

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

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

Years Ended June 30, 2010 and 2009

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

**FINANCIAL STATEMENTS, OMB CIRCULAR A-133  
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CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Change in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 14
OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS AND SUPPLEMENTAL INFORMATION	
Schedule 1 – Supplemental Schedule of Activities	15
Schedule 2 – Supplemental Schedule of Activities - Disclosures	16
Schedule 3 – Schedule of Expenditures of Federal Awards	17
Notes to the Schedule of Expenditures of Federal Awards	18
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19 - 20
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	21 - 22
Schedule of Findings and Questioned Costs	23 - 24



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### INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

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

We have audited the accompanying statements of financial position of **Northern Arizona Regional Behavioral Health Authority, Inc.** at June 30, 2010 and 2009, and the related statements of activities and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of **Northern Arizona Regional Behavioral Health Authority, Inc.**'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Northern Arizona Regional Behavioral Health Authority, Inc.** at June 30, 2010 and 2009, and the change in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2010 on our consideration of **Northern Arizona Regional Behavioral Health Authority, Inc.**'s internal control over financial reporting and on our tests of its 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* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Supplemental Schedules of Activities (Schedules 1 and 2) and the Schedule of Expenditures of Federal Awards (Schedule 3) are presented for purposes of additional analysis and are not required parts of the basic financial statements. The Schedule of Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 financial statements. The information in Schedules 1, 2 and 3 has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial

statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Phoenix, Arizona  
October 6, 2010

*Mayer Hoffman McCann P.C.*

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

**STATEMENTS OF FINANCIAL POSITION**

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b><u>ASSETS</u></b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,144,662	\$ 19,293,615
Marketable securities	5,617,000	4,843,023
Accounts receivable:		
Grants and contracts	1,306,245	2,242,005
Providers	25,071	6,539
Other	11,250	38,545
Note receivable, current portion	-	35,447
Prepaid expenses and other current assets	355,295	412,209
TOTAL CURRENT ASSETS	<u>28,459,523</u>	<u>26,871,383</u>
PROPERTY AND EQUIPMENT, net	<u>5,646,007</u>	<u>5,699,470</u>
 TOTAL ASSETS	 <u>\$ 34,105,530</u>	 <u>\$ 32,570,853</u>

**LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES		
Amounts payable to providers	\$ 4,251,444	\$ 2,476,436
Accounts payable and accrued expenses	774,069	717,117
Amounts payable to funding sources	-	2,299,947
Unreported services payable	1,213,728	1,018,400
Accrued leave time	493,411	421,592
Unearned revenue	4,561	-
Community reinvestment program payable	284,420	673,355
Risk pool payable	816,480	750,000
Current maturities of capital lease obligations	12,709	14,105
TOTAL CURRENT LIABILITIES	<u>7,850,822</u>	<u>8,370,952</u>
CAPITAL LEASE OBLIGATIONS, less current maturities	<u>10,756</u>	<u>23,464</u>
 TOTAL LIABILITIES	 <u>7,861,578</u>	 <u>8,394,416</u>
UNRESTRICTED NET ASSETS	<u>26,243,952</u>	<u>24,176,437</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 34,105,530</u>	 <u>\$ 32,570,853</u>

See Notes to Financial Statements

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

**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>REVENUES AND GAINS</b>		
Arizona Department of Health Services	\$ 146,238,220	\$ 140,758,119
Provider service fees	448,304	448,304
Interest income	130,391	288,221
Other services	20,862	66,641
Contributions	-	17,500
Gain on sale of property and equipment	-	9,008
Miscellaneous	16,504	253
<b>TOTAL REVENUES AND GAINS</b>	<u>146,854,281</u>	<u>141,588,046</u>
<b>EXPENSES</b>		
Program service fees distributed to providers	132,912,808	125,933,801
Salaries	7,071,509	6,514,023
Employee related expenses	2,058,722	1,872,518
Operating	968,368	1,062,896
Professional and outside services	895,005	1,032,640
Depreciation and amortization	453,718	395,414
Occupancy	205,787	306,704
Travel	158,993	178,468
Community reinvestment program	60,021	477,900
Interest	1,835	26,501
<b>TOTAL EXPENSES</b>	<u>144,786,766</u>	<u>137,800,865</u>
<b>CHANGE IN NET ASSETS</b>	2,067,515	3,787,181
<b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>	<u>24,176,437</u>	<u>20,389,256</u>
<b>UNRESTRICTED NET ASSETS, END OF YEAR</b>	<u>\$ 26,243,952</u>	<u>\$ 24,176,437</u>

See Notes to Financial Statements

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

**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,067,515	\$ 3,787,181
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	453,718	395,414
Gain on sale of property and equipment	-	(9,008)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Grants and contracts receivable	935,760	(753,936)
Providers receivable	(18,532)	17,156
Other receivables	27,295	85,632
Prepaid expenses and other current assets	56,914	(148,013)
Increase (decrease) in:		
Amounts payable to providers	1,775,008	1,860,629
Accounts payable and accrued expenses	56,952	14,604
Amounts payable to funding sources	(2,299,947)	304,852
Unreported services payable	195,328	338,400
Accrued leave time	71,819	39,531
Unearned revenue	4,561	(29,715)
Community reinvestment program payable	(388,935)	173,355
Risk pool payable	66,480	750,000
Net cash provided by operating activities	<u>3,003,936</u>	<u>6,826,082</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of marketable securities	(9,381,000)	(6,458,074)
Purchases of property and equipment	(400,255)	(225,317)
Proceeds from maturities of marketable securities	8,607,023	3,611,051
Payments received on note receivable	35,447	171,129
Proceeds from sale of property and equipment	-	9,008
Net cash used in investing activities	<u>(1,138,785)</u>	<u>(2,892,203)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease obligations	(14,104)	(13,192)
Payments on long-term debt	-	(1,934,052)
Net cash used in financing activities	<u>(14,104)</u>	<u>(1,947,244)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,851,047	1,986,635
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>19,293,615</u>	<u>17,306,980</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 21,144,662</u>	<u>\$ 19,293,615</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 1,835</u>	<u>\$ 26,501</u>

See Notes to Financial Statements

# NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2010 and 2009

### (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, 2013 with the potential for two 1 year extensions, 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.

The Financial Accounting Standards Board ("FASB") sets U.S. generally accepted accounting principles ("GAAP") to ensure consistent financial reporting. References to GAAP issued by the FASB in the accompanying footnotes are to the *FASB Accounting Standards Codification* ("FASB ASC").

The significant accounting policies followed by NARBHA are as follows:

**Basis of presentation** - The accompanying financial statements have been prepared in accordance with FASB ASC 954-205, *Health Care Entities – Presentation of Financial Statements*. NARBHA's 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 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**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).

**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 securities and debt securities is based on quoted market prices. As of June 30, 2010 and 2009, marketable securities consist entirely of bank certificates of deposit which are to be held to maturity and carried at cost.

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

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2010 and 2009

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

**Grants and contracts receivable** - At June 30, 2010 and 2009, NARBHA had amounts outstanding from ADHS and other state and federal agencies 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 June 30, 2010 and 2009 and, accordingly, an allowance for doubtful accounts is not considered necessary. At June 30, 2010 and 2009, grants and contracts receivable consisted entirely of amounts due from ADHS.

**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 the cost or fair value less costs to sell. No impairment charges were recorded for 2010 and 2009.

**Revenue recognition** - NARBHA's contract with ADHS requires NARBHA to provide 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 4%. 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' Subvention programs. NARBHA determines the amount of unexpended Federal Block Grant funds at year end, which must be deferred. At June 30, 2010 and 2009, \$4,561 and \$0, respectively, of Federal Block Grant funds were deferred. ADHS policies also require NARBHA to return any unexpended Federal Block Grant funds if they remain unexpended for one year beyond when ADHS has granted them. NARBHA did not have unexpended funds at June 30, 2010 and June 30, 2009 that were included in amounts payable to funding sources on the statements of financial position.

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

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2010 and 2009

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

The Subvention programs provide behavioral healthcare services to individuals not eligible for behavioral healthcare coverage under Medicaid or Medicare. The Subvention programs are funded through a combination of federal mental health block grant funds and State of Arizona appropriated funds administered by ADHS.

**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, information system support, and telemedicine. The subcontracted providers are charged monthly for these services. NARBHA recognizes revenue in accordance with its contract with each subcontracted provider.

**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 Subvention programs. These subcontracted providers are compensated on a budgeted 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, cost reimbursement or 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 outside inpatient/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 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 years ended June 30, 2010 and 2009.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which was subsequently incorporated into FASB ASC 740, *Income Taxes*. FIN 48 was adopted in fiscal 2010 and did not have a significant impact on NARBHA's financial statements. 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.

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

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2010 and 2009

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

**Subsequent events** - NARBHA has evaluated subsequent events through October 6, 2010, which is the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to the statement of financial position date that would require adjustment to, or disclosure in, the financial statements.

**(2) Note receivable**

Note receivable consists of a loan to NAZCare, Inc. (a contracted service provider) for unpaid fiscal year 2007 encounter withhold. The loan was unsecured and required monthly principal and interest payments of \$3,051 bearing a fixed interest rate of 6%. The note matured June 1, 2010 and was repaid in full.

As a result of this note receivable, NARBHA was exposed to certain credit risks. NARBHA managed its risk by regularly reviewing the note receivable and by providing appropriate allowances for doubtful accounts, if necessary. At June 30, 2009, the note receivable was considered by management to be fully collectible, and accordingly, an allowance for loan losses was not provided.

**(3) 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 2010 and 2009.

NARBHA maintains an irrevocable standby letter of credit with a bank in the amount of \$8,320,999 maturing on June 30, 2012. In addition, NARBHA purchased a surety bond in the amount of \$4,455,908 in 2010 and 2009. This letter of credit along with a surety bond are required by ADHS to comply with the terms of the performance bond requirement for fiscal 2010.

**(4) Property and equipment**

Property and equipment consists of:	<u>2010</u>	<u>2009</u>
Cost and donated value:		
Land and improvements	\$ 1,384,709	\$ 1,384,709
Buildings and improvements	4,513,462	4,513,463
Furniture and equipment	2,478,138	2,111,075
Vehicles	360,632	360,632
Construction in progress	51,878	29,460
Total cost and donated value	<u>8,788,819</u>	<u>8,399,339</u>
Accumulated depreciation and amortization	<u>(3,142,812)</u>	<u>(2,699,869)</u>
Net property and equipment	<u>\$ 5,646,007</u>	<u>\$ 5,699,470</u>

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

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2010 and 2009

**(4) Property and equipment (continued)**

Depreciation and amortization expense charged to operations was \$453,718 for 2010 and \$395,414 for 2009.

NARBHA has entered into various capital leases for certain office equipment. The leases expire through March 2013. Cost and accumulated amortization of such assets totaled \$65,106 and \$44,901, respectively, as of June 30, 2010 and \$65,106 and \$31,880, respectively, as of June 30, 2009.

**(5) Capital lease obligations**

The obligations under capital leases reflect the present value of future rental payments, discounted at the interest rates implicit in the leases (4.2% - 8.1%). The future minimum lease payments required under the capital leases and annual maturities at June 30, 2010 are as follows:

<b><u>Years Ending June 30,</u></b>	
2011	\$ 13,553
2012	6,394
2013	<u>4,795</u>
Total future minimum lease payments	24,742
Less amount representing interest	<u>(1,277)</u>
Present value of future minimum lease payments	23,465
Less current portion	<u>(12,709)</u>
Long-term portion	<u>\$ 10,756</u>

**(6) Long-term debt**

Long-term debt consisted of a mortgage note payable to a bank secured by the land and building on Yale Street in Flagstaff, Arizona, and required monthly installments of approximately \$15,000 including interest at 3.98%, through May 2005. Effective June 1, 2005, the outstanding principal of the loan was to be fully amortized and repaid in 83 principal payments of \$10,843 plus all accrued unpaid interest beginning June 30, 2005 and continuing each month thereafter. A final payment of all unpaid principal and accrued unpaid interest was to be due and payable on May 30, 2013. On October 3, 2008, NARBHA repaid its long-term debt of approximately \$1.9 million in full from operating cash.

**(7) 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 a nonprofit organization formed under Arizona Revised Statutes (ARS) 41.621 et seq. ARS 41.621 et seq. are Arizona statutes 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. NARBHA's per-claim coverage is \$2 million, with an aggregate maximum annual coverage of \$10 million, and a self-insured retention of \$1 million per claim which is funded through the risk-sharing provisions of BHIP. In addition, BHIP has an umbrella policy, which extends coverage an additional \$10 million.

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

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2010 and 2009

**(7) Insurance (continued)**

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 2010 and 2009, BHIP paid the annual premium for NARBHA of \$158,648 and \$158,720, respectively. NARBHA then entered into a contract to repay BHIP on a quarterly basis. At June 30, 2010 and 2009, NARBHA owed BHIP \$118,986 and \$119,040, respectively, under this agreement which is included in accounts payable and accrued expenses. At June 30, 2010 and 2009, 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 \$159,000 and \$156,000 for the years ended June 30, 2010 and June 30, 2009, 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 June 30, 2010 or June 30, 2009 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 years ended June 30, 2010 or 2009.

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 nonprofit organization formed under Arizona Revised Statutes (ARS) 41.621 et seq. ARS 41.621 et seq. are Arizona statutes which allow 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 \$100,000 of covered expenses of any enrollee per contract year with a \$3,694,620 maximum plan exposure per calendar year. Effective January 1, 2010, the reinsurance policy increased to \$125,000 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 \$1,062,100 and \$923,600 for the years ended June 30, 2010 and 2009, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2010 and 2009

**(8) 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>2010</u>	<u>2009</u>
Program expenses	\$ 133,267,328	\$ 126,845,991
Management and general expenses	<u>11,519,438</u>	<u>10,954,874</u>
Total functional expenses	<u>\$ 144,786,766</u>	<u>\$ 137,800,865</u>

**(9) 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 20% after 25 years in the pension plan. In addition, employees may contribute up to 20% of their salaries to the plan, subject to IRS maximum contribution limits. Pension expense was \$479,282 and \$458,836 for years ended June 30, 2010 and 2009, respectively.

**(10) 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 the greater of \$2,000,000 or 90% of monthly Title XIX/XXI and Non-Title XIX/XXI capitation receipts (\$10,009,458 at June 30, 2010).

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 at June 30, 2010 and 2009.

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.

For the fiscal year ended June 30, 2010, NARBHA reported more than the minimum number of encounters as stipulated in the contract and was not subject to an encounter withhold by ADHS. Accordingly, NARBHA has not recorded a liability associated with an encounter withhold.

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

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2010 and 2009

**(10) Commitments and contingencies (continued)**

For the fiscal year ended June 30, 2009, NARBHA reported less than the minimum number of encounters as stipulated in the contract and was subject to an encounter withhold of approximately \$2,269,000. Accordingly, this amount was included in accounts payable to funding sources at June 30, 2009 and was repaid to ADHS in 2010. Additionally, NARBHA passed-through approximately \$1,617,000 of the encounter withhold to its subcontracted providers. This amount was recouped in 2010.

For the fiscal year ended June 30, 2008, NARBHA reported less than the minimum number of encounters as stipulated in the contract and was subject to an encounter withhold of approximately \$1,879,000. Accordingly, this amount was included in amounts payable to funding sources at June 30, 2008 and was repaid to ADHS in 2009. Additionally, NARBHA passed-through approximately \$1,686,000 of the encounter withhold to its subcontracted providers of which approximately \$99,000 was recouped during 2009 and approximately \$1,587,000 reduced amounts payable to providers at June 30, 2009 in the accompanying statement of financial position. This amount was recouped in August 2009.

**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. At the present time, the minimum contribution is 10% of the change in net assets for the fiscal year but the actual amount of the contribution has been greater. The program funds will fund behavioral 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 years ended June 30, 2010 and 2009, NARBHA's Board of Directors approved \$60,021 and \$477,900, respectively, to be spent on various behavioral health community projects. At June 30, 2010 and 2009, NARBHA had not yet spent all of the funds appropriated. Accordingly, at June 30, 2010 and 2009, NARBHA has recorded a liability for unspent community reinvestment program funds of \$284,420 and \$673,355, respectively.

**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 years ended June 30, 2010 and 2009, NARBHA's Board of Directors approved \$250,000 and \$750,000, respectively, to fund the risk pool. Amounts outstanding at June 30, 2010 and 2009 totaled \$816,480 and \$750,000, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2010 and 2009

**(10) Commitments and contingencies (continued)**

**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. At June 30, 2010 and 2009, 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 adversely impacted by such changes.

**(11) Concentration of credit risk**

A substantial portion of contracts receivable is due from ADHS and is not collateralized. Management believes any loss due to a concentration of credit risk will be minimal. The estimated value of ADHS receivables at June 30, 2010 and 2009 was approximately \$1,306,000 and \$2,242,000, respectively.

**(12) 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. NARBHA adopted FASB ASC 820-10 for assets and liabilities subject to fair value measurement on a recurring and non-recurring basis. 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.

NARBHA currently has no financial instruments subject to fair value measurement on a recurring basis.

## **SUPPLEMENTAL INFORMATION**

**Northern Arizona Regional Behavioral Health Authority, Inc.**  
 Schedule 1 - Supplemental Schedule of Activities  
 Year Ended June 30, 2010

	TXIX CHILD	TXIX CMPD	TXIX DD CHLD	NTXIX/XXI CHLD	TXIXI CHLD	TXIX SMI	TXIX DD ADULT	NTXIX/XXI SMI	TXIXI ADULT	HIFA II SMI	TXIX GMHSA	HIFA II GMH	MENTAL HEALTH	CMHS SED BLOCK GRANT	CMHS SMI BLOCK GRANT	SAPT BLOCK GRANT	STATE SUBSTANCE ABUSE AND PREVENTION	PASRR	OTHER	SUB TOTAL	PROGRAM ADMIN & MGMT/GEN	TOTAL
<b>REVENUES</b>																						
<b>Revenue Under ADHS Contract</b>																						
ADHS Revenue	\$ 32,410,169	\$ 10,776,681	\$ 2,523,996	\$ 590,941	\$ 1,946,620	\$ 48,126,266	\$ 2,334,641	\$ 9,117,007	\$ 34,025	\$ 19,170	\$ 32,883,518	\$ 48,125	\$ 148,499	\$ 934,617	\$ 125,758	\$ 3,450,530	\$ 421,556	\$ 2,700	\$ -	\$ 145,894,819	\$ -	\$ 145,894,819
ADHS Revenue - Qualifying Incentive Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Specialty & Other Grants*	162,709	-	-	-	-	-	-	180,692	-	-	-	-	-	-	-	-	-	-	-	343,401	-	343,401
Client Fees (Co-pays)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Third Party Recoveries</b>																						
Medicare	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	130,391	130,391
Other Behavioral Health Funding Sources - Non ADHS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37,366	37,366
Unrelated Business Revenue*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	448,304	448,304
<b>TOTAL REVENUE</b>	<b>\$ 32,572,878</b>	<b>\$ 10,776,681</b>	<b>\$ 2,523,996</b>	<b>\$ 590,941</b>	<b>\$ 1,946,620</b>	<b>\$ 48,126,266</b>	<b>\$ 2,334,641</b>	<b>\$ 9,297,699</b>	<b>\$ 34,025</b>	<b>\$ 19,170</b>	<b>\$ 32,883,518</b>	<b>\$ 48,125</b>	<b>\$ 148,499</b>	<b>\$ 934,617</b>	<b>\$ 125,758</b>	<b>\$ 3,450,530</b>	<b>\$ 421,556</b>	<b>\$ 2,700</b>	<b>\$ -</b>	<b>\$ 146,238,220</b>	<b>\$ 616,061</b>	<b>\$ 146,854,281</b>
<b>EXPENSES</b>																						
<b>Service Expenses:</b>																						
<b>Treatment Services</b>																						
Counseling	1,957,101	533,823	56,203	16,963	169,164	1,495,526	83,882	175,763	3,919	110	1,944,076	1,132	2,937	49,792	2,586	84,440	10,309	-	-	6,587,726	-	6,587,726
Counseling, Individual	1,168,235	341,839	45,494	7,221	108,455	81,485	4,372	7,183	273	-	90,873	-	157	21,197	106	5,431	663	-	-	1,882,984	-	1,882,984
Counseling, Family	155,111	42,256	853	5,218	15,895	441,707	16,468	43,577	-	250	858,858	472	361	15,316	641	143,636	17,536	-	-	1,758,155	-	1,758,155
Counseling, Group	1,257,315	208,315	109,008	15,563	75,391	742,132	110,892	105,849	2,884	81	2,072,291	1,448	5,921	45,682	1,396	126,419	15,434	-	-	4,896,021	-	4,896,021
Consultation, Assessment & Specialized Testing	20,778	-	-	5,056	-	-	-	18,108	-	-	-	-	-	-	266	82	11	-	-	60,600	-	60,600
Other Professional	4,558,540	1,126,233	211,558	50,021	368,905	2,760,850	215,614	350,480	7,076	441	4,966,098	3,052	10,835	146,827	4,995	360,008	43,953	-	-	15,185,486	-	15,185,486
<b>Total Treatment Services</b>	<b>4,227,942</b>	<b>944,803</b>	<b>596,063</b>	<b>26,093</b>	<b>291,786</b>	<b>2,638,952</b>	<b>51,655</b>	<b>127,676</b>	<b>2,454</b>	<b>230</b>	<b>802,949</b>	<b>1,151</b>	<b>586</b>	<b>76,593</b>	<b>1,879</b>	<b>113,359</b>	<b>13,840</b>	<b>-</b>	<b>-</b>	<b>9,918,011</b>	<b>-</b>	<b>9,918,011</b>
<b>Rehabilitation Services</b>																						
Living Skills Training	85,146	14,871	1,164	1,379	6,056	203,619	998	11,685	487	-	364,154	28	68	4,047	172	115,895	14,149	-	-	823,918	-	823,918
Cognitive Rehabilitation	18,995	3,203	958	167	626	719,875	18,586	18,573	655	-	87,730	222	1,631	491	274	-	-	-	-	871,986	-	871,986
Health Promotion	4,332,083	962,877	598,185	27,639	298,468	3,562,446	71,239	157,934	3,596	230	1,254,833	1,401	2,285	81,131	2,325	229,254	27,989	-	-	11,613,915	-	11,613,915
Supported Employment Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Rehabilitation Services</b>	<b>4,332,083</b>	<b>962,877</b>	<b>598,185</b>	<b>27,639</b>	<b>298,468</b>	<b>3,562,446</b>	<b>71,239</b>	<b>157,934</b>	<b>3,596</b>	<b>230</b>	<b>1,254,833</b>	<b>1,401</b>	<b>2,285</b>	<b>81,131</b>	<b>2,325</b>	<b>229,254</b>	<b>27,989</b>	<b>-</b>	<b>-</b>	<b>11,613,915</b>	<b>-</b>	<b>11,613,915</b>
<b>Medical Services</b>																						
Medication Services	954	-	-	-	-	200,039	122	7,074	-	-	491,356	1,621	26	-	104	27,958	3,413	-	-	732,667	-	732,667
Medical Management	1,093,139	111,936	78,040	3,833	85,720	2,337,620	149,442	362,050	2,352	626	1,382,949	3,344	4,419	11,250	5,154	32,957	4,024	-	-	5,668,855	-	5,668,855
Laboratory, Radiology & Medical Imaging	22,130	2,245	1,099	29	898	52,800	2,499	8,205	74	17	52,591	94	63	84	120	1,856	227	-	-	145,031	-	145,031
Electro-Convulsive Therapy	-	-	-	-	-	28,294	-	-	-	-	-	-	-	-	-	-	-	-	-	28,294	-	28,294
<b>Total Medical Services</b>	<b>1,116,223</b>	<b>114,181</b>	<b>79,139</b>	<b>3,862</b>	<b>86,618</b>	<b>2,618,753</b>	<b>152,063</b>	<b>377,329</b>	<b>2,426</b>	<b>643</b>	<b>1,926,896</b>	<b>5,059</b>	<b>4,508</b>	<b>11,334</b>	<b>5,378</b>	<b>62,771</b>	<b>7,664</b>	<b>-</b>	<b>-</b>	<b>6,574,847</b>	<b>-</b>	<b>6,574,847</b>
<b>Support Services</b>																						
Case Management	6,609,859	2,524,749	596,838	54,134	414,682	7,814,288	396,538	861,568	11,139	2,014	5,157,809	6,402	25,289	159,282	12,745	336,617	39,021	-	-	25,022,974	-	25,022,974
Personal Assistance	143,179	20,206	41,018	148	11,482	355,783	485	11,482	-	-	2,620,922	95	44,924	435	169	599,353	73,174	-	-	3,912,706	-	3,912,706
Family Support	1,335,752	399,683	195,020	9,039	112,087	25,541	674	1,418	322	187	31,554	18	38	26,532	21	1,964	240	-	-	2,140,090	-	2,140,090
Peer Support	17,588	3,543	1,843	51	976	1,274,614	20,837	120,935	1,201	52	288,251	78	2,333	150	1,780	18,327	2,238	-	-	1,754,797	-	1,754,797
Home Care Training to Home Care Client	2,533,191	2,225,681	-	9,386	51,503	-	-	16,050	-	-	-	-	-	-	27,552	236	-	-	-	4,863,599	-	4,863,599
Respite Care	2,336,128	700,139	26,763	8,224	181,174	13,833	-	-	-	-	-	-	-	24,139	-	-	-	-	-	3,290,400	-	3,290,400
Housing Support	-	-	-	720	-	-	-	-	25,288	-	-	-	31	2,112	372	19,909	2,431	-	-	50,863	-	50,863
Interpreter Services	-	-	-	4,021	-	-	-	-	1,233	-	-	-	760	11,802	18	2,454	300	-	-	20,588	-	20,588
Flex Fund Services	-	-	-	-	-	-	-	-	-	-	-	-	-	33,537	3,494	16,321	-	-	-	53,352	-	53,352
Transportation	1,115,298	190,455	58,878	5,024	46,229	1,843,368	54,672	151,565	931	18	2,307,435	292	2,281	14,748	2,216	68,595	8,375	-	-	5,870,380	-	5,870,380
Block Purchase NTXIX Consumer Drop In Center	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Support Services</b>	<b>14,090,995</b>	<b>6,064,456</b>	<b>920,360</b>	<b>90,747</b>	<b>807,984</b>	<b>11,327,427</b>	<b>473,206</b>	<b>1,189,539</b>	<b>13,593</b>	<b>2,271</b>	<b>10,405,971</b>	<b>6,885</b>	<b>75,656</b>	<b>300,289</b>	<b>21,051</b>	<b>1,063,540</b>	<b>125,779</b>	<b>-</b>	<b>-</b>	<b>46,979,749</b>	<b>-</b>	<b>46,979,749</b>
<b>Crisis Intervention Services</b>																						
Crisis Intervention - Mobile	60,115	80,799	3,016	1,530	616	184,142	5,951	16,292	-	176	198,887	330	4,119	4,491	240	34,820	4,251	-	-	599,775	-	599,775
Crisis Intervention - Stabilization	59	-	-	3,778	-	3,778	-	26	-	-	8,512	31	-	-	-	2,344	286	-	-	15,036	-	15,036
Crisis Intervention - Telephone	63,913	15,978	-	9,496	4,241	93,336	-	16,619	107	880	52,176	694	8,376	-	-	934	-	-	-	266,750	-	266,750
<b>Total Crisis Intervention Services</b>	<b>124,087</b>	<b>96,777</b>	<b>3,016</b>	<b>11,026</b>	<b>4,857</b>	<b>281,256</b>	<b>5,951</b>	<b>32,937</b>	<b>107</b>	<b>1,056</b>	<b>259,575</b>	<b>1,624</b>	<b>12,526</b>	<b>4,491</b>	<b>240</b>	<b>37,164</b>	<b>5,471</b>	<b>-</b>	<b>-</b>	<b>861,561</b>	<b>-</b>	<b>861,561</b>
<b>Inpatient Services</b>																						
Hospital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Psychiatric (Provider Types 02 & 71)	385,535	98,863	28,148	2,457	17,624	5,669,139	204,486	1,211,484	-	-	1,559,660	1,108	-	-	-	-	-	-	-	9,178,504	-	9,178,504
Detoxification (Provider Types 02 & 71)	-	-	-	-	-	29,439	-	424	-	-	126,623	-	-	-	-	-	-	-	-	156,486	-	156,486
Sub acute Facility	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Psychiatric (Provider Types B5 & B6)	3,453	-	-	-	-	2,780,821	132,611	931,593	-	-	689,901	-	-	-	-	-	-	-	-	4,538,379	-	4,538,379
Detoxification (Provider Types B5 & B6)	-	-	-	-	-	196,400	-	33,354	-	-	439,523	-	444	-	-	11,667	1,424	-	-	682,812	-	682,812
Residential Treatment Center (RTC)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Psychiatric - Secure & Non-Secure Provider Types 78,B1,B2,B3)	1,677,512	885,109	57,947	-	85,131	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,705,699	-	2,705,699
Detoxification - Secure & Non-Secure (Provider																						

**Northern Arizona Regional Behavioral Health Authority, Inc.**  
 Schedule 2 - Supplemental Schedule of Activities - Disclosures  
 Year Ended June 30, 2010

	TXIX CHILD	TXIX CMDP	TXIX DD CHILD	NTXIX/XXI CHILD	TXXI CHILD	TXIX SMI	TXIX DD ADULT	NTXIX/XXI SMI	TXXI ADULT	HIFA II SMI	TXIX GMHSA	HIFA II GMH	MENTAL HEALTH	CMHS SED BLOCK GRANT	CMHS SMI BLOCK GRANT	SAPT BLOCK GRANT	STATE SUBSTANCE ABUSE AND PREVENTION	PASRR	OTHER	SUB TOTAL	PROGRAM ADMIN/MGMT/ GEN	TOTAL	
<b>DISCLOSURE OF OTHER ADHS REVENUE</b>																							
Itemization of Items Reported In Other Column																							
Total Other - Other Column	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>DISCLOSURE OF OTHER GRANTS</b>																							
MMWIA Incentive	162,709	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	162,709	-	162,709	
Bridge Subsidy	-	-	-	-	-	-	-	180,692	-	-	-	-	-	-	-	-	-	-	-	-	180,692	-	180,692
Total Other Grants	162,709	-	-	-	-	-	-	180,692	-	-	-	-	-	-	-	-	-	-	-	-	343,401	-	343,401
<b>DISCLOSURE OF OTHER BEHAVIORAL HEALTH FUNDING SOURCES - NON ADHS</b>																							
Greater Ariz Telemed Consortium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,352	17,352	
Gain on Sale of Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Telemed Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,510	3,510	
Credit Card Rebate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,476	5,476	
Telemed Award	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,000	10,000	
Other Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,028	1,028	
Total Other Behavioral Health Funding Sources - Non ADHS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37,366	37,366	
<b>UNRELATED BUSINESS REVENUE</b>																							
Provider Support	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	448,304	448,304	
Total Unrelated Business Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	448,304	448,304	
<b>DISCLOSURE OF ALL OTHER BEHAVIORAL HEALTH SERVICES</b>																							
SMI Homeless	-	-	-	-	-	-	-	125,881	-	-	-	-	-	-	-	-	-	-	-	-	125,881	-	125,881
PASRR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,700	-	-	2,700	-	2,700
Suicide Prevention - Mbrace Life Summit	-	-	-	18,368	-	-	-	-	-	-	-	-	-	-	-	24,142	350	-	-	-	42,860	-	42,860
Coaching & Training (CFT)	-	-	-	-	-	-	-	-	-	-	-	-	-	162,441	-	-	-	-	-	-	162,441	-	162,441
SIG Projects	-	-	-	20,471	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,471	-	20,471
SMI Arnold vs Sarn Housing	-	-	-	-	-	-	-	325,000	-	-	-	-	-	-	-	-	-	-	-	-	325,000	-	325,000
Video-conferencing svcs allocated to programs	27,354	9,453	2,914	1,622	1,278	40,698	2,133	6,705	46	-	29,287	-	253	886	116	3,897	766	-	-	-	127,408	-	127,408
Total All Other Behavioral Health Services	27,354	9,453	2,914	40,461	1,278	40,698	2,133	457,586	46	-	29,287	-	253	163,327	116	28,039	1,116	2,700	-	-	806,761	-	806,761
<b>DISCLOSURE OF SERVICES EXPENSES FROM NON ADHS SOURCES</b>																							
Bridge Subsidy pass through from ADOH	-	-	-	-	-	-	-	180,692	-	-	-	-	-	-	-	-	-	-	-	-	180,692	-	180,692
MMWIA Incentive payment to providers	150,506	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	150,506	-	150,506
Total Service Expenses Non ADHS Sources	150,506	-	-	-	-	-	-	180,692	-	-	-	-	-	-	-	-	-	-	-	-	331,198	-	331,198
<b>DISCLOSURE OF ALL OTHER OPERATING</b>																							
Supplies, computer/tele-med maint, printing phone, recruiting, insurance, surety bond, etc	185,070	64,746	16,890	10,843	12,007	279,900	14,347	41,780	259	108	192,259	271	1,229	5,135	835	19,283	2,799	-	-	-	847,761	2,718	850,479
Sanctions assessed by ADHS	9,831	509	99	-	-	1,982	83	-	-	-	1,250	-	-	-	-	-	-	-	-	-	13,754	-	13,754
Qualifying Incentive Payments Passed to Providers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total All Other Operating	194,901	65,255	16,989	10,843	12,007	281,882	14,430	41,780	259	108	193,509	271	1,229	5,135	835	19,283	2,799	-	-	-	861,515	2,718	864,233
<b>DISCLOSURE OF ENCOUNTER WITHHOLD EXPENSES</b>																							
Total Encounter Withhold Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>DISCLOSURE OF NON ADHS AND/OR UNRELATED ADMINISTRATIVE EXPENSES</b>																							
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,834	1,834	
Other Telemed expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24,982	24,982	
Provider Support	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	447,671	447,671	
Total Non ADHS and/or Unrelated Administrative Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	474,487	474,487	
<b>DISCLOSURE OF UNRELATED BUSINESS EXPENSES</b>																							
RFP Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	579,778	579,778	
Community Reinvestment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	60,021	60,021	
Total Unrelated Business Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	639,799	639,799	

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

**SCHEDULE 3 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2010

<b>Federal Grantor / Pass-Through Grantor / Program</b>	<b>Federal CFDA Number</b>	<b>Grantor's Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Health and Human Services</b>			
Arizona Department of Economic Security:			
Medical Assistance Program			
Children - Title XIX	93.778	68660047917631	\$ 1,898,263
SMI - Title XIX	93.778	68660047917631	<u>1,707,312</u>
Total Arizona Department of Economic Security			<u>3,605,575</u>
Arizona Department of Health Services:			
Mental Health Block Grant (CMHS):			
SMI - Non Title XIX	93.958	11356415170214	125,758
Children - Non Title XIX	93.958	11356415170214	<u>934,617</u>
Total Mental Health Block Grant			<u>1,060,375</u>
Substance Abuse Prevention and Treatment Block Grant (SAPT):			
Substance Abuse/General Mental Health Prevention	93.959	11356415170214	2,950,010
	93.959	11356415170214	<u>500,520</u>
Total Substance Abuse Block Grant			<u>3,450,530</u>
Centers for Medicare and Medicaid Services (CMS):			
Medical Assistance Program			
SMI - Title XIX	93.778	68660047910029	35,175,528
Children - Title XIX	93.778	68660047910029	32,480,281
Substance Abuse/General Mental Health - Title XIX	93.778	68660047910029	24,945,259
PASSAR	93.778	68660047910029	<u>2,175</u>
Total CMS Medical Assistance Program			<u>92,603,243</u>
Projects for Assistance in Transition from Homelessness (PATH)	93.150	11356415170214	101,038
Substance Abuse & Mental Health Services Projects of Regional and National Significance	93.243	11356415170214	20,471
KidsCare, Title XXI	93.767	68660047910029	<u>1,700,593</u>
Total Arizona Department of Health Services			<u>98,936,250</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>102,541,825</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 102,541,825</u>

See Independent Auditors' Report  
See Notes to Schedule of Expenditures of Federal Awards

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2010

**(1) Basis of presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of **Northern Arizona Regional Behavioral Health Authority, Inc.** and is presented on the accrual basis of accounting. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

**(2) Catalog of federal domestic assistance (CFDA) numbers**

The program titles and CFDA numbers were obtained from the 2010 *Catalog of Federal Domestic Assistance*.

**(3) 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	\$ 802,569
Substance Abuse Prevention and Treatment Block Grant (SAPT)	93.959	3,116,488
Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – Title XIX	93.778	88,934,214
Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – PASSAR	93.778	2,175
Projects for Assistance in Transition from Homelessness (PATH)	93.150	93,460
KidsCare, Title XXI	93.767	1,540,545



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

To the Board of Directors of

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

We have audited the financial statements of ***Northern Arizona Regional Behavioral Health Authority, Inc.*** as of and for the year ended June 30, 2010, and have issued our report thereon dated October 6, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered ***Northern Arizona Regional Behavioral Health Authority, Inc.'s*** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***Northern Arizona Regional Behavioral Health Authority, Inc.'s*** internal control over financial reporting.

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 financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

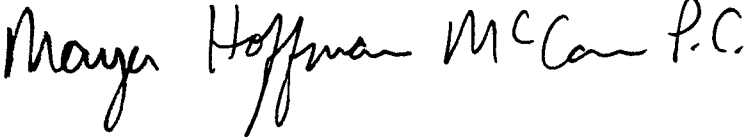
#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ***Northern Arizona Regional Behavioral Health Authority, Inc.'s*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not 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*.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, specific legislative and regulatory bodies and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Phoenix, Arizona  
October 6, 2010

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



## **Mayer Hoffman McCann P.C.**

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### **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND 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.**

#### **Compliance**

We have audited **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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 year ended June 30, 2010. **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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** management. Our responsibility is to express an opinion on **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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. Our audit does not provide a legal determination of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance with those requirements.

In our opinion, **Northern Arizona Regional Behavioral Health Authority, Inc.** complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

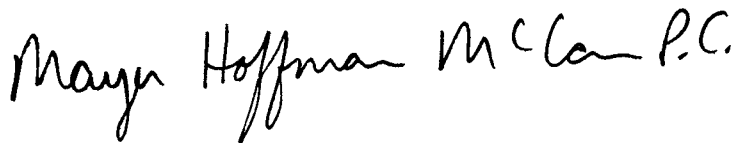
## Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not be designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, specific legislative and regulatory bodies and federal awarding agencies and pass-through entities 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 "Mayra Hoffman McCann P.C." The signature is written in a cursive style.

Phoenix, Arizona  
October 6, 2010

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2010

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

A. Type of Auditors' Report Issued on the Financial Statements:

The Independent Auditors' Report on the basic financial statements of **Northern Arizona Regional Behavioral Health Authority, Inc.** at and for the year ended June 30, 2010 was an unqualified opinion.

B. Significant Deficiencies in Internal Control Disclosed by the Audit of the Financial Statements:

The audit of the basic financial statements of **Northern Arizona Regional Behavioral Health Authority, Inc.** at and for the year ended June 30, 2010 disclosed no matters involving the internal control over financial reporting and its operations that are considered to be significant deficiencies.

C. Noncompliance Material to the Financial Statements:

The audit disclosed no instances of noncompliance material to the basic financial statements of **Northern Arizona Regional Behavioral Health Authority, Inc.** at and for the year ended June 30, 2010.

D. Significant Deficiencies in Internal Control over Major Programs:

The audit of compliance of **Northern Arizona Regional Behavioral Health Authority, Inc.** at and for the year ended June 30, 2010 disclosed no significant deficiencies.

E. Type of Auditors' Report Issued on Compliance for Major Programs:

The Independent Auditors' Report on compliance with requirements applicable to each major Federal program for the year ended June 30, 2010 was an unqualified opinion.

F. Findings Relating to Major Programs:

As indicated in Section III, the audit disclosed no findings related to major programs for the year ended June 30, 2010.

G. Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Amount Expended</u>
93.778	Medical Assistance Program	<u>\$ 96,208,818</u>

H. Threshold for Distinguishing Between Type A and Type B Programs:

The threshold for distinguishing between Type A and Type B programs was \$3,000,000 for the year ended June 30, 2010.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2010

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS (continued)

I. Qualifications of Auditee as a Low-Risk Auditee:

***Northern Arizona Regional Behavioral Health Authority, Inc.*** qualified as a low-risk auditee under applicable provisions of OMB Circular A-133 for the year ended June 30, 2010.

II. FINANCIAL STATEMENT AUDIT FINDINGS

None

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

IV. STATUS OF PRIOR AUDIT FINDINGS

None