

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

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

Years Ended June 30, 2012 and 2011

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

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

Years Ended June 30, 2012 and 2011

CONTENTS

| | <u>Pages</u> |
|---|--------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| FINANCIAL STATEMENTS | |
| Statements of Financial Position | 2 |
| Statements of Activities and Change in Net Assets | 3 |
| Statements of Cash Flows | 4 |
| Notes to Financial Statements | 5 - 13 |
| SUPPLEMENTAL SCHEDULES | |
| Independent Auditors' Report on Supplemental Schedules | 14 |
| Supplemental Schedule of Activities by Line of Business | 15 |
| Supplemental Schedule of Activities by Line of Business - Disclosures | 16 |
| OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS | |
| 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 |



Mayer Hoffman McCann P.C.

An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

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, 2012 and 2011, 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, 2012 and 2011, 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 9, 2012 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 the 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.

A handwritten signature in cursive script that reads "Mayer Hoffman McCann P.C." is written over the printed name of the firm.

Phoenix, Arizona
October 9, 2012

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 27,577,161 | \$ 11,162,483 |
| Marketable securities | 8,595,696 | 8,409,909 |
| Accounts receivable: | | |
| Grants and contracts | 534,966 | 11,327,447 |
| Providers | 500 | 1,141 |
| Other | 9,008 | 9,309 |
| Prepaid expenses and other current assets | <u>517,538</u> | <u>342,707</u> |
| TOTAL CURRENT ASSETS | 37,234,869 | 31,252,996 |
| OTHER ASSETS | 20,000 | - |
| PROPERTY AND EQUIPMENT, net | <u>7,283,440</u> | <u>5,628,382</u> |
| TOTAL ASSETS | <u>\$ 44,538,309</u> | <u>\$ 36,881,378</u> |

LIABILITIES AND NET ASSETS

| | | |
|--|----------------------|----------------------|
| CURRENT LIABILITIES | | |
| Amounts payable to providers | \$ 8,907,216 | \$ 6,140,648 |
| Accounts payable and accrued expenses | 809,250 | 660,121 |
| Unreported services payable | 766,267 | 696,742 |
| Accrued leave time | 451,568 | 444,551 |
| Unearned revenue | 36,076 | 226,753 |
| Community reinvestment program payable | 22,240 | 572,705 |
| Risk pool payable | 503,770 | 816,480 |
| Current maturities of capital lease obligations | <u>4,709</u> | <u>6,044</u> |
| TOTAL CURRENT LIABILITIES | 11,501,096 | 9,564,044 |
| CAPITAL LEASE OBLIGATIONS, less current maturities | <u>-</u> | <u>4,709</u> |
| TOTAL LIABILITIES | 11,501,096 | 9,568,753 |
| UNRESTRICTED NET ASSETS | <u>33,037,213</u> | <u>27,312,625</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 44,538,309</u> | <u>\$ 36,881,378</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, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| REVENUES AND GAINS | | |
| Arizona Department of Health Services | \$ 147,884,132 | \$ 148,614,025 |
| Provider service fees | 448,160 | 459,618 |
| Interest income | 70,405 | 85,516 |
| Other services | 57,173 | 48,432 |
| Other grants and contract revenue | 11,119 | - |
| Gain on disposal of property and equipment | 13,050 | - |
| Miscellaneous | 15,947 | 17,224 |
| TOTAL REVENUES AND GAINS | <u>148,499,986</u> | <u>149,224,815</u> |
| EXPENSES AND LOSSES | | |
| Program service fees distributed to providers | 132,370,950 | 135,511,035 |
| Salaries | 5,971,857 | 6,637,395 |
| Employee related expenses | 1,725,101 | 2,014,104 |
| Operating | 1,203,227 | 1,140,188 |
| Professional and outside services | 491,076 | 936,965 |
| Depreciation and amortization | 652,986 | 510,819 |
| Occupancy | 229,108 | 421,773 |
| Travel | 130,743 | 183,404 |
| Community reinvestment program | - | 775,772 |
| Loss on disposal of property and equipment | - | 23,848 |
| Interest | 350 | 839 |
| TOTAL EXPENSES AND LOSSES | <u>142,775,398</u> | <u>148,156,142</u> |
| CHANGE IN NET ASSETS | 5,724,588 | 1,068,673 |
| UNRESTRICTED NET ASSETS, BEGINNING OF YEAR | <u>27,312,625</u> | <u>26,243,952</u> |
| UNRESTRICTED NET ASSETS, END OF YEAR | <u>\$ 33,037,213</u> | <u>\$ 27,312,625</u> |

See Notes to Financial Statements

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 5,724,588 | \$ 1,068,673 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 652,986 | 510,819 |
| Loss (gain) on disposal of property and equipment | (13,050) | 23,848 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Grants and contracts receivable | 10,792,481 | (10,021,202) |
| Providers receivable | 641 | 23,930 |
| Other receivables | 301 | 1,941 |
| Prepaid expenses and other current assets | (174,831) | 12,588 |
| Increase (decrease) in: | | |
| Amounts payable to providers | 2,766,568 | 1,889,204 |
| Accounts payable and accrued expenses | 149,129 | (113,948) |
| Unreported services payable | 69,525 | (516,986) |
| Accrued leave time | 7,017 | (48,860) |
| Unearned revenue | (190,677) | 222,192 |
| Risk pool payable | (312,710) | - |
| Community reinvestment program payable | (550,465) | 288,285 |
| Net cash provided by (used in) operating activities | 18,921,503 | (6,659,516) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of marketable securities | (12,144,641) | (13,535,667) |
| Purchases of property and equipment | (2,308,044) | (539,071) |
| Proceeds from maturities of marketable securities | 11,958,854 | 10,742,758 |
| Proceeds from sale of property and equipment | 13,050 | 22,029 |
| Change in other assets | (20,000) | - |
| Net cash used in investing activities | (2,500,781) | (3,309,951) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on capital lease obligations | (6,044) | (12,712) |
| Net cash used in financing activities | (6,044) | (12,712) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 16,414,678 | (9,982,179) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 11,162,483 | 21,144,662 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 27,577,161 | \$ 11,162,483 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 350 | \$ 839 |

See Notes to Financial Statements

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

(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. NARBHA also has other grants and contracts which include two new contracts in 2012 with the Arizona Department of Housing (ADOH) to provide special needs housing in Coconino, Navajo, and Apache counties.

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

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).

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

Marketable securities - NARBHA accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities*. Under FASB ASC 958-320, NARBHA is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair value of equity securities and debt securities is based on quoted market prices. As of June 30, 2012 and 2011, marketable securities consist of negotiable bank certificates of deposit and U.S. treasury bills which are recorded at fair value.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

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

Grants and contracts receivable - At June 30, 2012 and 2011, NARBHA had amounts outstanding from ADHS and ADOH for the provision of comprehensive behavioral healthcare services for the benefit of eligible members within its geographic service area. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants and contracts receivable. Management considers grants and contracts receivable to be fully collectible as of June 30, 2012 and 2011 and, accordingly, an allowance for doubtful accounts is not considered necessary. At June 30, 2012 and 2011, grants and contracts receivable consisted entirely of amounts due from the state of Arizona through ADHS of \$525,610 and ADOH of \$9,356 as of June 30, 2012. 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 2012 and 2011.

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

NARBHA's contract with ADHS provides for payment to NARBHA at a monthly rate equal to approximately one-twelfth of specified annual contract maximums under ADHS' non-Title XIX/Title XXI programs. NARBHA determines the amount of unexpended Federal Block Grant funds at year end, which must be deferred. At June 30, 2012 and 2011, \$36,076 and \$226,753, respectively, of Federal Block Grant funds were deferred.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

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

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

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

ADHS contract revenue is also limited by the terms of the Contract to a maximum profit percentage, as defined, as of June 30, 2012 and 2011. There was no contract revenue that could not be recognized due to these profit limits (3%).

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

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

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, 2012 and 2011. 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 2009, 2010 and 2011 are subject to examination by the IRS generally for three years after they were filed. As of the date of this report, the fiscal 2012 tax returns had not yet been filed.

Recent accounting pronouncement - In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04") "Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards." ASU 2011-04 provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 does not extend the use of fair value, but rather provides additional disclosure guidance about the application of fair value in those areas where fair value is already required or permitted, especially for Level 3 fair value measurements. ASU 2011-04 is effective for the first reporting period beginning after December 15, 2011. The amendments of this ASU will be applied prospectively, and early adoption is not permitted. NARBHA is currently evaluating the impact of adopting ASU 2011-04, but currently believes there will be no significant impact on its financial statements.

Subsequent events - NARBHA has evaluated subsequent events through October 9, 2012, which is the date the financial statements were available to be issued.

(2) Marketable securities

Marketable securities consist of:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Negotiable bank certificates of deposit | \$ 7,999,000 | \$ 5,447,649 |
| US Treasury Bills | 596,696 | 2,962,260 |
| Total investments | <u>\$ 8,595,696</u> | <u>\$ 8,409,909</u> |

(3) Fair value measurements

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

(3) Fair value measurements (continued)

Level 3: Unobservable inputs for the asset or liability.

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

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

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

The following table summarizes the valuation of NARBHA's assets subject to measurement at fair value by the above FASB ASC 820 categories as of June 30, 2011:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------|---------------------|----------------|---------------------|
| Marketable securities | | | | |
| Negotiable bank certificates of deposit | \$ - | \$ 5,447,649 | \$ - | \$ 5,447,649 |
| US Treasury Bills | - | 2,962,260 | - | 2,962,260 |
| Total | <u>\$ -</u> | <u>\$ 8,409,909</u> | <u>\$ -</u> | <u>\$ 8,409,909</u> |

(4) Property and equipment

Property and equipment consists of:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Cost and donated value: | | |
| Land and improvements | \$ 1,390,709 | \$ 1,390,709 |
| Buildings and improvements | 4,521,660 | 4,521,660 |
| Furniture and equipment | 3,118,051 | 2,938,993 |
| Vehicles | 264,468 | 303,988 |
| Construction in progress | 7,893 | - |
| Software development in progress | 2,074,114 | - |
| Total cost and donated value | <u>11,376,895</u> | <u>9,155,350</u> |
| Accumulated depreciation and amortization | <u>(4,093,455)</u> | <u>(3,526,968)</u> |
| Net property and equipment | <u>\$ 7,283,440</u> | <u>\$ 5,628,382</u> |

Depreciation and amortization expense charged to operations was \$652,986 for 2012 and \$510,819 for 2011.

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 \$29,824 and \$26,842, respectively, as of June 30, 2012 and \$65,106 and \$56,159, respectively, as of June 30, 2011.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

(4) Property and equipment (continued)

At June 30, 2012, software development in progress consists of the development of a claims processing software system. Total cost is expected to be approximately \$3 million funded through operations. The software will be implemented during fiscal year 2013.

(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% - 4.5%). The future minimum lease payments required under the capital leases and annual maturities at June 30, 2012 are as follows:

Years Ending June 30,

| | | | |
|--|--|----|--------------------|
| 2013 | | \$ | 4,795 |
| Less amount representing interest | | | (86) |
| Present value of future minimum lease payments | | | 4,709 |
| Less current portion | | | (4,709) |
| Long-term portion | | \$ | <u> -</u> |

(6) Functional expenses

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

| | <u>2012</u> | <u>2011</u> |
|---------------------------------|-----------------------|-----------------------|
| Program expenses | \$ 132,712,901 | \$ 135,869,780 |
| Management and general expenses | <u>10,062,497</u> | <u>12,286,362</u> |
| Total functional expenses | <u>\$ 142,775,398</u> | <u>\$ 148,156,142</u> |

(7) Pension plan

NARBHA has a defined contribution pension and retirement plan. Pension costs are current service costs which are accrued and funded on a current basis. NARBHA starts contributing at a rate of 5% of the annual salary of eligible employees after two years of service. Thereafter, the contribution rate increases up to a maximum contribution of 20% after 25 years of service until December 31, 2011. Effective January 1, 2012, the maximum employer contribution is 15% after 16 years of service. In addition, employees may contribute up to 20% of their salaries to the plan, subject to IRS maximum contribution limits. Pension expense was \$463,455 and \$479,529 for years ended June 30, 2012 and 2011, respectively.

(8) Insurance

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

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

(8) 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 2012 and 2011, BHIP paid the annual premium for NARBHA of \$145,073 and \$147,383, respectively. NARBHA then entered into a contract to repay BHIP on a quarterly basis. At June 30, 2012 and 2011, NARBHA owed BHIP \$108,805 and \$110,537, respectively, under this agreement which is included in accounts payable and accrued expenses. At June 30, 2012 and 2011, 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 \$110,000 and \$156,000 for the years ended June 30, 2012 and June 30, 2011, 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, 2012 or June 30, 2011 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, 2012 or 2011.

Through October 2006, NARBHA maintained health, disability, life and dental insurance coverage on a claims-made basis through commercial insurance carriers. Effective November 2006, NARBHA, along with three of its subcontracted providers, entered into a contractual agreement to form the Arizona Health Insurance Pool (AHIP). AHIP is a tax-exempt health and welfare benefit plan formed under Arizona Revised Statutes (ARS) 41.621 et seq., which allows contractors and subcontractors with the state of Arizona to form insurance pools. AHIP functions as a self-insurance administrator which, through its risk-sharing provisions, provides NARBHA, and three of its subcontracted providers, with health, disability, life, and dental insurance coverage. AHIP has engaged the services of a professional actuarial consultant for the determination of premiums to be assessed to participants under the plan of coverage. NARBHA is required to pay assessed monthly premiums. As a self-insurance administrator, AHIP enables risk sharing among participating contractors. AHIP has purchased a policy to reinsure that portion of risk in excess of \$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. Effective January 1, 2011, the reinsurance policy increased to \$150,000 of covered expenses of any enrollee per contract year with a \$4,270,775 maximum plan exposure per calendar year. Insurance expense under the AHIP program amounted to approximately \$838,000 and \$1,027,000 for the years ended June 30, 2012 and 2011, respectively.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

(9) Contract performance bond

In accordance with the terms of its contract with ADHS, NARBHA is required to post a performance bond with ADHS equal to 110% of the first monthly ADHS payment to NARBHA each fiscal year, based on gross payments as specified in the contract. The amount of the bond is subject to adjustment as certain conditions change and its method of calculation is specified in the contract. This calculation is performed by ADHS. The performance bond must be maintained to guarantee payment of NARBHA's obligations under the contract. The performance bond requirement was \$12,776,907 for 2012 and 2011.

NARBHA maintained 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 which expired 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 2012 and 2011.

Effective May 29, 2012, NARBHA renewed the surety bond in the amount of \$4,455,908 to extend its maturity to September 30, 2013.

Effective May 25, 2012, NARBHA renewed the irrevocable standby letter of credit extending its maturity to June 30, 2014. In connection with the renewal of the irrevocable standby letter of credit, NARBHA is required to meet certain financial and non-financial covenants and maintain a minimum deposit balance of \$5,000,000 with the bank.

(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 90% of monthly Title XIX/XXI and Non-Title XIX/XXI capitation receipts (\$10,459,021 at June 30, 2012).

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, 2012 and 2011.

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.

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, 2012 and 2011.

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.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

(10) Commitments and contingencies (continued)

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

For the years ended June 30, 2012 and 2011, NARBHA's Board of Directors approved amounts that resulted in expenses of \$0 and \$775,772, respectively, to be spent on various behavioral health community projects. At June 30, 2012 and 2011, NARBHA had not yet spent all of the funds appropriated. Accordingly, at June 30, 2012 and 2011, NARBHA has recorded a liability for unspent community reinvestment program funds of \$22,240 and \$572,705, 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, 2012 and 2011, NARBHA's Board of Directors approved \$0 to fund the risk pool. Amounts outstanding at June 30, 2012 and 2011 totaled \$503,770 and \$816,480, respectively.

Healthcare regulation - The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. At June 30, 2012 and 2011, 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 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 have not been significantly impacted by such changes.

SUPPLEMENTAL SCHEDULES



Mayer Hoffman McCann P.C.

An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

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, 2012. 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, 2012, 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.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
October 9, 2012

Northern Arizona Regional Behavioral Health Authority, Inc.
 Schedule 1 - Supplemental Schedule of Activities
 Year Ended June 30, 2012

| | TXIX CHILD | TXIX CMDP | TXIX DD CHILD | TXIX SMI | TXIX DD ADULT | TXIX GMHSA | TXIX CHILD | TXIX ADULT | 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 | 33,367,061 | 13,570,749 | 2,471,755 | 48,985,934 | 2,359,528 | 32,693,284 | 577,589 | 19,512 | 1,623,930 | 4,251,900 | 581,524 | - | 539,348 | 453,349 | 4,138,571 | 220,488 | - | 3,600 | 145,009 | 146,003,131 | - | 146,003,131 |
| ADHS Revenue - Qualifying Incentive Payments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 388,217 | - | 418,417 | 1,437,760 | 1,437,760 |
| Specialty & Other Grants | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 30,200 | - | - | - | - | - | 35,943 | 454,360 |
| Client Fees (Co-pays) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Third Party Recoveries | | | | | | | | | | | | | | | | | | | | | | |
| Medicare | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Insurance | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Interest Income | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 70,405 | 70,405 |
| Other Behavioral Health Funding Sources - Non ADHS* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 86,170 | 86,170 |
| Unrelated Business Revenue* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 448,160 | 448,160 |
| TOTAL REVENUE | 33,367,061 | 13,570,749 | 2,471,755 | 48,985,934 | 2,359,528 | 32,693,284 | 577,589 | 19,512 | 1,623,930 | 4,251,900 | 581,524 | 0 | 539,348 | 453,349 | 4,168,771 | 220,488 | 0 | 391,817 | 145,009 | 146,421,548 | 2,078,438 | 148,499,986 |
| EXPENSES | | | | | | | | | | | | | | | | | | | | | | |
| Service Expenses: | | | | | | | | | | | | | | | | | | | | | | |
| Treatment Services | | | | | | | | | | | | | | | | | | | | | | |
| Counseling | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Counseling, Individual | 1,700,844 | 663,107 | 88,432 | 2,225,955 | 117,702 | 2,671,636 | 44,782 | 1,501 | 9,663 | - | - | - | 26,262 | - | 174,424 | - | - | - | - | 7,724,308 | - | 7,724,308 |
| Counseling, Family | 1,133,978 | 406,267 | 63,298 | 108,860 | 18,481 | 1,514,443 | 37,693 | 746 | 2,911 | - | - | - | 12,265 | 2,911 | 14,232 | - | - | - | - | 1,950,174 | - | 1,950,174 |
| Counseling, Group | 135,154 | 77,346 | 3,067 | 853,453 | 20,374 | 1,300,415 | 4,083 | - | 16,956 | - | - | - | 2,273 | 724 | 273,431 | - | - | - | - | 2,687,276 | - | 2,687,276 |
| Consultation, Assessment & Specialized Testing | 1,151,450 | 236,339 | 131,493 | 971,881 | 172,221 | 2,509,186 | 20,200 | 1,391 | 35,391 | 809,178 | 20,200 | - | 14,521 | 34,579 | 204,483 | - | - | - | - | 6,292,313 | - | 6,292,313 |
| Other Professional | - | 3,375 | - | - | - | - | - | - | - | - | - | - | 311 | 1,418 | - | - | - | - | - | 5,104 | - | 5,104 |
| Total Treatment Services | 4,121,426 | 1,386,434 | 286,290 | 4,160,149 | 328,778 | 6,632,680 | 106,758 | 3,638 | 47,965 | 826,134 | - | - | 55,632 | 36,721 | 666,570 | - | - | - | - | 18,659,175 | - | 18,659,175 |
| Rehabilitation Services | | | | | | | | | | | | | | | | | | | | | | |
| Living Skills Training | 4,739,250 | 1,209,486 | 661,415 | 3,131,429 | 129,442 | 913,511 | 95,147 | 1,331 | - | - | - | - | 61,028 | - | 187,709 | - | - | - | - | 11,129,748 | - | 11,129,748 |
| Cognitive Rehabilitation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Health Promotion | 45,942 | 43,415 | 2,233 | 107,323 | 1,955 | 215,177 | 561 | - | - | - | - | - | 1,067 | - | 100,971 | - | - | - | - | 518,644 | - | 518,644 |
| Supported Employment Services | 122,906 | 6,107 | 369 | 1,445,664 | 89,606 | 591,157 | 1,379 | 324 | - | - | - | - | - | - | 27,785 | - | - | - | - | 2,285,297 | - | 2,285,297 |
| Total Rehabilitation Services | 4,908,098 | 1,259,008 | 664,017 | 4,684,416 | 221,003 | 1,719,845 | 97,087 | 1,655 | - | - | - | - | 62,095 | - | 316,465 | - | - | - | - | 13,933,689 | - | 13,933,689 |
| Medical Services | | | | | | | | | | | | | | | | | | | | | | |
| Medication Services | - | - | - | 51,241 | - | 577,761 | - | - | - | 14,533 | - | - | - | 621 | 104,448 | - | - | - | - | 748,604 | - | 748,604 |
| Medical Management | 1,035,629 | 151,409 | 120,004 | 2,636,531 | 189,055 | 2,167,157 | 29,489 | 604 | 294 | 2,191,676 | - | - | 11,257 | 93,656 | 4,532 | - | - | - | - | 8,720,293 | - | 8,720,293 |
| Laboratory, Radiology & Medical Imaging | 19,526 | 1,931 | 1,351 | 45,032 | 3,067 | 41,130 | 476 | - | - | 36,233 | - | - | 319 | 1,549 | 1,334 | - | - | - | - | 150,948 | - | 150,948 |
| Electro-Convulsive Therapy | - | - | - | 55,621 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 55,621 | - | 55,621 |
| Total Medical Services | 1,054,155 | 153,340 | 121,355 | 2,788,425 | 192,122 | 2,786,048 | 29,965 | 604 | 294 | 2,242,442 | - | - | 11,576 | 95,826 | 190,314 | - | - | - | - | 9,675,466 | - | 9,675,466 |
| Support Services | | | | | | | | | | | | | | | | | | | | | | |
| Case Management | 5,231,942 | 2,591,185 | 673,504 | 6,242,903 | 461,363 | 4,756,216 | 91,343 | 4,380 | 253,703 | 12,075 | - | - | 98,541 | 516 | 405,069 | - | - | - | - | 20,822,740 | - | 20,822,740 |
| Personal Care Services | 564,305 | 104,624 | 232,150 | 371,775 | 1,086 | 1,021,765 | - | - | 77,917 | - | - | - | - | - | 352,822 | - | - | - | - | 2,726,444 | - | 2,726,444 |
| Family Support | 948,573 | 341,215 | 167,050 | 3,084 | 765 | 22,314 | 19,421 | 1,105 | - | - | - | - | 25,413 | - | 1,468 | - | - | - | - | 1,530,408 | - | 1,530,408 |
| Peer Support | 8,457 | 3,208 | 1,888 | 1,872,017 | 50,012 | 372,483 | 87 | - | - | - | - | - | 895 | - | 26,675 | - | - | - | - | 2,335,722 | - | 2,335,722 |
| Home Care Training to Home Care Client | 1,334,451 | 2,330,984 | 149,220 | 53,912 | - | 75,405 | - | - | - | - | - | - | - | - | - | - | - | - | - | 3,943,972 | - | 3,943,972 |
| Unskilled Respite Care | 1,845,457 | 706,020 | 136,777 | 8,733 | - | 934 | 27,190 | - | - | - | - | - | 14,990 | - | - | - | - | - | - | 2,740,101 | - | 2,740,101 |
| Supported Housing* | - | - | - | - | - | - | - | - | - | - | 537,910 | - | 500 | 161,959 | - | - | - | - | - | 700,369 | - | 700,369 |
| Flex Fund Services | - | - | - | - | - | - | - | - | - | - | - | - | 50,975 | 24,980 | 63,788 | - | - | - | - | 139,743 | - | 139,743 |
| Transportation | 1,302,536 | 347,328 | 124,773 | 2,402,554 | 78,356 | 1,602,475 | 17,392 | 538 | 21,647 | - | - | - | 17,472 | - | 83,683 | - | - | - | - | 5,998,754 | - | 5,998,754 |
| Total Support Services | 11,235,721 | 6,424,564 | 1,485,362 | 10,954,978 | 591,582 | 7,776,187 | 230,838 | 6,023 | 353,267 | 12,075 | 537,910 | - | 208,786 | 187,455 | 933,505 | - | - | - | - | 40,938,253 | - | 40,938,253 |
| Crisis Intervention Services | | | | | | | | | | | | | | | | | | | | | | |
| Crisis Intervention - Mobile | 72,149 | 24,570 | 7,552 | 261,118 | 15,469 | 261,769 | - | - | 353,589 | - | - | - | - | - | - | - | - | - | - | 996,216 | - | 996,216 |
| Crisis Intervention - Stabilization | - | 500 | - | 5,961 | 694 | 63,424 | - | - | 21,523 | - | - | - | - | - | - | - | - | - | - | 92,102 | - | 92,102 |
| Crisis Intervention - Telephone | 61,482 | 15,515 | - | 116,500 | - | 64,793 | 5,779 | - | 50,000 | - | - | - | - | - | - | - | - | - | - | 314,069 | - | 314,069 |
| Total Crisis Intervention Services | 133,631 | 40,585 | 7,552 | 383,579 | 16,163 | 389,986 | 5,779 | - | 425,112 | - | - | - | - | - | - | - | - | - | - | 1,402,387 | - | 1,402,387 |
| Inpatient Services | | | | | | | | | | | | | | | | | | | | | | |
| Hospital | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Psychiatric (Provider Types 02 & 71) | 960,810 | 223,618 | 183,867 | 4,302,178 | 344,376 | 1,671,931 | 15,281 | - | 399,254 | - | - | - | - | - | - | - | - | - | - | 8,101,315 | - | 8,101,315 |
| Detoxification (Provider Types 02 & 71) | - | - | - | 151,216 | - | 341,125 | - | - | 42,460 | - | - | - | - | - | - | - | - | - | - | 534,801 | - | 534,801 |
| Sub acute Facility | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Psychiatric (Provider Types B5 & B6) | 55,320 | - | - | 1,097,988 | 33,395 | 382,596 | - | - | 182,315 | - | - | - | - | - | - | - | - | - | - | 1,751,614 | - | 1,751,614 |
| Detoxification (Provider Types B5 & B6) | - | - | - | 159,132 | - | 257,962 | - | - | 49,938 | - | - | - | - | - | 69,824 | - | - | - | - | 536,856 | - | 536,856 |
| Residential Treatment Center (RTC) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Psychiatric - Secure & Non-Secure (Provider Types 78.B1.B2.B3) | 1,380,988 | 1,186,813 | 114,813 | 5,901 | - | - | 5,495 | - | 203 | - | - | - | - | - | - | - | - | - | - | 2,694,213 | - | 2,694,213 |
| Detoxification - Secure & Non-Secure (Provider Types 78.B1.B2.B3) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Inpatient Services, Professional | 44,010 | 10,772 | 7,857 | 478,546 | 14,433 | 225,306 | - | - | 1,328 | - | - | - | 1,543 | - | 404 | - | - | - | - | 784,199 | - | 784,199 |
| Total Inpatient Services | 2,441,128 | 1,421,203 | 306,537 | 6,194,961 | 392,204 | 2,878,920 | 20,776 | - | 675,498 | - | - | - | 1,543 | - | 70,228 | - | - | - | - | 14,402,998 | - | 14,402,998 |
| Residential Services | | | | | | | | | | | | | | | | | | | | | | |
| Level II Behavioral Health Residential Facilities | 1,352,328 | 789,199 | 332,089 | 4,005,182 | 106,376 | 2,209,439 | - | 1,906 | - | - | - | - | - | - | 970,319 | - | - | - | - | 9,766,838 | - | 9,766,838 |
| Level III Behavioral Health Residential Facilities | 70,856 | 37,228 | - | 2,132,591 | 46,247 | | | | | | | | | | | | | | | | | |

Northern Arizona Regional Behavioral Health Authority, Inc.
 Schedule 2 - Supplemental Schedule of Activities - Disclosures
 Year Ended June 30, 2012

| | TXIX CHILD | TXIX CMDP | TXIX DD CHILD | TXIX SMI | TXIX DD ADULT | TXIX GMHSA | TXXI CHILD | TXXI ADULT | NTXIX/XXI CRISIS | NTXIX/XXI MEDICATIONS | NTXIX/XXI SUPPORTED HOUSING | NTXIX/TXXI 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 | | | | | | | | | | | | | | | | | | | | | | |
| GLS Grant | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 25,423 | - | - | - | 25,423 | - | 25,423 |
| CMHS Coaching | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 156,509 | - | - | - | 156,509 | - | 156,509 |
| Suicide Prevention Project-SPE | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 38,556 | - | - | - | 38,556 | - | 38,556 |
| Total NTXIX/XXI Other and Other Federal Column | | | | | | | | | | | | | | | | 220,488 | | | | 220,488 | | 220,488 |
| DISCLOSURE OF OTHER GRANTS | | | | | | | | | | | | | | | | | | | | | | |
| SAPT Block Grant Prevention Administrator | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 30,200 | - | - | - | - | 30,200 | - | 30,200 |
| Prior Year Revenue received in FY12 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 35,943 | 35,943 |
| ADOH-HUD Grants | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 11,119 | - | 11,119 | - | 11,119 |
| Bridge Subsidy | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 377,098 | - | 377,098 | - | 377,098 |
| Total Other Grants | | | | | | | | | | | | | | | 30,200 | | | 388,217 | | 418,417 | 35,943 | 454,360 |
| DISCLOSURE OF OTHER BEHAVIORAL HEALTH FUNDING SOURCES - NON ADHS | | | | | | | | | | | | | | | | | | | | | | |
| Greater Ariz Telemed Consortium | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 22,000 | 22,000 |
| Gain on Sale of Assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 13,050 | 13,050 |
| Sanction fees Assessed RAs | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 28,173 | 28,173 |
| Telemed Fees | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 7,000 | 7,000 |
| Credit Card Rebate | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 13,045 | 13,045 |
| Other Miscellaneous | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,902 | 2,902 |
| Total Other Behavioral Health Funding Sources - Non ADHS | | | | | | | | | | | | | | | | | | | | | 86,170 | 86,170 |
| UNRELATED BUSINESS REVENUE | | | | | | | | | | | | | | | | | | | | | | |
| Provider Support | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 448,160 | 448,160 |
| Total Unrelated Business Revenue | | | | | | | | | | | | | | | | | | | | | 448,160 | 448,160 |
| DISCLOSURE OF SUPPORTED HOUSING EXPENSES | | | | | | | | | | | | | | | | | | | | | | |
| Rent Subsidy | - | - | - | - | - | - | - | - | - | - | 40,000 | - | - | - | - | - | - | - | - | - | 40,000 | 40,000 |
| Move-in/Start-up Kits | - | - | - | - | - | - | - | - | - | - | 48,955 | - | - | - | - | - | - | - | - | - | 48,955 | 48,955 |
| Eviction/Prevention Efforts | - | - | - | - | - | - | - | - | - | - | 48,955 | - | - | - | - | - | - | - | - | - | 48,955 | 48,955 |
| Property Acquisition | - | - | - | - | - | - | - | - | - | - | 275,000 | - | - | - | - | - | - | - | - | - | 275,000 | 275,000 |
| Other ADHS Approved Housing Expenses (Itemize accordingly): Approved for the rehabilitation & renovations of existing properties. | - | - | - | - | - | - | - | - | - | - | 125,000 | - | - | - | - | - | - | - | - | - | 125,000 | 125,000 |
| Total Supported Housing Expenses | | | | | | | | | | | 537,910 | | | | | | | | | | 537,910 | 537,910 |
| DISCLOSURE OF ALL OTHER BEHAVIORAL HEALTH SERVICES | | | | | | | | | | | | | | | | | | | | | | |
| Path Grant - Homeless | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 139,209 | 139,209 | 31,644 | 170,853 |
| PASRR | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 3,600 | - | 3,600 | - | 3,600 |
| Strategic Framework State Prevention Enhancement Grant (SPF-SPE) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 37,306 | - | - | - | 37,306 | - | 37,306 |
| Coaching & Training (CFT) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 149,150 | - | - | - | 149,150 | - | 149,150 |
| Qualifying Incentive Payments Passed to Providers | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,039,784 | 1,039,784 |
| Video-conferencing svcs allocated to programs | 30,816 | 12,044 | 3,891 | 43,508 | 2,647 | 30,621 | 650 | 13 | 1,389 | 3,477 | - | - | 555 | 387 | 5,403 | - | - | - | - | 135,401 | - | 135,401 |
| Total All Other Behavioral Health Services | 30,816 | 12,044 | 3,891 | 43,508 | 2,647 | 30,621 | 650 | 13 | 1,389 | 3,477 | - | - | 555 | 387 | 5,403 | 186,456 | - | 3,600 | 139,209 | 464,666 | 1,071,428 | 1,536,094 |
| DISCLOSURE OF SERVICES EXPENSES FROM NON ADHS SOURCES | | | | | | | | | | | | | | | | | | | | | | |
| Bridge Subsidy pass through from ADOH/ADHS | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 377,098 | - | 377,098 | - | 377,098 |
| ADOH-HUD Grants | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 10,755 | - | 10,755 | - | 10,755 |
| Total Service Expenses Non ADHS Sources | | | | | | | | | | | | | | | | | | 387,853 | | 387,853 | | 387,853 |
| DISCLOSURE OF ALL OTHER OPERATING | | | | | | | | | | | | | | | | | | | | | | |
| Office Supplies | 11,149 | 4,537 | 1,297 | 15,908 | 975 | 10,777 | 222 | 5 | 545 | 1,399 | 253 | - | 189 | 143 | 1,436 | 268 | - | 138 | 67 | 49,308 | 2 | 49,310 |
| Software Licenses/Maintenance Contracts | 73,293 | 29,825 | 8,529 | 104,574 | 6,410 | 70,849 | 1,457 | 32 | 3,583 | 9,199 | 1,664 | - | 1,243 | 938 | 9,437 | 1,765 | - | 905 | 443 | 324,146 | 14 | 324,160 |
| Publications | 6,890 | 2,804 | 802 | 9,831 | 603 | 6,661 | 137 | 3 | 337 | 865 | 156 | - | 117 | 88 | 887 | 166 | - | 85 | 42 | 30,474 | 1 | 30,475 |
| Printing | 6,941 | 2,824 | 808 | 9,903 | 607 | 6,709 | 138 | 3 | 339 | 871 | 158 | - | 118 | 89 | 894 | 167 | - | 86 | 42 | 30,697 | 1 | 30,698 |
| Telecommunications | 45,988 | 18,714 | 5,352 | 65,616 | 4,022 | 44,454 | 914 | 20 | 2,248 | 5,772 | 1,044 | - | 780 | 588 | 5,921 | 1,107 | - | 568 | 278 | 203,386 | 9 | 203,395 |
| Training | 23,534 | 9,577 | 2,739 | 33,578 | 2,058 | 22,749 | 468 | 10 | 1,150 | 2,954 | 534 | - | 399 | 301 | 3,030 | 567 | - | 291 | 142 | 104,081 | 4 | 104,085 |
| Sponsorships | 5,423 | 2,207 | 631 | 7,737 | 474 | 5,242 | 108 | 2 | 265 | 681 | 123 | - | 92 | 69 | 698 | 131 | - | 67 | 33 | 23,983 | 1 | 23,984 |
| Recruiting | 5,667 | 2,306 | 659 | 8,086 | 496 | 5,478 | 113 | 2 | 277 | 711 | 129 | - | 96 | 73 | 730 | 136 | - | 70 | 34 | 25,063 | 1 | 25,064 |
| Insurance | 40,876 | 16,633 | 4,757 | 58,322 | 3,575 | 39,513 | 813 | 18 | 1,998 | 5,130 | 928 | - | 693 | 523 | 5,263 | 984 | - | 505 | 247 | 180,778 | 8 | 180,786 |
| Other Operating Expenses | 17,263 | 7,024 | 2,008 | 24,630 | 1,510 | 16,687 | 343 | 9 | 845 | 2,166 | 393 | - | 294 | 221 | 2,222 | 417 | - | 212 | 105 | 76,349 | 3 | 76,352 |
| Total All Other Operating | 237,024 | 96,451 | 27,582 | 338,185 | 20,730 | 229,119 | 4,713 | 104 | 11,587 | 29,748 | 5,382 | - | 4,021 | 3,033 | 30,518 | 5,708 | - | 2,927 | 1,433 | 1,048,265 | 44 | 1,048,309 |
| DISCLOSURE OF NON ADHS AND/OR UNRELATED ADMINISTRATIVE EXPENSES | | | | | | | | | | | | | | | | | | | | | | |
| Interest | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 351 | 351 |
| Mental Health First Aid Training | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 15,911 | 15,911 |
| Business Development Admin Expenses | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 210,606 | 210,606 |
| Other Telemed expenses | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 11,098 | 11,098 |
| ADOH-HUD Grants | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 330 | - | 330 | - | 330 |
| SAPT Block Grant Prevention Administrator | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 30,200 | - | - | - | - | 30,200 | - | 30,200 |
| Provider Support | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 448,188 | 448,188 |
| Total Non ADHS and/or Unrelated Administrative Expenses | | | | | | | | | | | | | | | 30,200 | | | 330 | | 30,530 | 686,154 | 716,684 |

OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

| Federal Grantor / Pass-Through Grantor / Program | Federal CFDA Number | Grantor's Number | Federal Expenditures |
|---|------------------------------------|-----------------------------|---------------------------------|
| U.S. Department of Health and Human Services | | | |
| Arizona Department of Economic Security: | | | |
| Medical Assistance Program | | | |
| Children - Title XIX | 93.778 | 68660047917631 | \$ 2,574,768 |
| SMI - Title XIX | 93.778 | 68660047917631 | <u>1,983,818</u> |
| Total Arizona Department of Economic Security | | | <u>4,558,586</u> |
| Arizona Department of Health Services: | | | |
| Mental Health Block Grant (CMHS): | | | |
| SMI - Non Title XIX | 93.958 | 11356415170214 | 433,184 |
| Children - Non Title XIX | 93.958 | 11356415170214 | <u>687,672</u> |
| Total Mental Health Block Grant | | | <u>1,120,856</u> |
| Substance Abuse Prevention and Treatment Block Grant (SAPT): | | | |
| Substance Abuse | 93.959 | 11356415170214 | 3,051,389 |
| Crisis | 93.959 | 11356415170214 | 547,890 |
| Prevention | 93.959 | 11356415170214 | <u>475,805</u> |
| Total Substance Abuse Block Grant | | | <u>4,075,084</u> |
| Centers for Medicare and Medicaid Services (CMS): | | | |
| Medical Assistance Program | | | |
| SMI - Title XIX | 93.778 | 68660047910029 | 31,385,777 |
| Children - Title XIX | 93.778 | 68660047910029 | 29,462,682 |
| Substance Abuse/General Mental Health - Title XIX | 93.778 | 68660047910029 | 21,411,773 |
| PASRR | 93.778 | 68660047910029 | <u>2,700</u> |
| Total CMS Medical Assistance Program | | | <u>82,262,932</u> |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | 11356415170214 | 132,772 |
| Substance Abuse and Mental Health Services-Projects of Regional and National Significance | 93.243 | 11356415170214 | 63,979 |
| KidsCare, Title XXI | 93.767 | 68660047910029 | <u>479,630</u> |
| Total Arizona Department of Health Services | | | <u>88,135,253</u> |
| Total U.S. Department of Health and Human Services | | | <u>92,693,839</u> |
| U.S. Department of Housing and Urban Development | | | |
| Housing Opportunities for Persons with AIDS (HOPWA) | 14.241 | | 2,836 |
| Supportive Housing Program Persons with Disabilities (SHP) | 14.235 | | <u>8,105</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>10,941</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 92,704,780</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, 2012

(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 2012 *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 | \$ 906,734 |
| Substance Abuse Prevention and Treatment Block Grant (SAPT) | 93.959 | 3,723,018 |
| Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – Title XIX | 93.778 | 80,933,908 |
| Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – PASRR | 93.778 | 2,700 |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | 128,467 |
| KidsCare, Title XXI | 93.767 | 443,299 |
| Housing Opportunities for Persons with AIDS | 14.241 | 2,650 |
| Supportive Housing Program | 14.235 | 8,105 |



Mayer Hoffman McCann P.C.

An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' 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, 2012, and have issued our report thereon dated October 9, 2012. 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 previously.

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 McCann P.C." The signature is written in a cursive, flowing style.

Phoenix, Arizona
October 9, 2012



Mayer Hoffman McCann P.C.

An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' 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, 2012. **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, 2012.

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 9, 2012

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

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, 2012

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