about current placements at residential providers. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and adjustments are reflected in each period when necessary.

Expense allocation - Expenses are incurred which benefit more than one program. Such common expenses are allocated based upon an ADHS approved cost allocation plan as submitted by NARBHA, which is primarily based upon enrollment, claims and costs by lines of business.

Income tax status - NARBHA qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, therefore, there is no provision for income taxes in the accompanying consolidated financial statements. In addition, NARBHA qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable. Management does not believe NARBHA has any UBTI for the tax years ended June 30, 2013 and 2012 or for the 3 months ended September 30, 2013. NARBHA evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts.

NARBHA's federal Return of Organizations Exempt From Income Tax (Form 990) for fiscal 2010, 2011 and 2012 are subject to examination by the IRS generally for three years after they were filed. As of the date of this report, the fiscal 2013 tax returns had not yet been filed.

Well North Communities, LLC has filed for tax exempt status and the application is pending approval with the Internal Revenue Service. WNC will file Form 990 for fiscal 2013 in conjunction with NARBHA.

Subsequent events - NARBHA has evaluated subsequent events through January 8, 2014, which is the date the consolidated financial statements were available to be issued.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

(2) Marketable securities

| | | |
|---|---------------------|---------------------|
| Marketable securities consist of: | <u>2013</u> | <u>2012</u> |
| Negotiable bank certificates of deposit | \$ 7,882,556 | \$ 7,999,000 |
| US Treasury Bills | 474,771 | 596,696 |
| Total investments | <u>\$ 8,357,327</u> | <u>\$ 8,595,696</u> |

(3) Fair value measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

U.S. Treasury Bills and negotiable bank certificates of deposit are valued using proprietary valuation models incorporating live data from active market makers and inter-dealer brokers as reported on electronic communication networks. The valuation models incorporate benchmark yields, reported trades, broker/dealer quotes, bids, offers, and other data. These valuation inputs are considered level 2.

The following table summarizes the valuation of NARBHA's assets subject to measurement at fair value by the above FASB ASC 820 categories as of September 30, 2013:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|---------------------|----------------|---------------------|
| Marketable securities | | | | |
| Negotiable bank certificates of deposit | \$ - | \$ 7,882,556 | \$ - | \$ 7,882,556 |
| U.S. Treasury Bills | - | 474,771 | - | 474,771 |
| Total | <u>\$ -</u> | <u>\$ 8,357,327</u> | <u>\$ -</u> | <u>\$ 8,357,327</u> |

The following table summarizes the valuation of NARBHA's assets subject to measurement at fair value by the above FASB ASC 820 categories as of June 30, 2012:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|---------------------|----------------|---------------------|
| Marketable securities | | | | |
| Negotiable bank certificates of deposit | \$ - | \$ 7,999,000 | \$ - | \$ 7,999,000 |
| U.S. Treasury Bills | - | 596,696 | - | 596,696 |
| Total | <u>\$ -</u> | <u>\$ 8,595,696</u> | <u>\$ -</u> | <u>\$ 8,595,696</u> |

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

(4) Property and equipment

Property and equipment consists of:

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| Cost and donated value: | | |
| Land and improvements | \$ 2,102,602 | \$ 1,390,709 |
| Buildings and improvements | 6,163,564 | 4,521,660 |
| Furniture and equipment | 5,472,762 | 3,118,051 |
| Vehicles | 270,021 | 264,468 |
| Construction in progress | 251,739 | 7,893 |
| Software development in progress | - | 2,074,114 |
| Total cost and donated value | <u>14,260,688</u> | <u>11,376,895</u> |
| Accumulated depreciation and amortization | <u>(4,896,976)</u> | <u>(4,093,455)</u> |
| Net property and equipment | <u>\$ 9,363,712</u> | <u>\$ 7,283,440</u> |

Depreciation and amortization expense charged to operations was \$897,220 for 2013 and \$652,986 for 2012.

NARBHA had entered into various capital leases for certain office equipment. The leases expired in March 2013 and the equipment was returned to the lessor. Cost and accumulated amortization of such assets totaled \$29,824 and \$ 26,872, respectively, as of June 30, 2012.

As of September 30, 2013, construction in progress consists of building improvements. These projects were finished and placed into service in October 2013 with a final payment of \$11,557.

The software development which was in progress as of June 30, 2012 was placed in service in July 2012. As of September 30, 2013, the software is included with furniture and equipment.

(5) Capital lease obligations

The obligations under capital lease reflected the present value of future rental payments, discounted at the interest rates implicit in the leases (4.2% - 4.5%). The leases expired in March 2013 and the equipment was returned to the lessor.

(6) Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis as follows. Accordingly, certain costs have been allocated between program and supporting services benefited. Management and general includes expenses that are not directly identifiable with any specific program but provide for the overall support and direction of NARBHA.

| | <u>2013</u> | <u>2012</u> |
|---------------------------------|-----------------------|-----------------------|
| Program expenses | \$ 165,064,079 | \$ 132,712,901 |
| Management and general expenses | <u>14,064,374</u> | <u>10,062,497</u> |
| Total functional expenses | <u>\$ 179,128,453</u> | <u>\$ 142,775,398</u> |

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

(7) Pension plan

NARBHA has a defined contribution pension and retirement plan. Pension costs are current service costs which are accrued and funded on a current basis. NARBHA starts contributing at a rate of 5% of the annual salary of eligible employees after two years of service. Thereafter, the contribution rate increases up to a maximum contribution of 15% after 16 years of service. In addition, employees may contribute up to 20% of their salaries to the plan, subject to IRS maximum contribution limits. Pension expense was \$563,085 and \$463,455 for the fifteen months ended September 30, 2013 and year ended June 30, 2012, respectively.

(8) Insurance

Through March 2004, NARBHA maintained professional, general, property and other liability coverage on a claims-made basis through commercial insurance carriers. Effective April 2004, NARBHA, along with seven of its subcontracted providers, entered into a contractual agreement to form the Behavioral Health Insurance Pool (BHIP). BHIP is an organization formed under Arizona Revised Statutes (ARS) 41.621 et seq., which allow contractors and subcontractors with the state of Arizona to form insurance pools. BHIP functions as a self-insurance administrator which, through its risk-sharing provisions, provides NARBHA, and seven of its subcontracted providers, with insurance coverage for professional, general, property and other liability exposure. Depending on the type of exposure, the limits of coverage vary.

BHIP provides NARBHA with claims made insurance coverage using a combination of self-insured retentions and excess commercial insurance coverage. BHIP has engaged the services of a professional actuarial consultant for the determination of premiums to be assessed to participants under the plan of coverage. As a self-insurance administrator, BHIP enables risk sharing among participating contractors. NARBHA is required to pay assessed premiums and is subject to a per claim self-insured retention, which is funded through the risk-sharing provisions of BHIP. In April 2013 and 2012, BHIP paid the annual premium for NARBHA of \$134,816 and \$145,073, respectively. NARBHA then entered into a contract to repay BHIP on a quarterly basis. As of September 30, 2013 and June 30, 2012, NARBHA owed BHIP \$67,408 and \$108,805, respectively, under this agreement which is included in accounts payable and accrued expenses. As of September 30, 2013 and June 30, 2012, NARBHA had prepaid insurance for the same amount which is included in prepaid expenses and other current assets. Insurance expense under the BHIP program amounted to approximately \$140,000 and \$110,000 for the fifteen months ended September 30, 2013 and year ended June 30, 2012, respectively.

BHIP may retroactively assess participants an amount not to exceed the last annual premium per coverage year based on adverse participant-specific claims experience as defined in the policy. Based on NARBHA's historical claims experience and exposure to date with BHIP, no reserves have been established at September 30, 2013 or June 30, 2012 for retroactive premium assessments.

Losses on medical malpractice claims are estimated based on claims in excess of per-claim coverage or aggregate coverage during the claim year. These estimates reflect NARBHA's best estimate of the ultimate costs of reported and unreported claims, using NARBHA's past experience, industry experience and identified asserted claims and reported incidents. There were no estimated or incurred losses on medical malpractice claims for the fifteen months ended September 30, 2013 or year ended June 30, 2012.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

(8) Insurance (continued)

Through October 2006, NARBHA maintained health, disability, life and dental insurance coverage on a claims-made basis through commercial insurance carriers. Effective November 2006, NARBHA, along with three of its subcontracted providers, entered into a contractual agreement to form the Arizona Health Insurance Pool (AHIP). AHIP is a tax-exempt health and welfare benefit plan formed under Arizona Revised Statutes (ARS) 41.621 et seq., which allows contractors and subcontractors with the state of Arizona to form insurance pools. AHIP functions as a self-insurance administrator which, through its risk-sharing provisions, provides NARBHA, and three of its subcontracted providers, with health, disability, life, and dental insurance coverage. AHIP has engaged the services of a professional actuarial consultant for the determination of premiums to be assessed to participants under the plan of coverage. NARBHA is required to pay assessed monthly premiums. As a self-insurance administrator, AHIP enables risk sharing among participating contractors. AHIP has purchased a policy to reinsure that portion of risk in excess of \$150,000 of covered expenses of any enrollee per contract year with a \$4,270,775 maximum plan exposure per calendar year. Insurance expense under the AHIP program amounted to approximately \$1,078,000 and \$838,000 for the fifteen months ended September 30, 2013 and year ended June 30, 2012, respectively.

(9) Contract performance bond

In accordance with the terms of its contract with ADHS, NARBHA is required to post a performance bond with ADHS equal to 110% of the first monthly ADHS payment to NARBHA each fiscal year, based on gross payments as specified in the contract. The amount of the bond is subject to adjustment as certain conditions change and its method of calculation is specified in the contract. This calculation is performed by ADHS. The performance bond must be maintained to guarantee payment of NARBHA's obligations under the contract. The performance bond requirement was \$ 12,776,907 for 2013 and 2012. In September, 2013 NARBHA was notified by DBHS that the performance bond requirement would be increased to \$15,520,813 effective October 11, 2013. The cost of obtaining the performance bond was \$76,525 and \$61,220 for the fifteen months ended September 30, 2013 and year ended June 30, 2012, respectively. NARBHA amortizes the cost over the renewal period of the bond.

NARBHA maintained an irrevocable standby letter of credit with a bank in the amount of \$8,320,999 maturing on June 30, 2014. In addition, NARBHA purchased a surety bond in the amount of \$4,455,908 in 2012 which expired on September 30, 2013. This letter of credit along with a surety bond is required by ADHS to comply with the terms of the performance bond requirement for 2013 and 2012.

Effective October 1, 2013, NARBHA renewed the surety bond in the amount of \$7,199,813 to extend its maturity to September 30, 2014.

Effective October 4, 2013, NARBHA renewed the irrevocable standby letter of credit extending its maturity to September 30, 2015. In connection with the renewal of the irrevocable standby letter of credit, NARBHA is required to meet certain financial and non-financial covenants and maintain a minimum deposit balance of \$8,321,000 with the bank as a compensating balance for future credit availability. Prior to the renewal, the bond was secured by a minimum deposit balance of \$5,000,000 and a Deed of Trust on the Yale building.

(10) Payable to funding source

Per NARBHA's contract, DBHS may sanction the RBHA when the encounter value falls below the minimum percentage of encounters. This sanction must be reported as an administrative expense in the appropriate program. In October 2013, NARBHA received a sanction notice for State Fiscal Year 2011 and State Fiscal Year 2012 in the amounts of \$5,946 and \$11,863, respectively. The total sanction of \$17,809 was withheld from the monthly payment in November 2013 and is recorded as a payable to funding source as of September 30, 2013.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

(11) Commitments and contingencies

Contract compliance - In accordance with its contract with ADHS, NARBHA is required to maintain certain minimum financial reporting and viability measures.

Pursuant to its contract with ADHS, NARBHA must maintain unrestricted, minimum net assets of 90% of monthly Title XIX/XXI and Non-Title XIX/XXI capitation receipts (\$10,676,877 as of September 30, 2013).

NARBHA's contract with ADHS contains various quarterly financial performance requirements, the most restrictive of which requires NARBHA to maintain minimum liquidity and equity ratios and limits the amounts of administrative expenses that may be funded with ADHS contract funds. Management believes NARBHA was in compliance with these requirements as of September 30, 2013 and June 30, 2012.

Should NARBHA be in default of any material obligations under its contract with ADHS, ADHS may, at its discretion, in addition to other remedies, either adjust the amount of future payment or withhold future payment until satisfactory resolution of the default or exception. In addition, although it has not expressed an intention to do so, ADHS has the right to terminate the contract in whole or in part without cause by giving NARBHA 90 days written notice. Further, if monies are not appropriated by the state or are not otherwise available, the contract with ADHS may be cancelled upon written notice until such monies are so appropriated or available. If the contract were cancelled or funding withheld, this would have a significant impact on the Organization.

In addition, NARBHA is subject to a profit risk corridor calculation that calculates a return of premium to the extent certain financial ratios are not met by program types. NARBHA did not record a return of premiums as a result of the profit risk corridor calculation for the fifteen months ended September 30, 2013 and year ended June 30, 2012.

Supported Housing Grant - In fiscal year 2013, NARBHA was awarded a supportive housing grant of \$2,325,062 from the Arizona Department of Health Services. NARBHA expended \$2,325,062 of the funds to purchase five housing complexes to house persons who have been determined to be Seriously Mentally Ill. The five housing complexes were placed into service on June 30, 2013. As of September 30, 2013, accumulated depreciation for all 5 housing complexes was \$16,659. The grant provides, among other restrictions, that the housing be used solely for the purpose for which it was acquired, and not be transferred or sold before a 25-year term expires. If NARBHA fails to comply with the grant restrictions, ADHS or the State would be entitled to have the title of the property transferred to the State or other remedies as determined by ADHS or the State. As of September 30, 2013, these amounts are included in unrestricted net assets.

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifteen Months Ended September 30, 2013 and Year Ended June 30, 2012

(11) Commitments and contingencies (continued)

Litigation - Periodically, NARBHA is involved in litigation and claims arising in the normal course of operations. In the opinion of management, based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial.

Community reinvestment program - In June 2008, the NARBHA Board of Directors approved a Community Reinvestment program. Under the program, in some years NARBHA may choose to identify an amount to be placed into the program, subject to Board approval. Effective July 1, 2012, the program is based on certain financial and non-financial targets required to be met by the Responsible Agencies in order to receive payment from NARBHA. The program will fund health community projects that will enhance the lives of consumers, the programs of providers, and the services delivered to consumers in NARBHA's geographic service areas.

For the fifteen months ended September 30, 2013 and year ended June 30, 2012, NARBHA's Board of Directors approved amounts that resulted in expenses of \$310,705 and \$0, respectively, to be spent on various behavioral health community projects. As of June 30, 2012, NARBHA had not yet spent all of the funds appropriated. Accordingly, as of June 30, 2012, NARBHA has recorded a liability for unspent community reinvestment program funds of \$22,240.

Risk pool payable - In June 2009, NARBHA established a "pool" of money available to Responsible Agencies who are financially at-risk for their members' care. This pool is intended to mitigate this financial risk for situations in which member care is extremely expensive. The pool is limited to amounts established by the NARBHA Board of Directors. For the fifteen months ended September 30, 2013 and year ended June 30, 2012, NARBHA's Board of Directors approved \$550,000 and \$0, respectively, to fund the risk pool. The amounts approved are included on the consolidated statements of activities and change in net assets with Program service fees distributed to providers. Amounts outstanding as of September 30, 2013 and June 30, 2012 totaled \$453,770 and \$503,770, respectively.

Healthcare regulation - The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. As of September 30, 2013 and June 30, 2012, NARBHA was not a Medicare certified organization and did not derive any of its revenue from the provision of services to Medicare beneficiaries. Management believes that NARBHA is in compliance with fraud and abuse laws and regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

Health reform legislation at both the federal and state levels continues to evolve. Changes continue to impact existing and future laws and rules. Such changes may impact the way NARBHA does business, restrict revenue and enrollment growth in certain eligibility categories, restrict revenue growth rates for certain eligibility categories, increase medical, administrative and capital costs, and expose NARBHA to increased risk of loss or further liabilities. NARBHA's operating results, financial position and cash flows could be impacted by such changes.

SUPPLEMENTAL SCHEDULES



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

To the Board of Directors of

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

We have audited the accompanying consolidating statement of financial position on page 17, consolidating statement of activities and change in net assets on page 18, and schedules of activities by line of business on pages 19 and 20 (as defined in the contract dated July 1, 2010, between **Northern Arizona Regional Behavioral Health Authority, Inc.** (NARBHA) and the Arizona Department of Health Services - Division of Behavioral Health Services (the "ADHS-DBHS")) of NARBHA as of and for the fifteen months ended September 30, 2013.

Management's Responsibility for the Supplemental Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of these schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the supplemental schedules. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidating statement of financial position, consolidating statement of activities and change in net assets, schedule 1 – supplemental schedule of activities by line of business, and schedule 2 – supplemental schedule of activities by line of business - disclosures referred to above present fairly, in all material respects, the financial position and activities of **Northern Arizona Regional Behavioral Health Authority, Inc.** as of and for the fifteen months ended September 30, 2013, as defined in the contract referred to in the first paragraph.

This report is intended solely for the information and use of the Board of Directors, management of **Northern Arizona Regional Behavioral Health Authority, Inc.**, others within the entity, the state of Arizona and the ADHS-DBHS, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive style.

Phoenix, Arizona
January 8, 2014

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

SUPPLEMENTAL SCHEDULE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

September 30, 2013

| | <u>ASSETS</u> | | | |
|---|----------------------|--------------------------|----------------------------|----------------------|
| | <u>NARBHA</u> | <u>Well North</u> | <u>Eliminations</u> | <u>Totals</u> |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 26,523,006 | \$ 41,386 | \$ - | \$ 26,564,392 |
| Marketable securities | 8,357,327 | - | - | 8,357,327 |
| Accounts receivable: | | | | |
| Grants and contracts | 1,891,683 | - | - | 1,891,683 |
| Providers | 5,919 | - | - | 5,919 |
| Other | 33,679 | - | (12,114) | 21,565 |
| Prepaid expenses and other current assets | 493,585 | 650 | - | 494,235 |
| TOTAL CURRENT ASSETS | 37,305,199 | 42,036 | (12,114) | 37,335,121 |
| OTHER ASSETS | 20,000 | - | - | 20,000 |
| PROPERTY AND EQUIPMENT, net | 7,026,574 | 2,337,138 | - | 9,363,712 |
| TOTAL ASSETS | \$ 44,351,773 | \$ 2,379,174 | \$ (12,114) | \$ 46,718,833 |

| | <u>LIABILITIES AND NET ASSETS</u> | | | |
|---|--|---------------------|--------------------|----------------------|
| CURRENT LIABILITIES | | | | |
| Amounts payable to providers | \$ 5,017,230 | \$ - | \$ - | \$ 5,017,230 |
| Accounts payable and accrued expenses | 897,511 | 30,456 | (12,114) | 915,853 |
| Unreported services payable | 401,743 | - | - | 401,743 |
| Payable to funding source | 17,809 | - | - | 17,809 |
| Accrued leave time | 492,547 | - | - | 492,547 |
| Unearned revenue | 15,805 | - | - | 15,805 |
| Risk pool payable | 453,770 | - | - | 453,770 |
| TOTAL CURRENT LIABILITIES | 7,296,415 | 30,456 | (12,114) | 7,314,757 |
| UNRESTRICTED NET ASSETS | 37,055,358 | 2,348,718 | - | 39,404,076 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 44,351,773 | \$ 2,379,174 | \$ (12,114) | \$ 46,718,833 |

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

SUPPLEMENTAL SCHEDULE

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Fifteen Months Ended September 30, 2013

| | <u>NARBHA</u> | <u>Well North</u> | <u>Eliminations</u> | <u>Totals</u> |
|---|----------------------|---------------------|---------------------|----------------------|
| REVENUES AND GAINS | | | | |
| Arizona Department of Health Services | \$ 184,553,189 | \$ - | \$ - | \$ 184,553,189 |
| Provider service fees | 556,211 | - | - | 556,211 |
| Interest income | 109,975 | - | - | 109,975 |
| Other services | 35,843 | - | - | 35,843 |
| Other grants and contract revenue | 163,630 | - | - | 163,630 |
| Rental revenue | - | 29,244 | - | 29,244 |
| Gain on disposal of property and equipment | 25,630 | - | - | 25,630 |
| Donations | 2,000 | 2,356,797 | (2,353,797) | 5,000 |
| Miscellaneous | 16,347 | 247 | - | 16,594 |
| TOTAL REVENUES AND GAINS | <u>185,462,825</u> | <u>2,386,288</u> | <u>(2,353,797)</u> | <u>185,495,316</u> |
| EXPENSES AND LOSSES | | | | |
| Program service fees distributed to providers | 163,952,621 | - | - | 163,952,621 |
| Salaries | 8,303,154 | 9,612 | - | 8,312,766 |
| Employee related expenses | 2,216,312 | 2,502 | - | 2,218,814 |
| Operating | 4,241,110 | 2,937 | (2,353,797) | 1,890,250 |
| Professional and outside services | 1,064,234 | 906 | - | 1,065,140 |
| Depreciation and amortization | 880,561 | 16,659 | - | 897,220 |
| Occupancy | 312,870 | 4,954 | - | 317,824 |
| Travel | 163,027 | - | - | 163,027 |
| Community reinvestment program | 310,705 | - | - | 310,705 |
| Interest | 86 | - | - | 86 |
| TOTAL EXPENSES | <u>181,444,680</u> | <u>37,570</u> | <u>(2,353,797)</u> | <u>179,128,453</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | 4,018,145 | 2,348,718 | - | 6,366,863 |
| UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD | <u>33,037,213</u> | <u>-</u> | <u>-</u> | <u>33,037,213</u> |
| UNRESTRICTED NET ASSETS, END OF PERIOD | <u>\$ 37,055,358</u> | <u>\$ 2,348,718</u> | <u>\$ -</u> | <u>\$ 39,404,076</u> |

OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fifteen Months Ended September 30, 2013

| Federal Grantor / Pass-Through Grantor / Program | Federal CFDA Number | Grantor's Number | Federal Expenditures |
|---|------------------------------------|-----------------------------|---------------------------------|
| U.S. Department of Health and Human Services | | | |
| Arizona Department of Health Services: | | | |
| Mental Health Block Grant (CMHS): | | | |
| SMI - Non Title XIX | 93.958 | 11356415170214 | 537,409 |
| Children - Non Title XIX | 93.958 | 11356415170214 | <u>739,447</u> |
| Total Mental Health Block Grant | | | <u>1,276,856</u> |
| Substance Abuse Prevention and Treatment Block Grant (SAPT): | | | |
| Substance Abuse | 93.959 | 11356415170214 | 3,627,098 |
| Crisis | 93.959 | 11356415170214 | 395,936 |
| Prevention | 93.959 | 11356415170214 | <u>672,687</u> |
| Total Substance Abuse Block Grant | | | <u>4,695,721</u> |
| Centers for Medicare and Medicaid Services (CMS): | | | |
| Medical Assistance Program | | | |
| SMI - Title XIX | 93.778 | 68660047910029 | 38,483,263 |
| Children - Title XIX | 93.778 | 68660047910029 | 40,892,851 |
| Substance Abuse/General Mental Health - Title XIX | 93.778 | 68660047910029 | 24,168,561 |
| PASRR | 93.778 | 68660047910029 | <u>2,025</u> |
| Total CMS Medical Assistance Program | | | <u>103,546,700</u> |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | 11356415170214 | 153,229 |
| Substance Abuse and Mental Health Services-Projects of Regional and National Significance | 93.243 | 11356415170214 | 32,526 |
| KidsCare, Title XXI | 93.767 | 68660047910029 | <u>1,577,109</u> |
| Substance Abuse and Mental Health Services-Projects of Regional and National Significance - SBIRT | 93.243 | 68660047910483 | <u>791,409</u> |
| Total Arizona Department of Health Services | | | <u>112,073,550</u> |
| Total U.S. Department of Health and Human Services | | | <u>112,073,550</u> |
| U.S. Department of Housing and Urban Development | | | |
| Housing Opportunities for Persons with AIDS (HOPWA) | 14.241 | | 48,678 |
| Supportive Housing Program Persons with Disabilities (SHP) | 14.235 | | <u>114,952</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>163,630</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u><u>\$ 112,237,180</u></u> |

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fifteen Months Ended September 30, 2013

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of **Northern Arizona Regional Behavioral Health Authority, Inc.** under programs of the federal government for the fifteen months ended September 30, 2013. The information in this Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of **Northern Arizona Regional Behavioral Health Authority, Inc.**, it is not intended and does not present the consolidated financial position, changes in net assets or cash flows of **Northern Arizona Regional Behavioral Health Authority, Inc.**

(2) Summary of significant accounting policies

Expenditures reported on the Schedule of Expenditures and Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Catalog of federal domestic assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the 2013 *Catalog of Federal Domestic Assistance*.

(4) Subrecipients

Of the federal expenditures presented in the schedule, **Northern Arizona Regional Behavioral Health Authority, Inc.** provided federal awards to subrecipients as follows:

| <u>Program Title</u> | <u>Federal CFDA Number</u> | <u>Amounts Provided to Subrecipients</u> |
|---|--------------------------------|--|
| Mental Health Block Grant (CMHS) | 93.958 | \$ 1,154,927 |
| Substance Abuse Prevention and Treatment Block Grant (SAPT) | 93.959 | 4,298,474 |
| Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – Title XIX | 93.778 | 96,499,813 |
| Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – PASRR | 93.778 | 2,025 |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | 147,962 |
| KidsCare, Title XXI | 93.767 | 1,486,944 |
| Housing Opportunities for Persons with AIDS | 14.241 | 45,494 |
| Supportive Housing Program | 14.235 | 112,498 |
| Substance Abuse and Mental Health Services – Projects of Regional and National Significance – SBIRT | 93.243 | 318,384 |



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

We have audited, in accordance with the 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, the consolidated financial statements of **Northern Arizona Regional Behavioral Health Authority, Inc.**, which comprise the consolidated statement of financial position as of September 30, 2013, and the related consolidated statements of activities and change in net assets and cash flows for the fifteen months then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control. Accordingly, we do not express an opinion on the effectiveness of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Northern Arizona Regional Behavioral Health Authority, Inc's** consolidated financial statements are free from material misstatement, we performed tests of their 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Phoenix, Arizona
January 8, 2014



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

Report on Compliance for Each Major Federal Program

We have audited **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** major federal programs for the fifteen months ended September 30, 2013. **Northern Arizona Regional Behavioral Health Authority, Inc.'s** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to their federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Northern Arizona Regional Behavioral Health Authority, Inc.'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 on compliance for each major federal program. However, our audit does not provide a legal determination of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance.

Opinion on Each Major Federal Program

In our opinion, **Northern Arizona Regional Behavioral Health Authority, Inc.'s** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fifteen months ended September 30, 2013.

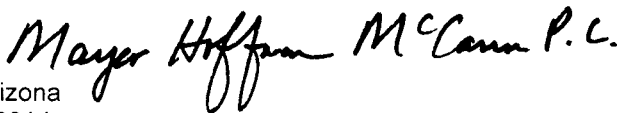
Report on Internal Control Over Compliance

Management of **Northern Arizona Regional Behavioral Health Authority, Inc.**'s is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Northern Arizona Regional Behavioral Health Authority, Inc.**'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Northern Arizona Regional Behavioral Health Authority, Inc.**'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Phoenix, Arizona
January 8, 2014

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fifteen Months Ended September 30, 2013

Section I – Summary of Auditors’ Results

Financial Statements

Type of Auditor’s Report Issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes None reported

Noncompliance material to financial statements noted? _____ Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes None reported

Type of Auditor’s Report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ Yes No

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 93.778 | Medical Assistance Program |
| 93.767 | KidsCare, Title XXI |
| 93.958 | Mental Health Block Grant (CMHS) |
| 93.959 | Substance Abuse Prevention and Treatment Block Grant (SAPT) |

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? _____ X _____ Yes _____ No

**NORTHERN ARIZONA REGIONAL
BEHAVIORAL HEALTH AUTHORITY, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fifteen Months Ended September 30, 2013

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Prior Year Findings and Questioned Costs Relating to Federal Awards

None