

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

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

Year Ended September 30, 2014 and  
Fifteen Months Ended September 30, 2013

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

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Year Ended September 30, 2014 and  
Fifteen Months Ended September 30, 2013

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## **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.**

#### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of ***Northern Arizona Regional Behavioral Health Authority, Inc.*** (the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2014 and 2013, and the related consolidated statements of activities and change in net assets and cash flows for the year ended September 30, 2014 and the fifteen months ended September 30, 2013, and the related notes to the consolidated financial statements.

#### ***Management's Responsibility for the Consolidated Financial Statements***

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

#### ***Auditors' Responsibility***

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

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

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Northern Arizona Regional Behavioral Health Authority, Inc.** as of September 30, 2014 and 2013, and the changes in their net assets and their cash flows for the year ended September 30, 2014 and the fifteen months ended September 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Supplemental and Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities and change in net assets presented on pages 21 and 22 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial information and results of operations of the individual entities, and is not a required part of the consolidated financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2015 on our consideration of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Northern Arizona Regional Behavioral Health Authority, Inc.'s** internal control over financial reporting and compliance.



Phoenix, Arizona  
January 8, 2015

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

September 30, 2014 and 2013

	<b><u>ASSETS</u></b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 30,333,463	\$ 26,564,392
Marketable securities	7,033,401	8,357,327
Accounts receivable:		
Grants and contracts	734,362	1,891,683
Providers	-	5,919
Other	61,755	21,565
Prepaid expenses and other current assets	<u>580,722</u>	<u>494,235</u>
<b>TOTAL CURRENT ASSETS</b>	<b>38,743,703</b>	<b>37,335,121</b>
<b>OTHER ASSETS</b>	-	20,000
<b>PROPERTY AND EQUIPMENT, net</b>	<u>9,230,855</u>	<u>9,363,712</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 47,974,558</u></b>	<b><u>\$ 46,718,833</u></b>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Amounts payable to providers	\$ 2,428,841	\$ 5,017,230
Accounts payable and accrued expenses	1,170,362	915,853
Unreported services payable	296,000	401,743
Payable to funding source	980	17,809
Accrued leave time	573,486	492,547
Unearned revenue	28,658	15,805
Risk pool payable	<u>453,770</u>	<u>453,770</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,952,097</b>	<b>7,314,757</b>
<b>UNRESTRICTED NET ASSETS</b>	<u>43,022,461</u>	<u>39,404,076</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 47,974,558</u></b>	<b><u>\$ 46,718,833</u></b>

See Notes to Consolidated Financial Statements

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

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

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

	<b>Year Ended September 30, 2014</b>	<b>Fifteen Months Ended September 30, 2013</b>
	<u>                    </u>	<u>                    </u>
<b>REVENUES AND GAINS</b>		
Arizona Department of Health Services	\$ 159,008,205	\$ 184,553,189
Other grants and contract revenue	276,721	163,630
Provider service fees	506,164	556,211
Other services	21,133	35,843
Interest income	58,057	109,975
Rental revenue	78,395	29,244
Gain on sale of property and equipment	-	25,630
Donations	-	5,000
Miscellaneous	15,583	16,594
<b>TOTAL REVENUES AND GAINS</b>	<u>159,964,258</u>	<u>185,495,316</u>
 <b>EXPENSES</b>		
Program service fees distributed to providers	142,380,942	163,952,621
Salaries	7,401,242	8,312,766
Employee related expenses	1,932,593	2,218,814
Operating	1,863,325	1,890,250
Professional and outside services	1,438,998	1,065,140
Depreciation and amortization	728,384	897,220
Occupancy	397,514	317,824
Travel	175,344	163,027
Community reinvestment program	27,531	310,705
Interest	-	86
<b>TOTAL EXPENSES</b>	<u>156,345,873</u>	<u>179,128,453</u>
 <b>CHANGE IN NET UNRESTRICTED NET ASSETS</b>	 3,618,385	 6,366,863
 <b>UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD</b>	 <u>39,404,076</u>	 <u>33,037,213</u>
 <b>UNRESTRICTED NET ASSETS, END OF PERIOD</b>	 <u>\$ 43,022,461</u>	 <u>\$ 39,404,076</u>

See Notes to Consolidated Financial Statements

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

	<b>Year Ended September 30, 2014</b>	<b>Fifteen Months Ended September 30, 2013</b>
	<u>                    </u>	<u>                    </u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,618,385	\$ 6,366,863
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	728,384	897,220
Gain on sale of property and equipment	-	(25,630)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Grants and contracts receivable	1,157,321	(1,356,717)
Providers receivable	5,919	(5,419)
Other receivables	(40,190)	(12,557)
Prepaid expenses and other current assets	(86,487)	23,303
Increase (decrease) in:		
Amounts payable to providers	(2,588,389)	(3,889,986)
Accounts payable and accrued expenses	254,509	106,603
Unreported services payable	(105,743)	(364,524)
Payable to funding source	(16,829)	17,809
Accrued leave time	80,939	40,979
Unearned revenue	12,853	(20,271)
Risk pool payable	-	(50,000)
Community reinvestment program payable	-	(22,240)
Net cash provided by operating activities	<u>3,020,672</u>	<u>1,705,433</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of marketable securities	(11,814,014)	(14,114,959)
Purchases of property and equipment	(595,527)	(2,977,492)
Proceeds from maturities of marketable securities	13,137,940	14,353,328
Proceeds from sale of property and equipment	-	25,630
Change in other assets	20,000	-
Net cash provided by (used in) investing activities	<u>748,399</u>	<u>(2,713,493)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease obligations	-	(4,709)
Net cash used in financing activities	<u>-</u>	<u>(4,709)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	3,769,071	(1,012,769)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>26,564,392</u>	<u>27,577,161</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 30,333,463</u>	<u>\$ 26,564,392</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ -</u>	<u>\$ 86</u>

See Notes to Consolidated Financial Statements

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

**(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 September 30, 2015, NARBHA has been designated as the Regional Behavioral Health Authority (RBHA) for the geographic service area of Apache, Coconino, Mojave, Navajo and Yavapai counties. NARBHA is responsible for managing and maintaining an organized, comprehensive behavioral healthcare delivery system for the benefit of eligible members within its geographic service area. NARBHA functions as a behavioral health management organization and does not provide direct healthcare services to eligible members. Direct behavioral healthcare services are provided to eligible members by a network of subcontracted service providers. NARBHA also has other grants and contracts which include three contracts with the Arizona Department of Housing (ADOH) to provide special needs housing in Coconino, Navajo, and Apache counties, which expire through September 30, 2015. The contracts with ADOH represented approximately \$277,000 and \$164,000 in revenue for the year ended September 30, 2014 and the fifteen months ended September 30, 2013, respectively.

During fiscal year 2012, NARBHA established two for-profit entities, Welltera and Northbound Solutions. The entities were established for the purpose of work in the healthcare industry. NARBHA funded \$10,000 to each entity for initial start-up costs, which was recorded in other assets on the accompanying consolidated statements of financial position. During fiscal year 2014, both entities were formally closed with the remaining assets (cash) being transferred back to NARBHA. Total aggregate activity of Welltera and Northbound Solutions during fiscal years 2014 and 2013 is immaterial and consisted of organizational expenses. Due to the immateriality of operations of these entities, they have not been consolidated. Furthermore, there is no tax effect as the entities were dissolved in fiscal year 2014.

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

In July 2014, ADHS released the Greater Arizona Request for Proposal (RFP) for Integrated Care. The RFP will create a specialty Regional Behavioral Health Authority (RBHA) model for Medicaid members having serious mental illness. The RFP encompasses fourteen counties outside of the greater Phoenix area (Maricopa County) and will be split into two Geographic Service Areas (GSAs). The North GSA includes the following counties: Apache, Coconino, Gila, Mohave, Navajo, Yavapai and a small portion of Graham County. NARBHA submitted a bid to serve as the RBHA for the North GSA (See Note 12). In connection with NARBHA's bid, NARBHA created WTDG, Inc. (WTDG), an Arizona nonprofit corporation. The purpose of WTDG is to prepare the bid response to the ADHS RFP. WTDG, which is controlled by NARBHA, was funded through the transfer of cash from NARBHA. Expenses incurred by WTDG will be reimbursed by NARBHA, under an administrative services agreement. During the year ended September 30, 2014, WTDG incurred approximately \$920,000 of costs related to the RFP response.

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



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

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

The significant accounting policies followed by NARBHA are as follows:

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

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

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

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

Included within cash and cash equivalents is cash relating to the letter of credit discussed in Note 9. NARBHA is required to maintain a minimum deposit balance of \$8,321,000 with the lending institution.

**Marketable securities** - NARBHA accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities*. Under FASB ASC 958-320, NARBHA is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair value of equity and debt securities is based on quoted market prices. As of September 30, 2014 and 2013, marketable securities consist of negotiable bank certificates of deposit and U.S. treasury bills which are recorded at fair value.

**Grants and contracts receivable** - At September 30, 2014 and 2013, NARBHA had amounts outstanding from ADHS and ADOH for the provision of comprehensive behavioral healthcare services for the benefit of eligible members within its geographic service area. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants and contracts receivable. Management considers grants and contracts receivable to be fully collectible as of September 30, 2014 and 2013 and, accordingly, an allowance for doubtful accounts is not considered necessary. At September 30, 2014 and 2013, grants and contracts receivable consisted entirely of amounts due from the state of Arizona through ADHS of \$686,147 and \$1,877,462 and ADOH of \$48,215 and \$14,221, respectively. Management believes any loss due to a concentration of credit risk will be minimal.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

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

**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 were capitalized prior to July 2014 and \$5,000 starting in August 2014. 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 2014 and 2013.

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

NARBHA's contract with ADHS provides for payment to NARBHA at a monthly rate equal to approximately one-twelfth of specified annual contract maximums under ADHS' non-Title XIX/Title XXI programs. NARBHA determines the amount of unexpended State and Federal Block Grant funds at year end, which must be deferred. At September 30, 2014 and 2013, \$5,405 and \$10,811, respectively, of Federal Block Grant funds were deferred. The amount of Non-TXIX funds unexpended at September 30, 2014 and 2013 was \$21,453 and \$4,994, respectively.

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

In fiscal year 2014, NARBHA was awarded the State Prevention Framework/Partnership for Success (SPF/PFS) Grant by ADHS/DBHS. This is a Substance Abuse and Mental Health Services Administration (SAMHSA) grant with the goals of reducing youth alcohol use and prescription drug usage rates in Navajo, Yavapai and Mohave counties. Revenue is recognized as costs are incurred. Requests for payment are submitted monthly to ADHS/DBHS.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

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

Also awarded in fiscal year 2014 by ADHS/DBHS was the Cooperative Agreements to Benefit Homeless Individuals for States (CABHI). The purpose of this grant is to improve outcomes for individuals with substance abuse or co-occurring substance abuse and mental health disorders who experience chronic homelessness in Yavapai and Coconino counties. Revenue is recognized as costs are incurred. Requests for payment are submitted monthly to ADHS/DBHS.

Effective July 1, 2014 ADHS contracted with NARBHA for all pre-petition screening and evaluation services required of Coconino County under Title 36. NARBHA in turn sub-contracted these services to The Guidance Center. This is a reimbursable contract with the County as the payer of last resort. Revenue is recognized as costs are incurred. NARBHA submits a monthly expenditure report to ADHS for all services provided with a reconciliation to be done after June 30, 2015.

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

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

ADHS contract revenue is also limited by the terms of the Contract to a maximum profit percentage, as defined, as of September 30, 2014 and September 30, 2013. For the year ended September 30, 2014 and the fifteen months ended September 30, 2013, there was no contract revenue that could not be recognized due to these profit limits (3%).

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

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

**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.

**NORTHERN ARIZONA REGIONAL  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

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

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.

NARBHA receives pharmacy rebates for volume-based utilization of certain medications. These rebates are recorded when earned as a reduction of program services expense. For the year ended September 30, 2014 and the fifteen months ended September 30, 2013, pharmacy rebates totaled approximately \$128,000 and \$313,000, respectively.

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

**Income tax status** - NARBHA qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, therefore, there is no provision for income taxes in the accompanying consolidated financial statements. In addition, NARBHA qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable. Management does not believe NARBHA has any UBTI for the tax year ended September 30, 2014, for the 3 months ended September 30, 2013, or for the tax year ended June 30, 2013. NARBHA evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts.

NARBHA's federal Return of Organizations Exempt From Income Tax (Form 990) for fiscal 2011, 2012, 2013 and 2013 short year are subject to examination by the IRS generally for three years after they were filed. As of the date of this report, the fiscal 2014 tax return had not yet been filed. WNC is a disregarded entities for tax purposes. WTDG is an Arizona non-profit corporation which will file Form 1120.

**Subsequent events** - NARBHA has evaluated subsequent events through January 8, 2015, which is the date the consolidated financial statements were available to be issued.

**(2) Marketable securities**

Marketable securities consist of:

	<b>2014</b>	<b>2013</b>
Negotiable bank certificates of deposit	\$ 6,783,522	\$ 7,882,556
U.S. Treasury Bills	249,879	474,771
Total investments	\$ 7,033,401	\$ 8,357,327

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

**(3) Fair value measurements**

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

The following table summarizes the valuation of NARBHA's assets subject to measurement at fair value by the above FASB ASC 820 categories as of September 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities				
Negotiable bank certificates of deposit	\$ -	\$ 6,783,522	\$ -	\$ 6,783,522
U.S. Treasury Bills	-	249,879	-	249,879
Total	<u>\$ -</u>	<u>\$ 7,033,401</u>	<u>\$ -</u>	<u>\$ 7,033,401</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 September 30, 2013:

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

**(4) Property and equipment**

Property and equipment consists of:

	<b>2014</b>	<b>2013</b>
Cost and donated value:		
Land and improvements	\$ 2,102,600	\$ 2,102,602
Buildings and improvements	6,427,860	6,163,564
Furniture and equipment	4,709,521	5,472,762
Vehicles	270,021	270,021
Construction in progress	112,125	251,739
Total cost and donated value	13,622,127	14,260,688
Accumulated depreciation and amortization	(4,391,272)	(4,896,976)
Net property and equipment	<b>\$ 9,230,855</b>	<b>\$ 9,363,712</b>

Depreciation and amortization expense charged to operations was \$728,384 for the year ended September 30, 2014 and \$897,220 for the fifteen months ended September 30, 2013.

As of September 30, 2014, construction in progress consists of certain building improvements. These projects are expected to be placed in service in January 2015. Additionally, during fiscal 2014, NARBHA wrote-off approximately \$1,025,000 of obsolete, fully depreciated video conferencing equipment, a telephone system and the prior claims software no longer in use.

**(5) Capital lease obligations**

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

**(6) Functional expenses**

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

	<b>2014</b>	<b>2013</b>
Program expenses	\$ 143,604,135	\$ 165,064,079
Management and general expenses	12,741,738	14,064,374
Total functional expenses	<b>\$ 156,345,873</b>	<b>\$ 179,128,453</b>

**(7) Pension plan**

NARBHA has a defined contribution pension and retirement plan. Pension costs are current service costs which are accrued and funded on a current basis. NARBHA starts contributing at a rate of 5% of the annual salary of eligible employees after two years of service. Thereafter, the contribution rate increases up to a maximum contribution of 15% after 16 years of service. In addition, employees may contribute up to 20% of their salaries to the plan, subject to IRS maximum contribution limits. Pension expense was \$487,011 and \$563,085 for the year ended September 30, 2014 and the fifteen months ended September 30, 2013, respectively.

**NORTHERN ARIZONA REGIONAL  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

**(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 allows 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 2014 and 2013, BHIP paid the annual premium for NARBHA of \$108,402 and \$134,816, respectively. NARBHA then entered into a contract to repay BHIP on a quarterly basis. As of September 30, 2014 and 2013, NARBHA owed BHIP \$54,201 and \$67,408, respectively, under this agreement which is included in accounts payable and accrued expenses. As of September 30, 2014 and 2013, NARBHA had prepaid insurance for the same amount which is included in prepaid expenses and other current assets. During 2014 BHIP declared and paid a return of premiums in the amount of \$120,221 which was recorded as a reduction to insurance expense. Insurance expense under the BHIP program amounted to approximately \$1,400 and \$140,000 for the year ended September 30, 2014 and the fifteen months ended September 30, 2013, respectively.

BHIP may retroactively assess participants an amount not to exceed the last annual premium per coverage year based on adverse participant-specific claims experience as defined in the policy. Based on NARBHA's historical claims experience and exposure to date with BHIP, no reserves have been established at September 30, 2014 and 2013 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 year ended September 30, 2014 or the fifteen months ended September 30, 2013.

Through October 2006, NARBHA maintained health, disability, life and dental insurance coverage on a claims-made basis through commercial insurance carriers. Effective November 2006, NARBHA, along with three of its subcontracted providers, entered into a contractual agreement to form the Arizona Health Insurance Pool (AHIP). AHIP is a tax-exempt health and welfare benefit plan formed under Arizona Revised Statutes (ARS) 41.621 et seq., which allows contractors and subcontractors with the state of Arizona to form insurance pools. AHIP functions as a self-insurance administrator which, through its risk-sharing provisions, provides NARBHA, and three of its subcontracted providers, with health, disability, life, and dental insurance coverage. AHIP has engaged the services of a professional actuarial consultant for the determination of premiums to be assessed to participants under the plan of coverage. NARBHA is required to pay assessed monthly premiums. As a self-insurance administrator, AHIP enables risk sharing among participating contractors. AHIP has purchased a policy to reinsure that portion of risk in excess of \$150,000 of covered expenses of any enrollee per contract year with a \$4,270,775 maximum plan exposure per calendar year. Insurance expense under the AHIP program amounted to approximately \$932,000 and \$1,078,000 for the year ended September 30, 2014 and the fifteen months ended September 30, 2013, respectively.

**NORTHERN ARIZONA REGIONAL  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

**(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 \$15,520,813 and \$12,776,907 for 2014 and 2013. In November 2014, NARBHA was notified by DBHS that the performance bond requirement would be increased to \$18,203,874 for fiscal year 2015.

NARBHA maintained an irrevocable standby letter of credit with a bank in the amount of \$8,320,999 maturing on June 30, 2014. In fiscal year 2014, NARBHA received an amendment to the agreement to extend the maturity to September 30, 2015 and increase the amount of the letter of credit to \$8,321,000. In addition, NARBHA purchased a surety bond in the amount of \$4,455,908 in 2012 which expired on September 30, 2013. This letter of credit along with a surety bond is required by ADHS to comply with the terms of the performance bond requirement for 2014 and 2013. Effective October 1, 2013, NARBHA renewed the surety bond in the amount of \$7,199,813 to extend its maturity to September 30, 2014. During fiscal year 2014, NARBHA renewed the surety bond in the same amount through September 30, 2015. Effective November 14, 2014, the amount of the surety bond was increased to \$9,882,874 to comply with the increase in the ADHS/DBHS requirement.

The cost of obtaining the performance bond and letter of credit totaled \$145,076 and \$165,260 for the year ended September 30, 2014 and the fifteen months ended September 30, 2013, respectively. NARBHA amortizes the cost over the renewal period of the bond.

**(10) Payable to funding source**

In connection with the irrevocable standby letter of credit, NARBHA is required to meet certain financial and non-financial covenants and maintain a minimum deposit balance of \$8,321,000 with the bank as a compensating balance for future credit availability.

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

For the year ended September 30, 2014 and the fifteen months ended September 30, 2013, NARBHA believes that the encounter value will exceed the minimum percentage of encounters. Accordingly, no sanctions have been accrued related to 2014 or 2013, as of September 30, 2014 and 2013.

**(11) Commitments and contingencies**

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

Pursuant to its contract with ADHS, NARBHA must maintain unrestricted, minimum net assets of 90% of monthly Title XIX/XXI and Non-Title XIX/XXI capitation receipts (\$13,671,186 as of September 30, 2014).



**NORTHERN ARIZONA REGIONAL  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

**(11) Commitments and contingencies (continued)**

NARBHA's contract with ADHS contains various quarterly financial performance requirements, the most restrictive of which requires NARBHA to maintain minimum liquidity and equity ratios and limits the amounts of administrative expenses that may be funded with ADHS contract funds. Management believes NARBHA was in compliance with these requirements as of September 30, 2014 and 2013.

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

In addition, NARBHA is subject to a profit risk corridor calculation that calculates a return of premium to the extent certain financial ratios are not met by program types. NARBHA did not record a return of premiums as a result of the profit risk corridor calculation for the year ended September 30, 2014 or the fifteen months ended September 30, 2013.

**Supported housing grant** - In fiscal year 2013, NARBHA was awarded a supportive housing grant of \$2,325,062 from the Arizona Department of Health Services. NARBHA expended \$2,325,062 of the funds to purchase five housing complexes to house persons who have been determined to be Seriously Mentally Ill. The five housing complexes were placed into service on June 30, 2013. As of September 30, 2014, accumulated depreciation for all 5 housing complexes was \$85,208. The grant provides, among other restrictions, that the housing be used solely for the purpose for which it was acquired, and not be transferred or sold before a 25-year term expires. If NARBHA fails to comply with the grant restrictions, ADHS or the State would be entitled to have the title of the property transferred to the State or other remedies as determined by ADHS or the State. As of September 30, 2014, these amounts are included in unrestricted net assets.

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

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

For the year ended September 30, 2014 and the fifteen months ended September 30, 2013, NARBHA's Board of Directors approved amounts that resulted in expenses of \$27,531 and \$310,705, respectively, to be spent on various behavioral health community projects. In addition, for the year ended September 30, 2014, \$250,000 was approved by the Board of Directors to be paid to WNC for housing renovations. This amount is eliminated in consolidation.

**NORTHERN ARIZONA REGIONAL  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

**(11) Commitments and contingencies (continued)**

**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 year ended September 30, 2014 and the fifteen months ended September 30, 2013, NARBHA’s Board of Directors approved \$0 and \$550,000, respectively, to fund the risk pool. The amounts approved are included on the consolidated statements of activities and change in net assets within program service fees distributed to providers. Amounts outstanding as of September 30, 2014 and 2013 totaled \$453,770 in the consolidated statements of financial position. With ADHS’ prior approval, unused risk pool funds in any fiscal year, if any, may be used by NARBHA to fund other services, or for other purposes, or may be rolled to the next fiscal year’s risk pool.

**Healthcare regulation** - The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. As of September 30, 2014 and 2013, 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.

**(12) Subsequent events**

NARBHA’s contract with ADHS expires September 30, 2015. In July 2014, ADHS released the Greater Arizona Request for Proposal (RFP) for Integrated Care. The RFP will create a specialty Regional Behavioral Health Authority (RBHA) model for Medicaid members having serious mental illness. This behavioral health strategy focuses on an integrated care model allowing a single managed care organization to manage both physical and behavioral health services for seriously mentally ill residents in distinct geographic service areas. The RFP encompasses fourteen counties outside of the greater Phoenix area (Maricopa County) and will be split into two Geographic Service Areas (GSAs). The North GSA includes the following counties: Apache, Coconino, Gila, Mohave, Navajo Yavapai and a small portion of Graham County.

For the purpose of responding to the ADHS release of the Greater Arizona Request for Proposal for Integrated Care, NARBHA formed a Joint Venture Limited Liability Corporation with Health Choice of Northern Arizona (a division of IASIS Healthcare). The new company is called Health Choice Integrated Care (HCIC) and NARBHA is a 48% owner. NARBHA and Health Choice submitted a bid for the Northern GSA through the HCIC partnership with the intent of delivering integrated behavioral and physical care services through HCIC beginning October 1, 2015.

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BEHAVIORAL HEALTH AUTHORITY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended September 30, 2014 and Fifteen Months Ended September 30, 2013

**(12) Subsequent events (continued)**

On December 18, 2014, ADHS awarded the Northern Arizona Integrated RBHA contract to Health Choice Integrated Care. The contract has an initial three year term with two-two year renewal options for a potential maximum length of 7 years. Total revenue is anticipated to exceed \$2 billion over the life of the contract. The allowable administrative overhead on the new contract has been raised to 8% and the allowable services profit has been increased to 4%. NARBHA is working on arrangements with Health Choice Management Company to assign tail responsibilities on the current NARBHA RBHA contract.

**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 on pages 19 and 20 (as defined in the contract dated July 1, 2010, between **Northern Arizona Regional Behavioral Health Authority, Inc.** (NARBHA) and the Arizona Department of Health Services - Division of Behavioral Health Services (the "ADHS-DBHS")) of NARBHA as of and for the year ended September 30, 2014.

#### ***Management's Responsibility for the Supplemental Schedules***

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

#### ***Auditors' Responsibility***

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

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

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

#### ***Opinion***

In our opinion, the supplemental schedule of activities by line of business, and supplemental schedule of activities by line of business - disclosures referred to above present fairly, in all material respects, the financial position and activities of **Northern Arizona Regional Behavioral Health Authority, Inc.** as of and for the year ended September 30, 2014, as defined in the contract referred to in the first paragraph.

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

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

Phoenix, Arizona  
January 8, 2015





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

**SUPPLEMENTAL SCHEDULE**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

September 30, 2014

**ASSETS**

	<u>NARBHA</u>	<u>Well North</u>	<u>WTDG</u>	<u>Eliminations</u>	<u>Totals</u>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 29,804,660	\$ 245,996	\$ 282,807	\$ -	\$ 30,333,463
Marketable securities	7,033,401	-	-	-	7,033,401
Accounts receivable:					
Grants and contracts	734,362	-	-	-	734,362
Other	85,049	-	221,234	(244,528)	61,755
Prepaid expenses and other current assets	<u>580,072</u>	<u>650</u>	<u>-</u>	<u>-</u>	<u>580,722</u>
<b>TOTAL CURRENT ASSETS</b>	<u>38,237,544</u>	<u>246,646</u>	<u>504,041</u>	<u>(244,528)</u>	<u>38,743,703</u>
<b>OTHER ASSETS</b>	50,000	-	-	(50,000)	-
<b>PROPERTY AND EQUIPMENT, net</b>	<u>6,962,266</u>	<u>2,268,589</u>	<u>-</u>	<u>-</u>	<u>9,230,855</u>
<b>TOTAL ASSETS</b>	<u>\$ 45,249,810</u>	<u>\$ 2,515,235</u>	<u>\$ 504,041</u>	<u>\$ (294,528)</u>	<u>\$ 47,974,558</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>					
Amounts payable to providers	\$ 2,428,841	\$ -	\$ -	\$ -	\$ 2,428,841
Accounts payable and accrued expenses	929,194	31,655	454,041	(244,528)	1,170,362
Unreported services payable	296,000	-	-	-	296,000
Payable to funding source	980	-	-	-	980
Accrued leave time	573,486	-	-	-	573,486
Unearned revenue	28,658	-	-	-	28,658
Risk pool payable	<u>453,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>453,770</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>4,710,929</u>	<u>31,655</u>	<u>454,041</u>	<u>(244,528)</u>	<u>4,952,097</u>
<b>UNRESTRICTED NET ASSETS</b>	<u>40,538,881</u>	<u>2,483,580</u>	<u>50,000</u>	<u>(50,000)</u>	<u>43,022,461</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 45,249,810</u>	<u>\$ 2,515,235</u>	<u>\$ 504,041</u>	<u>\$ (294,528)</u>	<u>\$ 47,974,558</u>



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

**SUPPLEMENTAL SCHEDULE**

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**

Year Ended September 30, 2014

	<u>NARBHA</u>	<u>Well North</u>	<u>WTDG</u>	<u>Eliminations</u>	<u>Totals</u>
<b>REVENUES AND GAINS</b>					
Arizona Department of Health Services	\$ 159,008,205	\$ -	\$ -	\$ -	\$ 159,008,205
Other grants and contract revenue	276,721	-	-	-	276,721
Provider service fees	506,164	-	-	-	506,164
Other services	21,133	-	919,868	(919,868)	21,133
Interest income	58,057	-	-	-	58,057
Rental revenue	-	78,395	-	-	78,395
Donations	-	253,570	-	(253,570)	-
Miscellaneous	15,413	170	-	-	15,583
<b>TOTAL REVENUES AND GAINS</b>	<u>159,885,693</u>	<u>332,135</u>	<u>919,868</u>	<u>(1,173,438)</u>	<u>159,964,258</u>
<b>EXPENSES AND LOSSES</b>					
Program service fees distributed to providers	142,380,942	-	-	-	142,380,942
Salaries	7,378,172	23,070	-	-	7,401,242
Employee related expenses	1,926,539	6,054	-	-	1,932,593
Operating	1,862,741	584	5,983	(5,983)	1,863,325
Professional and outside services	1,429,417	9,581	895,380	(895,380)	1,438,998
Depreciation and amortization	659,834	68,550	-	-	728,384
Occupancy	311,927	89,157	2,587	(6,157)	397,514
Travel	175,067	277	15,918	(15,918)	175,344
Community reinvestment program	277,531	-	-	(250,000)	27,531
<b>TOTAL EXPENSES</b>	<u>156,402,170</u>	<u>197,273</u>	<u>919,868</u>	<u>(1,173,438)</u>	<u>156,345,873</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	3,483,523	134,862	-	-	3,618,385
<b>INITIAL CONTRIBUTION</b>	-	-	50,000	(50,000)	-
<b>UNRESTRICTED NET ASSETS, BEGINNING OF PERIOD</b>	<u>37,055,358</u>	<u>2,348,718</u>	<u>-</u>	<u>-</u>	<u>39,404,076</u>
<b>UNRESTRICTED NET ASSETS, END OF PERIOD</b>	<u>\$ 40,538,881</u>	<u>\$ 2,483,580</u>	<u>\$ 50,000</u>	<u>\$ (50,000)</u>	<u>\$ 43,022,461</u>

**OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS**

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended September 30, 2014

<b>Federal Grantor / Pass-Through Grantor / Program</b>	<b>Federal CFDA Number</b>	<b>Grantor's Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Health and Human Services</b>			
Arizona Department of Health Services:			
Block Grants for Community Mental Health Services (CMHS):			
SMI - Non Title XIX	93.958	11356415170214	\$ 422,781
Children - Non Title XIX	93.958	11356415170214	538,138
Total Mental Health Block Grant			<u>960,919</u>
Block Grants for Prevention and Treatment of Substance Abuse (SAPT):			
Substance Abuse	93.959	11356415170214	2,742,871
Crisis	93.959	11356415170214	376,989
Prevention	93.959	11356415170214	572,058
Total Substance Abuse Block Grant			<u>3,691,918</u>
Centers for Medicare and Medicaid Services (CMS)			
Medical Assistance Program			
SMI - Title XIX	93.778	68660047910029	36,657,882
Children - Title XIX	93.778	68660047910029	34,822,561
Substance Abuse/General Mental Health - Title XIX	93.778	68660047910029	23,659,714
PASRR	93.778	68660047910029	2,025
Total CMS Medical Assistance Program			<u>95,142,182</u>
Projects for Assistance in Transition from Homelessness (PATH)	93.150	11356415170214	<u>109,336</u>
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	11356415170214	563,030
Substance Abuse and Mental Health Services-Projects of Regional and National Significance - SBIRT	93.243	68660047910483	<u>990,765</u>
Total Substance Abuse and Mental Health Services - Projects of Regional and National Significance			<u>1,553,795</u>
Children's Health Insurance Program - Title XXI	93.767	68660047910029	<u>609,326</u>
Total Arizona Department of Health Services			<u>102,067,476</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>102,067,476</u>
<b>U.S. Department of Housing and Urban Development</b>			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	524-14, 517-15	49,413
Continuum of Care Program	14.267	546-14	81,241
Supportive Housing Program (SHP)	14.235	512-12, 517-14	<u>137,258</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>267,912</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 102,335,388</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 September 30, 2014

**(1) Basis of presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of **Northern Arizona Regional Behavioral Health Authority, Inc.** under programs of the federal government for the year ended September 30, 2014. The information in this Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of **Northern Arizona Regional Behavioral Health Authority, Inc.**, it is not intended and does not present the consolidated financial position, changes in net assets or cash flows of **Northern Arizona Regional Behavioral Health Authority, Inc.**

**(2) Summary of significant accounting policies**

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

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

The program titles and CFDA numbers were obtained from the 2014 *Catalog of Federal Domestic Assistance*.

**(4) Subrecipients**

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amounts Provided to Subrecipients</u>
Block Grants for Community Mental Health Services (CMHS)	93.958	\$ 884,972
Block Grants for Prevention and Treatment of Substance Abuse (SAPT)	93.959	3,331,274
Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program	93.778	84,770,100
Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – PASRR	93.778	2,025
Projects for Assistance in Transition from Homelessness (PATH)	93.150	104,962
Children’s Health Insurance Program - Title XXI	93.767	557,288
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – AZ PRV Framework	93.243	255,645
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – CA Benefit Homeless	93.243	79,843
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – SBIRT	93.243	680,562
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	39,359
Supportive Housing Program (SHP)	14.235	137,258
Continuum of Care Program	14.267	81,241



**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 CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of **Northern Arizona Regional Behavioral Health Authority, Inc.**, which comprise the consolidated statement of financial position as of September 30, 2014, and the related consolidated statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 8, 2015.

***Internal Control Over Financial Reporting***

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

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

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

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

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

### ***Purpose of this Report***

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

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

Phoenix, Arizona  
January 8, 2015



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

To the Board of Directors of

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

**Report on Compliance for Each Major Federal Program**

We have audited **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** major federal programs for the year ended September 30, 2014. **Northern Arizona Regional Behavioral Health Authority, Inc.'s** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance.

### **Opinion on Each Major Federal Program**

In our opinion, **Northern Arizona Regional Behavioral Health Authority, Inc.'s** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of their major federal programs for the year ended September 30, 2014.

### **Report on Internal Control Over Compliance**

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

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

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

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



Phoenix, Arizona  
January 8, 2015



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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended September 30, 2014

**Section I – Summary of Auditors’ Results**

***Financial Statements***

Type of Auditor’s Report Issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      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: Unmodified

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	Children’s Health Insurance Program - Title XXI
93.958	Block Grants for Community Mental Health Services (CMHS)
93.959	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ X \_\_\_\_\_ Yes    \_\_\_\_\_ No

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended September 30, 2014

**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