

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

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

Years Ended June 30, 2011 and 2010

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

**FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES
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Years Ended June 30, 2011 and 2010

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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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

Maya Hoffman McCa P.C.

Phoenix, Arizona
October 6, 2011

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

	<u>ASSETS</u>		
		<u>2011</u>	<u>2010</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	11,162,483	\$ 21,144,662
Marketable securities		8,409,909	5,617,000
Accounts receivable:			
Grants and contracts		11,327,447	1,306,245
Providers		1,141	25,071
Other		9,309	11,250
Prepaid expenses and other current assets		342,707	355,295
TOTAL CURRENT ASSETS		<u>31,252,996</u>	<u>28,459,523</u>
PROPERTY AND EQUIPMENT, net		<u>5,628,382</u>	<u>5,646,007</u>
TOTAL ASSETS	\$	<u>36,881,378</u>	<u>\$ 34,105,530</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Amounts payable to providers	\$	6,140,648	\$ 4,251,444
Accounts payable and accrued expenses		660,121	774,069
Unreported services payable		696,742	1,213,728
Accrued leave time		444,551	493,411
Unearned revenue		226,753	4,561
Community reinvestment program payable		572,705	284,420
Risk pool payable		816,480	816,480
Current maturities of capital lease obligations		6,044	12,709
TOTAL CURRENT LIABILITIES		<u>9,564,044</u>	<u>7,850,822</u>
CAPITAL LEASE OBLIGATIONS, less current maturities		<u>4,709</u>	<u>10,756</u>
TOTAL LIABILITIES		9,568,753	7,861,578
UNRESTRICTED NET ASSETS		<u>27,312,625</u>	<u>26,243,952</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>36,881,378</u>	<u>\$ 34,105,530</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, 2011 and 2010

	2011	2010
REVENUES AND GAINS		
Arizona Department of Health Services	\$ 148,614,025	\$ 146,238,220
Provider service fees	459,618	448,304
Interest income	85,516	130,391
Other services	48,432	20,862
Miscellaneous	17,224	16,504
TOTAL REVENUES AND GAINS	149,224,815	146,854,281
EXPENSES AND LOSSES		
Program service fees distributed to providers	135,511,035	132,912,808
Salaries	6,637,395	7,071,509
Employee related expenses	2,014,104	2,058,722
Operating	1,140,188	968,368
Professional and outside services	936,965	895,005
Depreciation and amortization	510,819	453,718
Occupancy	421,773	205,787
Travel	183,404	158,993
Community reinvestment program	775,772	60,021
Loss on disposal of property and equipment	23,848	-
Interest	839	1,835
TOTAL EXPENSES AND LOSSES	148,156,142	144,786,766
CHANGE IN NET ASSETS	1,068,673	2,067,515
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	26,243,952	24,176,437
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 27,312,625	\$ 26,243,952

See Notes to Financial Statements

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,068,673	\$ 2,067,515
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	510,819	453,718
Loss on disposal of property and equipment	23,848	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Grants and contracts receivable	(10,021,202)	935,760
Providers receivable	23,930	(18,532)
Other receivables	1,941	27,295
Prepaid expenses and other current assets	12,588	56,914
Increase (decrease) in:		
Amounts payable to providers	1,889,204	1,775,008
Accounts payable and accrued expenses	(113,948)	56,952
Amounts payable to funding sources	-	(2,299,947)
Unreported services payable	(516,986)	195,328
Accrued leave time	(48,860)	71,819
Unearned revenue	222,192	4,561
Community reinvestment program payable	288,285	(388,935)
Risk pool payable	-	66,480
Net cash (used in) provided by operating activities	<u>(6,659,516)</u>	<u>3,003,936</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(13,535,667)	(9,381,000)
Purchases of property and equipment	(539,071)	(400,255)
Proceeds from maturities of marketable securities	10,742,758	8,607,023
Proceeds from sale of property and equipment	22,029	-
Payments received on note receivable	-	35,447
Net cash used in investing activities	<u>(3,309,951)</u>	<u>(1,138,785)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(12,712)	(14,104)
Net cash used in financing activities	<u>(12,712)</u>	<u>(14,104)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(9,982,179)	1,851,047
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>21,144,662</u>	<u>19,293,615</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 11,162,483</u>	<u>\$ 21,144,662</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 839</u>	<u>\$ 1,835</u>

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

(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, 2011 and 2010, marketable securities consist of bank certificates of deposit and U.S. treasury bills which are to be held to maturity and carried at cost, which approximates fair value.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

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

Grants and contracts receivable - At June 30, 2011 and 2010, NARBHA had amounts outstanding from ADHS 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, 2011 and 2010 and, accordingly, an allowance for doubtful accounts is not considered necessary. At June 30, 2011 and 2010, grants and contracts receivable consisted entirely of amounts due from ADHS. 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 2011 and 2010.

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, 2011 and 2010, \$226,753 and \$4,561, 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, 2011 and June 30, 2010 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, 2011 and 2010

(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.

ADHS contract revenue is also limited by the terms of the Contract to a maximum profit percentage, as defined, as of June 30, 2011 and 2010. There was no contract revenue that could not be recognized due to these profit limits (4%).

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/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 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.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

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

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.

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

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, 2011 and 2010. 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 2008, 2009 and 2010 are subject to examination by the IRS generally for three years after they were filed. As of the date of this report, the fiscal 2011 tax returns had not yet been filed.

Subsequent events - NARBHA has evaluated subsequent events through October 6, 2011, which is the date the financial statements were available to be issued.

(2) Property and equipment

Property and equipment consists of:	<u>2011</u>	<u>2010</u>
Cost and donated value:		
Land and improvements	\$ 1,390,709	\$ 1,384,709
Buildings and improvements	4,521,660	4,513,462
Furniture and equipment	2,938,993	2,478,138
Vehicles	303,988	360,632
Construction in progress	-	51,878
Total cost and donated value	<u>9,155,350</u>	<u>8,788,819</u>
Accumulated depreciation and amortization	<u>(3,526,968)</u>	<u>(3,142,812)</u>
Net property and equipment	<u>\$ 5,628,382</u>	<u>\$ 5,646,007</u>

Depreciation and amortization expense charged to operations was \$510,819 for 2011 and \$453,718 for 2010.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

(2) Property and equipment (continued)

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 \$56,159, respectively, as of June 30, 2011 and \$65,106 and \$44,901, respectively, as of June 30, 2010.

(3) 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% - 4.5%). The future minimum lease payments required under the capital leases and annual maturities at June 30, 2011 are as follows:

Years Ending June 30,

2012		\$	6,394
2013			4,795
Total future minimum lease payments			11,189
Less amount representing interest			(436)
Present value of future minimum lease payments			10,753
Less current portion			(6,044)
Long-term portion			\$ 4,709

(4) 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.

	2011	2010
Program expenses	\$ 135,869,780	\$ 133,267,328
Management and general expenses	12,286,362	11,519,438
Total functional expenses	\$ 148,156,142	\$ 144,786,766

(5) 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 \$479,529 and \$479,282 for years ended June 30, 2011 and 2010, respectively.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

(6) 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., 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 2011 and 2010, BHIP paid the annual premium for NARBHA of \$147,383 and \$158,648, respectively. NARBHA then entered into a contract to repay BHIP on a quarterly basis. At June 30, 2011 and 2010, NARBHA owed BHIP \$110,537 and \$118,986, respectively, under this agreement which is included in accounts payable and accrued expenses. At June 30, 2011 and 2010, 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 \$156,000 and \$159,000 for the years ended June 30, 2011 and June 30, 2010, 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, 2011 or June 30, 2010 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, 2011 or 2010.

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., 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 \$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 \$1,027,000 and \$1,062,000 for the years ended June 30, 2011 and 2010, respectively.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

(7) 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 2011 and 2010.

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 2011 and 2010 which expires on June 30, 2012. This letter of credit along with a surety bond is required by ADHS to comply with the terms of the performance bond requirement for 2011 and 2010.

(8) 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 (\$12,781,852 at June 30, 2011).

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, 2011 and 2010.

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. For the fiscal year ended June 30, 2011, ADHS no longer required paybacks associated with a minimum number of encounters.

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 years ended June 30, 2011 and 2010.

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.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2011 and 2010

(8) 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. 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, 2011 and 2010, NARBHA's Board of Directors approved amounts that resulted in expenses of \$775,772 and \$60,021, respectively, to be spent on various behavioral health community projects. At June 30, 2011 and 2010, NARBHA had not yet spent all of the funds appropriated. Accordingly, at June 30, 2011 and 2010, NARBHA has recorded a liability for unspent community reinvestment program funds of \$572,705 and \$284,420, 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, 2011 and 2010, NARBHA's Board of Directors approved \$0 and \$250,000, respectively, to fund the risk pool. Amounts outstanding at June 30, 2011 and 2010 totaled \$816,480.

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, 2011 and 2010, 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.

AHCCCS enrollment freeze - Effective July 8, 2011, AHCCCS has placed an enrollment freeze on the childless adult population preventing any new members to enroll. Childless adult members enrolled prior to July 8, 2011 continuing to meet eligibility requirements will continue to receive coverage. As a result, 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 schedules of activities by line of business that follow on pages 15 and 16 (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 for the year ended June 30, 2011. These statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these schedules based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. 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 audit provides a reasonable basis for our opinion.

In our opinion, the statements of activities referred to above present fairly, in all material respects, the activities of **Northern Arizona Regional Behavioral Health Authority, Inc.** as of June 30, 2011, 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 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 cursive script that reads "Mayer Hoffman McCann P.C.".

Phoenix, Arizona
October 6, 2011

Northern Arizona Regional Behavioral Health Authority, Inc.
Supplemental Schedule of Activities
Year Ended June 30, 2011

	TXIX CHILD	TXIX CMPD	TXIX DD CHILD	TXIX SMI	TXIX DD ADULT	TXIX GMHSA	TXIX CHILD	TXIX SMI	NTXIX/XXI CRISIS	NTXIX/XXI MEDICATIONS	NTXIX/XXI SUPPORTED HOUSING	NTXIX/XXI OTHER	CMHS SED BLOCK GRANT	CMHS SMI BLOCK GRANT	SAPT BLOCK GRANT	OTHER FEDERAL	COUNTY	PASRR/ADOH	PATH	SUB TOTAL	PROGRAM ADMIN & MGMT/GEN	TOTAL	
REVENUES																							
Revenue Under ADHS Contract																							
ADHS Revenue	32,110,144	12,042,821	2,551,787	51,320,068	2,424,215	35,539,027	837,469	33,571	1,623,930	4,251,900	625,138	-	707,970	197,745	3,763,093	160,005	-	7,800	145,397	148,342,080	-	148,342,080	
ADHS Revenue - Qualifying Incentive Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Specialty & Other Grants*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Client Fees (Co-pays)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	271,945	-	271,945	-	271,945	
Third Party Recoveries																							
Medicare	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Other Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Interest Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	85,516	85,516	
Other Behavioral Health Funding Sources - Non ADHS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	65,656	65,656	
Unrelated Business Revenue*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	459,618	459,618	
TOTAL REVENUE	32,110,144	12,042,821	2,551,787	51,320,068	2,424,215	35,539,027	837,469	33,571	1,623,930	4,251,900	625,138	-	707,970	197,745	3,763,093	160,005	-	279,745	145,397	148,614,025	610,790	149,224,815	
EXPENSES																							
Service Expenses:																							
Treatment Services																							
Counseling	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Counseling, Individual	1,745,981	675,733	64,323	1,989,925	113,477	2,687,673	55,608	1,925	4,437	-	-	-	16,978	3,987	169,051	-	-	-	-	-	7,529,098	7,529,098	
Counseling, Family	1,178,719	386,033	65,879	88,706	31,077	1,700,001	34,089	716	558	-	-	-	8,947	-	6,706	-	-	-	-	-	-	1,971,431	1,971,431
Counseling, Group	161,956	66,249	2,334	594,900	15,342	1,097,619	1,024	-	-	-	-	-	5,347	85	231,856	-	-	-	-	-	-	2,176,712	2,176,712
Consultation, Assessment & Specialized Testing	1,150,728	280,892	105,486	921,913	165,618	2,355,698	29,576	2,480	21,334	794,176	-	-	5,862	225	86,801	-	-	-	-	-	-	5,920,789	5,920,789
Other Professional	1,061	-	-	-	-	-	-	-	-	-	-	-	513	-	1,574	-	-	-	-	-	-	1,574	
Total Treatment Services	4,238,445	1,408,907	238,022	3,595,444	325,514	6,310,991	120,297	5,121	26,329	794,176	-	-	37,647	4,297	494,414	-	-	-	-	-	-	17,599,604	17,599,604
Rehabilitation Services																							
Living Skills Training	4,821,274	1,126,140	530,328	2,825,211	113,319	1,135,980	128,020	1,219	-	-	-	-	28,284	3,314	145,729	-	-	-	-	-	-	10,858,818	10,858,818
Cognitive Rehabilitation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Health Promotion	39,480	27,370	2,533	173,118	1,269	355,911	112	-	-	-	-	-	33	211	147,739	-	-	-	-	-	-	747,776	747,776
Supported Employment Services	15,677	10,098	218	999,525	74,710	514,453	485	788	-	-	-	-	-	507	5,978	-	-	-	-	-	-	1,622,439	1,622,439
Total Rehabilitation Services	4,876,431	1,163,608	533,079	3,997,854	189,298	2,006,344	128,617	2,007	-	-	-	-	28,317	4,032	299,446	-	-	-	-	-	-	13,229,033	13,229,033
Medical Services																							
Medication Services	142	-	-	194,350	149	564,510	-	-	-	14,049	-	-	-	-	50,881	-	-	-	-	-	-	824,081	824,081
Medical Management	1,036,130	135,223	87,860	2,355,168	158,530	1,683,340	31,788	995	782	2,108,589	-	-	5,984	711	10,877	-	-	-	-	-	-	7,615,977	7,615,977
Laboratory, Radiology & Medical Imaging	22,090	3,020	1,110	57,181	3,481	65,280	366	-	-	41,740	-	-	78	-	1,849	-	-	-	-	-	-	196,195	196,195
Electro-Convulsive Therapy	-	-	-	59,729	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59,729	59,729
Total Medical Services	1,058,362	138,243	88,970	2,666,428	162,160	2,313,130	32,154	995	782	2,164,378	-	-	6,062	711	63,607	-	-	-	-	-	-	8,695,982	8,695,982
Support Services																							
Case Management	6,162,341	2,871,941	633,393	8,058,062	485,560	5,702,385	158,139	11,816	300,098	22,069	-	-	53,584	22,694	323,837	-	-	-	-	-	-	24,805,919	24,805,919
Personal Care Services	377,778	66,291	122,847	389,767	140	1,635,966	5,479	-	253,850	-	-	-	-	-	733,286	-	-	-	-	-	-	3,585,404	3,585,404
Family Support	1,252,646	433,939	164,491	18,856	7,839	84,999	37,466	3,465	-	-	-	-	5,412	-	1,685	-	-	-	-	-	-	2,010,798	2,010,798
Peer Support	15,003	1,782	3,916	1,441,263	29,795	401,474	117	-	133	-	-	-	226	1,251	14,371	-	-	-	-	-	-	1,909,331	1,909,331
Home Care Training to Home Care Client	1,476,167	1,945,834	235,265	56,393	-	-	62,040	-	-	-	-	-	24,347	-	-	-	-	-	-	-	-	3,800,046	3,800,046
Unskilled Respite Care	2,644,411	778,575	23,593	17,517	977	11,019	50,930	-	-	-	-	-	15,947	-	-	-	-	-	-	-	-	3,542,969	3,542,969
Supported Housing	-	1,603	-	-	-	-	-	-	-	-	-	-	-	-	84,343	-	-	-	-	-	-	667,470	667,470
Flex Fund Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transportation	1,063,862	274,968	68,187	2,254,814	76,052	2,216,208	17,833	870	38,233	-	-	-	35,549	16,411	4,773	-	-	-	-	-	-	56,733	56,733
Total Support Services	12,992,208	6,374,933	1,251,692	12,236,672	600,363	10,052,051	332,004	16,151	592,314	22,069	581,524	-	140,061	129,189	1,177,290	-	-	-	-	-	-	46,498,521	46,498,521
Crisis Intervention Services																							
Crisis Intervention - Mobile	47,888	63,329	5,401	230,210	12,645	234,001	3,115	-	347,116	-	-	-	-	-	-	-	-	-	-	-	-	943,705	943,705
Crisis Intervention - Stabilization	341	-	-	5,247	297	36,627	-	-	5,269	-	-	-	-	-	-	-	-	-	-	-	-	47,781	47,781
Crisis Intervention - Telephone	63,893	15,987	-	93,328	-	52,173	5,779	135	38,752	-	-	-	-	-	-	-	-	-	-	-	-	270,047	270,047
Total Crisis Intervention Services	112,122	79,316	5,401	328,785	12,942	322,801	8,894	135	391,137	-	-	-	-	-	-	-	-	-	-	-	-	1,261,533	1,261,533
Inpatient Services																							
Hospital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Psychiatric (Provider Types 02 & 71)	554,016	250,591	69,474	6,096,712	274,357	1,435,107	36,224	-	321,065	-	-	-	-	-	-	-	-	-	-	-	-	9,037,546	9,037,546
Detoxification (Provider Types 02 & 71)	-	-	-	161,626	-	492,197	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	653,823	653,823
Sub acute Facility	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Psychiatric (Provider Types B5 & B6)	134,992	-	-	1,905,733	34,159	449,852	-	-	156,441	-	-	-	-	-	-	-	-	-	-	-	-	2,681,177	2,681,177
Detoxification (Provider Types B5 & B6)	-	-	-	203,516	-	280,073	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	483,589	483,589
Residential Treatment Center (RTC)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Psychiatric - Secure & Non-Secure Provider Types 78,B1,B2,B3)	1,296,089	1,075,207	112,459	178	240	68,086	40,933	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,593,192	2,593,192
Detoxification - Secure & Non-Secure (Provider Types (78,B1,B2,B3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Inpatient Services, Professional	56,697	22,249	6,504	674,337	12,030	382,077	3,614	-	14,066	-	-	-	-	-	424	-	-	-	-	-	-	1,171,898	1,171,898
Total Inpatient Services	2,041,694	1,348,047	188,437	9,042,102	320,786	3,107,392	80,771	-	491,572	-	-	-	-	-	424	-	-	-	-	-	-	16,621,225	16,621,225
Residential Services																							
Level II Behavioral Health Residential Facilities	1,169,092	495,747	257,458	3,895,944	6,717	2,316,994	13,683	5,703	-	-	-	-	-	15,340	747,079	-	-						

Northern Arizona Regional Behavioral Health Authority, Inc.
 Supplemental Schedule of Activities - Disclosures
 Year Ended June 30, 2011

	TXIX CHILD	TXIX CMDP	TXIX DD CHILD	TXIX SMI	TXIX DD ADULT	TXIX GMHSA	TXIX CHILD	TXIX SMI	NTXIX/XXI CRISIS	NTXIX/XXI MEDICATIONS	NTXIX/XXI SUPPORTED HOUSING	NTXIX/XXI OTHER	CMHS SED BLOCK GRANT	CMHS SMI BLOCK GRANT	SAPT BLOCK GRANT	OTHER FEDERAL	COUNTY	PASRR/ADOH	PATH	SUB TOTAL	PROGRAM ADMIN/MGMT/ GEN	TOTAL
DISCLOSURE OF NTXIX/XXI OTHER AND OTHER FEDERAL ADHS REVENUE																						
Itemization of Items Reported In Other Column																						
Total NTXIX/XXI Other and Other Federal Column	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISCLOSURE OF OTHER GRANTS																						
Bridge Subsidy																						
Total Other Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	271,945	-	271,945	-	271,945
DISCLOSURE OF OTHER BEHAVIORAL HEALTH FUNDING SOURCES - NON ADHS																						
Greater Ariz Telemed Consortium																						
Sanction fees Assessed RA																						
Telemed Fees																						
Credit Card Rebate																						
Other Miscellaneous																						
Total Other Behavioral Health Funding Sources - Non ADHS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24,682	24,682
UNRELATED BUSINESS REVENUE																						
Provider Support																						
Total Unrelated Business Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	459,618	459,618
DISCLOSURE OF ALL OTHER BEHAVIORAL HEALTH SERVICES																						
Path Grant - Homeless																						
PASRR																						
Suicide Prevention - Mbrace Life Summit																						
SIG																						
Coaching & Training (CFT)																						
Video-conferencing svcs allocated to programs																						
Total All Other Behavioral Health Services	31,614	10,989	3,427	44,343	2,460	31,698	897	26	1,519	3,962	-	-	476	293	3,529	-	-	-	-	135,233	-	135,233
DISCLOSURE OF SERVICES EXPENSES FROM NON ADHS SOURCES																						
Bridge Subsidy pass through from ADOH																						
Total Service Expenses Non ADHS Sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	271,945	-	271,945	-	271,945
DISCLOSURE OF ALL OTHER OPERATING																						
Supplies, computer/tele-med maint, printing phone, recruiting, insurance, surety bond, etc																						
Total All Other Operating	219,644	79,074	23,687	330,472	19,041	236,079	6,931	201	11,639	23,775	4,270	-	2,405	2,438	15,844	1,185	-	2,099	1,028	979,812	6,176	985,988
DISCLOSURE OF ENCOUNTER WITHHOLD EXPENSES																						
Total Encounter Withhold Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISCLOSURE OF NON ADHS AND/OR UNRELATED ADMINISTRATIVE EXPENSES																						
Interest																						
Mental Health First Aid Training																						
Business Development Admin Expenses																						
Loss on Disposal of Assets																						
Other Telemed expenses																						
Provider Support																						
Total Non ADHS and/or Unrelated Administrative Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	840	840
DISCLOSURE OF UNRELATED BUSINESS EXPENSES																						
Community Reinvestment																						
Total Unrelated Business Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	775,772	775,772

OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

<u>Federal Grantor / Pass-Through Grantor / Program</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services			
Arizona Department of Economic Security:			
Medical Assistance Program			
Children - Title XIX	93.778	68660047917631	\$ 1,889,470
SMI - Title XIX	93.778	68660047917631	<u>1,795,010</u>
Total Arizona Department of Economic Security			<u>3,684,480</u>
Arizona Department of Health Services:			
Mental Health Block Grant (CMHS):			
SMI - Non Title XIX	93.958	11356415170214	197,745
Children - Non Title XIX	93.958	11356415170214	<u>862,239</u>
Total Mental Health Block Grant			<u>1,059,984</u>
Substance Abuse Prevention and Treatment Block Grant (SAPT):			
Substance Abuse	93.959	11356415170214	2,811,918
Crisis	93.959	11356415170214	547,890
Prevention	93.959	11356415170214	<u>403,285</u>
Total Substance Abuse Block Grant			<u>3,763,093</u>
Centers for Medicare and Medicaid Services (CMS):			
Medical Assistance Program			
SMI - Title XIX	93.778	68660047910029	37,999,944
Children - Title XIX	93.778	68660047910029	32,693,063
Substance Abuse/General Mental Health - Title XIX	93.778	68660047910029	26,314,872
PASRR	93.778	68660047910029	<u>5,850</u>
Total CMS Medical Assistance Program			<u>97,013,729</u>
Projects for Assistance in Transition from Homelessness (PATH)	93.150	11356415170214	107,913
Substance Abuse & Mental Health Services Projects of Regional and National Significance	93.243	11356415170214	5,735
KidsCare, Title XXI	93.767	68660047910029	<u>668,024</u>
Total Arizona Department of Health Services			<u>102,618,478</u>
Total U.S. Department of Health and Human Services			<u>106,302,958</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 106,302,958</u>

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

(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 2011 *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	\$ 806,043
Substance Abuse Prevention and Treatment Block Grant (SAPT)	93.959	3,421,399
Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – Title XIX	93.778	91,990,844
Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – PASRR	93.778	5,850
Projects for Assistance in Transition from Homelessness (PATH)	93.150	103,597
KidsCare, Title XXI	93.767	617,717



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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, 2011, and have issued our report thereon dated October 6, 2011. 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

Management of ***Northern Arizona Regional Behavioral Health Authority, Inc.*** is responsible for establishing and maintaining effective 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 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.

A handwritten signature in black ink that reads "Mayer Hoffman McCa P.C." The signature is written in a cursive, flowing style.

Phoenix, Arizona
October 6, 2011



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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, 2011. **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 compliance 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, 2011.

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 the 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 was not 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.



Phoenix, Arizona
October 6, 2011

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

Section I – Summary of Auditors’ Results

Financial Statements

Type of Auditor’s Report Issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ Yes X 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
93.959	Substance Abuse Prevention and Treatment Block Grant

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

Year Ended June 30, 2011

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