

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

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

Years Ended June 30, 2009 and 2008

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

**FINANCIAL STATEMENTS, OMB CIRCULAR A-133
SUPPLEMENTARY REPORTS AND
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Years Ended June 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

We have audited the accompanying statements of financial position of **Northern Arizona Regional Behavioral Health Authority, Inc.** at June 30, 2009 and 2008, 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 the management of **Northern Arizona Regional Behavioral Health Authority, Inc.** 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, 2009 and 2008, 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 7, 2009 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 as of and for the year ended June 30, 2009. 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 performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplemental Schedules of Activities (Schedules 1 and 2) and the Schedule of Expenditures of Federal Awards (Schedule 3) are presented for purposes of additional analysis and are not required parts of the basic financial statements. The Schedule of Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The information in Schedules 1, 2 and 3 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Phoenix, Arizona
October 7, 2009

A handwritten signature in cursive script that reads "Mayer Hoffman McCann P.C.".

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2009 and 2008

	<u>ASSETS</u>	
	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 19,293,615	\$ 17,306,980
Marketable securities	4,843,023	1,996,000
Accounts receivable:		
Grants and contracts	2,242,005	1,488,069
Providers	6,539	23,695
Other	38,545	124,177
Notes receivable, current portion	35,447	171,129
Prepaid expenses and other current assets	412,209	264,196
TOTAL CURRENT ASSETS	<u>26,871,383</u>	<u>21,374,246</u>
 NOTES RECEIVABLE, net of current portion	 -	 35,447
 PROPERTY AND EQUIPMENT, net	 <u>5,699,470</u>	 <u>5,869,567</u>
 TOTAL ASSETS	 <u><u>\$ 32,570,853</u></u>	 <u><u>\$ 27,279,260</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Amounts payable to providers	\$ 2,476,436	\$ 615,807
Accounts payable and accrued expenses	717,117	702,513
Amounts payable to funding sources	2,299,947	1,995,095
Unreported services payable	1,018,400	680,000
Accrued leave time	421,592	382,061
Unearned revenue	-	29,715
Community reinvestment program	673,355	500,000
Risk pool payable	750,000	-
Current maturities of long-term debt	-	130,121
Current maturities of capital lease obligations	14,105	12,911
TOTAL CURRENT LIABILITIES	<u>8,370,952</u>	<u>5,048,223</u>
 LONG-TERM DEBT, less current maturities	 -	 1,803,931
 CAPITAL LEASE OBLIGATIONS, less current maturities	 <u>23,464</u>	 <u>37,850</u>
 TOTAL LIABILITIES	 8,394,416	 6,890,004
 UNRESTRICTED NET ASSETS	 <u>24,176,437</u>	 <u>20,389,256</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 32,570,853</u></u>	 <u><u>\$ 27,279,260</u></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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
REVENUES AND GAINS		
Arizona Department of Health Services	\$ 140,758,119	\$ 121,369,910
Provider service fees	448,304	448,304
Other services	66,641	86,122
Interest income	288,221	638,104
Contributions	17,500	253,750
Other grants and contracts	-	4,324
Gain on sale of property and equipment	9,008	439
Miscellaneous	253	1,155
TOTAL REVENUES AND GAINS	<u>141,588,046</u>	<u>122,802,108</u>
EXPENSES		
Program service fees distributed to providers	125,933,801	108,679,217
Salaries	6,514,023	5,318,895
Employee related expenses	1,872,518	1,512,292
Professional and outside services	1,032,640	606,218
Travel	178,468	186,418
Occupancy	306,704	453,726
Operating	1,062,896	1,137,828
Depreciation and amortization	395,414	370,140
Interest	26,501	127,736
Community reinvestment	477,900	500,000
TOTAL EXPENSES	<u>137,800,865</u>	<u>118,892,470</u>
CHANGE IN NET ASSETS	3,787,181	3,909,638
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>20,389,256</u>	<u>16,479,618</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 24,176,437</u>	<u>\$ 20,389,256</u>

See Notes to Financial Statements

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,787,181	\$ 3,909,638
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	395,414	370,140
Gain on sale of property and equipment	(9,008)	(439)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Grants and contracts receivable	(753,936)	278,805
Providers receivable	17,156	61,299
Other receivables	85,632	128,590
Prepaid expenses and other current assets	(148,013)	(31,552)
Increase (decrease) in:		
Amounts payable to providers	1,860,629	(1,497,678)
Accounts payable and accrued expenses	14,604	(87,324)
Amounts payable to funding sources	304,852	427,227
Unreported services payable	338,400	241,000
Accrued leave time	39,531	65,941
Unearned revenue	(29,715)	(88,298)
Community reinvestment program	173,355	500,000
Risk pool payable	750,000	-
Net cash provided by operating activities	6,826,082	4,277,349
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(6,458,074)	(1,996,000)
Proceeds from maturities of marketable securities	3,611,051	2,732,000
Payments received on notes receivable	171,129	1,889,981
Proceeds from sale of property and equipment	9,008	3,270
Purchase of property and equipment	(225,317)	(1,661,073)
Advances to providers	-	(206,576)
Net cash provided by (used in) investing activities	(2,892,203)	761,602
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(1,934,052)	(130,120)
Payments on capital lease obligations	(13,192)	(14,526)
Net cash used in financing activities	(1,947,244)	(144,646)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,986,635	4,894,305
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,306,980	12,412,675
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 19,293,615	\$ 17,306,980
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 26,501	\$ 127,627
SUPPLEMENTAL DISCLOSURE ON NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under capital lease obligations	\$ -	\$ 29,824

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

(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, 2010, NARBHA has been designated as the Regional Behavioral Health Authority (RBHA) for the geographic service area of Apache, Coconino, Mojave, Navajo and Yavapai counties. NARBHA is responsible for managing and maintaining an organized, comprehensive behavioral healthcare delivery system for the benefit of eligible members within its geographic service area. NARBHA functions as a behavioral health management organization and does not provide direct healthcare services to eligible members. Direct behavioral healthcare services are provided to eligible members by a network of subcontracted service providers.

The significant accounting policies followed by NARBHA are as follows:

Basis of presentation - The accompanying financial statements have been prepared in accordance with the *Health Care Organization's Audit and Accounting Guide* issued by the American Institute of Certified Public Accountants. NARBHA's financial statements are also presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, NARBHA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

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

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

Marketable securities - NARBHA accounts for its investments in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, 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, 2009 and 2008, marketable securities consist entirely of bank certificates of deposit which are to be held to maturity and carried at cost.

Grants and contracts receivable - At June 30, 2009 and 2008, NARBHA had amounts outstanding from ADHS and other state and federal agencies for the provision of comprehensive behavioral healthcare services for the benefit of eligible members within its geographic service area. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants and contracts receivable. Management considers grants and contracts receivable to be fully collectible as of June 30, 2009 and 2008 and, accordingly, an allowance for doubtful accounts is not considered necessary. At June 30, 2009 and 2008, grants and contracts receivable consisted entirely of amounts due from ADHS.

**NORTHERN ARIZONA REGIONAL
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NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

(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 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 SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144, requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the cost or fair value less costs to sell. No impairment charges were recorded for 2009 and 2008.

Revenue recognition - NARBHA's contract with ADHS requires NARBHA to provide behavioral healthcare services to all eligible Medicaid (Title XIX) and KidsCare (Title XXI) enrollees within its geographic service area. Under this agreement, NARBHA receives monthly capitation payments from ADHS based on a capitated rate and the number of Medicaid and KidsCare eligible enrollees, regardless of services actually provided by NARBHA and its subcontracted network of providers. NARBHA is responsible for healthcare costs which exceed its capitation, although the contract with ADHS indicates the possibility that NARBHA will receive additional funds from ADHS in situations where it overspends service expenses by at least 4%. Capitation payments are recognized monthly in accordance with NARBHA's contract with ADHS.

NARBHA's contract with ADHS provides for payment to NARBHA at a monthly rate equal to approximately one-twelfth of specified annual contract maximums under ADHS' Subvention programs. NARBHA determines the amount of unexpended Federal Block Grant funds at year end, which must be deferred. At June 30, 2009 and 2008, approximately \$0 and \$26,000, respectively, of Federal Block Grant funds were deferred. ADHS policies also require NARBHA to return any unexpended Federal Block Grant funds if they remain unexpended for one year beyond when ADHS has granted them. NARBHA had unexpended funds of \$0 and \$28,786, respectively, at June 30, 2009 and June 30, 2008 included in amounts payable to funding sources on the statements of financial position.

The Subvention programs provide behavioral healthcare services to individuals not eligible for behavioral healthcare coverage under Medicaid or Medicare. The Subvention programs are funded by State of Arizona appropriated funds administered by ADHS.

**NORTHERN ARIZONA REGIONAL
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NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

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

NARBHA has one program for which deferred revenue is sometimes recorded. House Bill 2003 provides monies from the tobacco litigation settlement to be spent on training and children's Non-Title XIX services. Revenue under these programs is recognized as services are provided. Amounts received in advance of the performance of services are deferred and are included within deferred revenue in the accompanying statements of financial position. At June 30, 2009 and 2008, approximately \$0 and \$4,000, respectively, of deferred revenue relates primarily to funds received in advance for various training activities related to children.

In addition to the above programs, through September 30, 2007 NARBHA derived revenue from other grants and contracts to provide vocational rehabilitation and other related services. Revenue under these grants and contracts were recognized as services when they were provided.

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

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 programs. These subcontracted providers are compensated on a budgeted basis for eligible clients in these categories. Under this agreement, providers share the risk with NARBHA for providing behavioral healthcare services to eligible enrollees as specified in the agreements, including costs in some cases which exceed their budgeted amount.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

(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 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, 2009 and 2008.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 was originally effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109. In December 2008, the FASB issued FASB Staff Position No. FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* ("FSP FIN 48-3") which extended the period of adoption of FIN 48 to fiscal years beginning after December 15, 2008. NARBHA has elected to defer the application of FIN 48 in accordance with FSP FIN 48-3. 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.

Reclassifications – A reclassification has been made to the 2008 financial statement presentation to correspond to the current year's format. Certain marketable securities in the accompanying statement of financial position were reclassified from cash and cash equivalents to correct their classification based on length of original maturity. The effect of the reclassification was to increase marketable securities and decrease cash and cash equivalents by \$1,996,000 at June 30, 2008. Total assets, net assets and the change in net assets were not impacted due to the reclassification.

Subsequent events – NARBHA has evaluated subsequent events through October 7, 2009, which is the date the financial statements were available to be issued. No subsequent events requiring disclosure were identified.

(2) Notes receivable

Notes receivable consist of:

	2009	2008
Loan to NAZCare, Inc. (a contracted service provider) for unpaid fiscal year 2007 encounter withhold (see Note 10). The loan is unsecured and requires monthly principal and interest payments of \$3,051 bearing a fixed interest rate of 6% and maturing June 1, 2010.	\$ 35,447	\$ 65,800
Loan to Community Counseling Centers, Inc. (a contracted service provider) for unpaid fiscal year 2007 encounter withhold (see Note 10). The loan is unsecured and requires quarterly principal and interest payments of \$48,336 bearing a fixed interest rate of 6%. The loan was repaid in full in 2009.	-	140,776
Total notes receivable	35,447	206,576
Less current maturities	(35,447)	(171,129)
Total notes receivable, long-term portion	\$ -	\$ 35,447

As a result of these notes receivable, NARBHA is exposed to certain credit risks. NARBHA manages its risk by regularly reviewing the portfolio of notes receivable and by providing appropriate allowances for doubtful accounts, if necessary. At June 30, 2009 and 2008, notes receivable are considered by management to be fully collectible, and accordingly, an allowance for loan losses has not been provided.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

(3) Contract performance bond

In accordance with the terms of its contract with ADHS, NARBHA is required to post a performance bond with ADHS equal to 110% of the first monthly ADHS payment to NARBHA each fiscal year, based on gross capitation 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 2009 and \$11,198,669 for 2008.

NARBHA renewed its irrevocable standby letter of credit from 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 2009 and \$2,877,670 in 2008. This letter of credit along with a surety bond are required by ADHS to comply with the terms of the performance bond requirement for fiscal 2010.

(4) Property and equipment

Property and equipment consists of:	<u>2009</u>	<u>2008</u>
Cost and donated value:		
Land and improvements	\$ 1,384,709	\$ 1,367,209
Buildings and improvements	4,513,463	4,513,463
Furniture and equipment	2,111,075	2,002,842
Vehicles	360,632	346,213
Construction in progress	29,460	-
Total cost and donated value	<u>8,399,339</u>	<u>8,229,727</u>
Accumulated depreciation and amortization	<u>(2,699,869)</u>	<u>(2,360,160)</u>
Net property and equipment	<u>\$ 5,699,470</u>	<u>\$ 5,869,567</u>

Depreciation and amortization expense charged to operations was \$395,414 for 2009 and \$370,140 for 2008.

NARBHA has entered into various capital leases for certain office equipment. The leases expire through March 2013. Cost and accumulated amortization of such assets totaled \$65,106 and \$31,880 as of June 30, 2009 and \$65,106 and \$18,859 as of June 30, 2008, respectively.

(5) Capital lease obligations

The obligations under capital leases reflect the present value of future rental payments, discounted at the interest rates implicit in the leases (4.2% - 8.1%). The future minimum lease payments required under the capital leases and annual maturities at June 30, 2009 are as follows:

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

(5) Capital lease obligations (continued)

Future minimum lease payments under the capital leases are as follows:

<u>Years Ending June 30,</u>	
2010	\$ 15,939
2011	13,553
2012	6,394
2013	<u>4,795</u>
Total future minimum lease payments	40,681
Less amount representing interest	<u>(3,112)</u>
Present value of future minimum lease payments	37,569
Less current portion	<u>(14,105)</u>
Long-term portion	<u>\$ 23,464</u>

(6) Long-term debt

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

(7) 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>2009</u>	<u>2008</u>
Program expenses	\$ 126,845,991	\$ 109,216,308
Management and general expenses	<u>10,954,874</u>	<u>9,676,162</u>
Total functional expenses	<u>\$ 137,800,865</u>	<u>\$ 118,892,470</u>

(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 a nonprofit organization formed under Arizona Revised Statutes (ARS) 41.621 et seq. ARS 41.621 et seq. are Arizona statutes which allow contractors and subcontractors with the state of Arizona to form insurance pools. BHIP functions as a self-insurance administrator which, through its risk-sharing provisions, provides NARBHA, and seven of its subcontracted providers, with insurance coverage for professional, general, property and other liability exposure. NARBHA's per-claim coverage is \$2 million, with an aggregate maximum annual coverage of \$10 million, and a self-insured retention of \$1 million per claim which is funded through the risk-sharing provisions of BHIP. In addition, BHIP has an umbrella policy, which extends coverage an additional \$10 million.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

(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 2009 and 2008, BHIP paid the annual premium for NARBHA of \$158,720 and \$155,152, respectively. NARBHA then entered into a contract to repay BHIP on a quarterly basis. At June 30, 2009 and 2008, NARBHA owed BHIP \$119,040 and \$116,362, respectively, under this agreement which is included in accounts payable and accrued expenses. At June 30, 2009 and 2008, NARBHA had prepaid insurance for the same amount which is included in prepaid expenses and other current assets. Insurance expense under the BHIP program amounted to approximately \$156,000 and \$172,000 for the years ended June 30, 2009 and June 30, 2008, 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, 2009 or June 30, 2008 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, 2009 or 2008.

Through October 2006, NARBHA maintained health, disability, life, and dental insurance coverage on a claims-made basis through commercial insurance carriers. Effective November 2006, NARBHA, along with three of its subcontracted providers, entered into a contractual agreement to form the Arizona Health Insurance Pool (AHIP). AHIP is a nonprofit organization formed under Arizona Revised Statutes (ARS) 41.621 et seq. ARS 41.621 et seq. are Arizona statutes which allow contractors and subcontractors with the state of Arizona to form insurance pools. AHIP functions as a self-insurance administrator which, through its risk-sharing provisions, provides NARBHA, and three of its subcontracted providers, with health, disability, life, and dental insurance coverage. AHIP has engaged the services of a professional actuarial consultant for the determination of premiums to be assessed to participants under the plan of coverage. NARBHA is required to pay assessed monthly premiums. As a self-insurance administrator, AHIP enables risk sharing among participating contractors. AHIP has purchased a policy to reinsure that portion of risk in excess of \$100,000 of covered expenses of any enrollee per contract year with a \$3,694,620 maximum plan exposure per calendar year. Insurance expense under the AHIP program amounted to approximately \$923,600 for the year ended June 30, 2009 and \$754,500 for the year ended June 30, 2008.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

(9) Pension plan

NARBHA has a defined contribution pension and retirement plan. Pension costs are current service costs which are accrued and funded on a current basis. NARBHA contributes at a rate of 5% of the annual salary of employees after two years of service. The contribution rate increases 1% for each two years of continued employment, commencing after two years of participation, up to a maximum contribution of 10%. This pension plan was modified by action of the NARBHA board, subject to passing discrimination testing in January 2006. As a result, staff with more than 15 years of participation in the plan may have up to 20% of their salary contributed by NARBHA. In addition, employees may contribute up to 20% of their salaries to the plan, subject to IRS maximum contribution limits. Pension expense was \$458,836 and \$354,565 for years ended June 30, 2009 and 2008, respectively.

(10) Commitments and contingencies

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

Pursuant to its contract with ADHS, NARBHA must maintain unrestricted, minimum net assets of the greater of \$2,000,000 or 90% of monthly Title XIX/XXI and Non-Title XIX/XXI capitation receipts (\$8,390,302 at June 30, 2009).

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, 2009 and 2008.

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.

As of June 30, 2009, NARBHA, reported less than the minimum number of encounters as stipulated in the contract and is subject to a potential encounter withhold by ADHS if no more encounters are submitted. NARBHA has until February 28, 2010 to submit encounters related to the year ended June 30, 2009. NARBHA does not anticipate meeting the required encounter threshold and has recorded a liability of approximately \$2,269,000 at June 30, 2009 which is included in amounts payable to funding sources in the accompanying statement of financial position. NARBHA passed-through approximately \$1,617,000 of the encounter withhold to its subcontracted providers and reduced amounts payable to providers at June 30, 2009 by this amount.

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

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

(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. The program funds will fund behavioral health community projects that will enhance the lives of consumers, the programs of providers, and the services delivered to consumers in NARBHA's geographic service areas. For June 30, 2009 and 2008, NARBHA's Board of Directors approved \$321,900 and \$500,000, respectively, to be spent on various behavioral health community projects. Additionally, during 2009, NARBHA's Board of Directors approved an additional \$156,000 that was awarded to three providers. Of the \$500,000 available as of June 30, 2008, \$421,900 has been awarded and \$78,100 has yet to be distributed. At June 30, 2009 and 2008, NARBHA had not yet spent all of the funds appropriated in fiscal 2009 and 2008. Accordingly, at June 30, 2009 and 2008, NARBHA has recorded a liability for the amounts to pay out of \$673,355 and \$500,000, 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, which was \$750,000 for the year ended June 30, 2009.

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

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, 2009 and 2008, NARBHA was not a Medicare certified facility 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 such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

(11) Concentration of credit risk

A substantial portion of contracts receivable is due from ADHS and is not collateralized. Management believes any loss due to a concentration of credit risk will be minimal. The estimated value of ADHS receivables at June 30, 2009 and 2008 was approximately \$2,050,000 and \$1,488,000, respectively.

NARBHA currently holds a contract with ADHS to provide services through June 30, 2010. Management expects the contract to be renewed through the respective renewal process.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

(12) Fair value measurements

SFAS No. 157 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. Issued in February 2008, FASB Staff Position No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, removed leasing transactions accounted for under Statement No. 13 and related guidance from the scope of SFAS No. 157. FASB Staff Position No. 157-2, Partial Deferral of the Effective Date of Statement 157, deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. NARBHA is still assessing the impact of SFAS No. 157 on their nonfinancial assets.

NARBHA adopted SFAS No. 157 as of January 1, 2008 for financial assets and financial liabilities subject to fair value measurement on a recurring basis. There was no material impact on NARBHA's financial statements for the adoption of this standard.

SFAS No. 157 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS No. 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.
- Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3: Unobservable inputs for the asset or liability.

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

SUPPLEMENTAL INFORMATION

Northern Arizona Regional Behavioral Health Authority, Inc.
 Schedule 1 - Supplemental Schedule of Activities
 Year Ended June 30, 2009

	TXIX CHILD	TXIX CMDP	TXIX DD CHILD	NTXIX/XXI CHILD	TXIXI CHILD	HB2003 CHILD	TXIX SMI	TXIX DD ADULT	NTXIX/XXI SMI	HIFA II SMI	TXIXI ADULT	SSDI - TMC	TXIX GMHSA	HIFA II GMH	MENTAL HEALTH	SUBSTANCE ABUSE	PREVENTION INTERVENTION	PASRR	ADHS DOC	OTHER	SUB TOTAL	PROGRAM ADMIN & MGMT/GEN	TOTAL	
REVENUES																								
Revenue Under ADHS Contract																								
ADHS Revenue	\$ 28,788,034	\$ 13,406,407	\$ 2,432,575	\$ 1,514,101	\$ 2,123,145	\$ 3,959	\$ 45,455,578	\$ 2,259,765	\$ 8,748,877	\$ 68,939	\$ 29,286	\$ 6,091	\$ 30,340,790	\$ 164,766	\$ 205,465	\$ 4,127,125	\$ 972,254	\$ 1,200	\$ 105,658	\$ -	\$ 140,754,015	\$ -	\$ 140,754,015	
ADHS Revenue - Qualifying Incentive Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Specialty & Other Grants*	4,100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,100	-	4,100	
Client Fees (Co-pays)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Third Party Recoveries																								
Medicare	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Interest Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	288,221	288,221	
Other Funding Sources - Non ADHS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	75,902	75,902	
Unrelated Business Activities*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	465,804	465,804	
TOTAL REVENUE	\$ 28,792,134	\$ 13,406,407	\$ 2,432,575	\$ 1,514,101	\$ 2,123,145	\$ 3,959	\$ 45,455,578	\$ 2,259,765	\$ 8,748,877	\$ 68,939	\$ 29,286	\$ 6,091	\$ 30,340,790	\$ 164,766	\$ 205,465	\$ 4,127,125	\$ 972,254	\$ 1,200	\$ 105,658	\$ -	\$ 140,758,115	\$ 829,927	\$ 141,588,042	
EXPENSES																								
Service Expenses:																								
Treatment Services																								
Counseling	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Counseling, Individual	1,736,902	810,598	93,002	78,121	188,711	-	1,289,265	65,943	130,621	2,557	151	1,216	1,655,201	10,909	11,108	178,358	-	-	-	-	-	-	-	-
Counseling, Family	1,096,127	429,031	63,481	46,808	117,304	-	53,411	5,493	5,574	-	176	-	94,961	704	321	7,409	-	-	-	-	-	-	-	-
Counseling, Group	107,445	65,707	1,264	6,592	7,044	-	322,503	8,552	41,855	-	-	-	891,264	3,156	1,351	287,950	-	-	-	-	-	-	-	-
Consultation, Assessment & Specialized Testing	1,237,982	339,687	176,182	120,505	91,090	-	591,626	103,087	85,177	436	3,490	924	1,933,320	15,503	14,791	276,424	-	-	-	-	-	-	-	-
Other Professional	-	-	-	39,775	-	-	-	-	14,402	-	-	-	-	-	-	5,593	8,031	-	-	-	-	-	-	-
Total Treatment Services	4,178,456	1,645,023	333,929	291,801	404,149	-	2,256,805	183,075	277,629	2,993	3,817	2,325	4,574,746	30,272	33,164	758,172	-	-	-	-	-	-	-	-
Rehabilitation Services																								
Living Skills Training	3,299,996	571,067	187,346	50,420	168,952	-	2,213,715	44,395	119,813	484	38	354	761,558	2,071	723	350,853	-	-	-	-	-	-	-	-
Cognitive Rehabilitation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health Promotion	58,046	15,430	244	2,341	4,017	-	168,802	1,547	9,679	-	-	-	372,988	76	644	246,808	-	-	-	-	-	-	-	-
Supported Employment Services	8,257	3,088	-	60	-	-	367,343	2,808	17,811	135	293	-	30,434	-	99	1,617	-	-	-	-	-	-	-	-
Total Rehabilitation Services	3,366,299	589,585	187,590	52,821	172,969	-	2,749,860	48,750	147,303	619	331	354	1,164,880	2,147	1,466	599,278	-	-	-	-	-	-	-	-
Medical Services																								
Medication Services	2,445	196	-	-	-	-	205,201	862	6,720	-	-	236	550,196	2,862	6	35,365	-	-	-	-	-	-	-	-
Medical Management	907,542	151,270	96,700	29,183	102,683	-	2,249,418	135,038	308,106	5,030	2,679	208	1,465,304	19,670	14,997	64,064	-	-	-	-	-	-	-	-
Laboratory, Radiology & Medical Imaging	20,155	2,793	1,082	151	2,000	-	65,477	2,445	7,868	131	72	-	71,460	741	289	2,932	-	-	-	-	-	-	-	-
Electro-Convulsive Therapy	-	-	-	-	-	-	14,581	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Medical Services	930,142	154,063	97,978	29,334	104,683	-	2,534,677	138,345	322,694	5,161	2,751	444	2,086,960	23,273	15,292	102,361	-	-	-	-	-	-	-	-
Support Services																								
Case Management	5,708,169	3,013,083	531,479	257,725	509,220	-	7,345,777	394,079	682,710	12,170	5,505	2,265	4,668,977	31,797	38,327	544,449	-	-	-	-	-	-	-	-
Personal Assistance	117,732	3,147	50,422	873	12,374	-	229,247	1,653	13,285	-	-	-	1,689,115	943	27,142	354,911	-	-	-	-	-	-	-	-
Family Support	980,997	384,740	103,601	28,438	99,973	-	23,417	890	80	-	-	-	33,351	-	63	886	-	-	-	-	-	-	-	-
Peer Support	15,672	1,003	1,945	111	2,622	-	1,023,857	11,297	71,762	1,119	-	-	108,434	46	229	56,443	-	-	-	-	-	-	-	-
Home Care Training to Home Care Client	1,450,416	2,105,136	-	19,232	129,861	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Respite Care	1,464,634	528,078	27,181	51,755	97,153	-	-	-	-	-	3,907	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing Support	115	-	-	16,770	-	-	-	-	47,884	-	-	-	-	-	-	-	2,433	-	-	-	-	-	-	-
Interpreter Services	-	-	-	8,084	-	-	-	-	5,003	-	-	-	-	-	-	-	619	-	-	-	-	-	-	-
Flex Fund Services	-	-	-	80,475	-	-	-	-	8,757	-	-	-	-	-	-	-	36,450	-	-	-	-	-	-	-
Transportation	927,506	276,927	52,626	23,154	36,629	-	1,816,540	49,362	127,851	534	-	21	2,046,488	1,499	3,721	201,954	-	-	-	-	-	-	-	
Block Purchase NTXIX Consumer Drop In Center	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Support Services	10,665,241	6,312,114	767,254	484,617	887,832	-	10,438,838	456,619	958,142	13,903	9,412	2,286	8,554,208	34,285	72,604	1,227,493	-	-	-	-	-	-	-	-
Crisis Intervention Services																								
Crisis Intervention - Mobile	73,408	75,627	9,683	15,943	5,798	-	189,152	8,881	15,517	-	-	-	217,768	618	13,781	52,368	-	-	-	-	-	-	-	-
Crisis Intervention - Stabilization	-	254	-	-	-	-	4,816	-	-	-	-	-	13,522	-	-	2,927	-	-	-	-	-	-	-	-
Crisis Intervention - Telephone	56,340	14,085	-	16,719	3,739	-	65,723	-	14,649	776	94	-	46,018	611	14,744	1,646	-	-	-	-	-	-	-	-
Total Crisis Intervention Services	129,748	89,966	9,683	32,662	9,537	-	259,691	8,881	30,166	776	94	-	277,308	1,229	28,525	56,941	-	-	-	-	-	-	-	-
Inpatient Services																								
Hospital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Psychiatric (Provider Types 02 & 71)	652,065	357,664	200,241	16,325	25,845	-	4,001,074	37,144	660,322	-	-	-	1,291,319	-	3,480	-	-	-	-	-	-	-	-	-
Detoxification (Provider Types 02 & 71)	-	-	-	-	-	-	108,136	-	5,154	-	-	-	71,029	-	-	-	-	-	-	-	-	-	-	-
Sub-acute Facility	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Psychiatric (Provider Types B5 & B6)	-	-	-	-	-	-	4,532,648	150,379	526,835	-	-	-	1,024,979	-	-	367	-	-	-	-	-	-	-	-
Detoxification (Provider Types B5 & B6)	-	-	-	-	-	-	234,664	-	90,273	-	-	-	504,892	-	-	-	-	-	-	-	-	-	-	-
Residential Treatment Center (RTC)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Psychiatric - Secure & Non-Secure Provider Types 78,B1,B2,B3)	2,418,458	1,194,880	39,200	21,555	176,826	-	14,369	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Detoxification - Secure & Non-Secure (Provider Types 78,B1,B2,B3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Inpatient Services, Professional	18,644	14,652	2,561	1,861	2,114	-	343,883	7,824	55,095	582	-	-	177,846	-	2,682	12,02								

Northern Arizona Regional Behavioral Health Authority, Inc.
Schedule 2 - Supplemental Schedule of Activities - Disclosures
Year Ended June 30, 2009

	TXIX CHILD	TXIX CMDP	TXIX DD CHILD	NTXIX/XXI CHILD	TXIX CHILD	HB2003 CHILD	TXIX SMI	TXIX DD ADULT	NTXIX/XXI SMI	HIFA II SMI	TXIX ADULT	SSDI - TMC	TXIX GMHSA	HIFA II GMH	MENTAL HEALTH	SUBSTANCE ABUSE	PREVENTION INTERVENTION	PASRR	ADHS DOC	OTHER	SUB TOTAL	PROGRAM ADMIN/MGMT/ GEN	TOTAL
DISCLOSURE OF OTHER ADHS REVENUE																							
Total Other - Other Column	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DISCLOSURE OF OTHER GRANTS REPORTED ON LINE 402																							
Itemization of Items Reported on Line 402	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Meet Me Where I Am Campaign Workshops	4,100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Other Grants	4,100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
DISCLOSURE OF OTHER REVENUE REPORTED ON LINE 406																							
Itemization of Items Reported on Line 406	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Sanction fees Assessed RAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	36,000	
Greater Ariz Telemed Consortium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,748	
Gain on Sale of Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,008	
Telemed Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,650	
Training Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,243	
Other Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	253	
Total Other Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	75,902	
UNRELATED BUSINESS ACTIVITIES REPORTED ON LINE 407																							
Itemization of Items Reported on Line 407	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Provider Support	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	448,304	
Donations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,500	
Total Unrelated Business Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	465,804	
DISCLOSURE OF ALL OTHER BEHAVIORAL HEALTH SERVICES ON LINE 511																							
SMI Homeless	-	-	-	-	-	-	-	-	118,862	-	-	-	-	-	-	-	-	-	-	-	-	118,862	
PASRR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,200	-	-	-	1,200	
Children HB 2003 Training and Coaching	-	-	-	-	-	3,661	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,661	
Suicide Prevention	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	52,095	-	-	-	-	52,095	
CMHS/CA-SIG - Coaching & Training	-	-	-	236,303	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	236,303	
COOL Liaison	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,375	-	-	39,375	
Meet Me Where I Am Workshops	4,100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,100	
CISM Training	-	-	-	-	-	-	-	251	-	-	-	-	-	-	-	-	-	-	-	-	-	251	
SMI Arnold vs Sam Housing	-	-	-	-	-	-	-	328,533	-	-	-	-	-	-	-	-	-	-	-	-	-	328,533	
Video-conferencing svcs allocated to programs	19,748	8,954	2,625	1,068	973	-	31,195	1,742	4,402	-	45	-	22,194	-	90	3,741	1,727	-	-	-	-	98,504	
Total All Other Behavioral Health Services	23,848	8,954	2,625	237,371	973	3,661	31,195	1,742	452,048	-	45	-	22,194	-	90	3,741	53,822	1,200	39,375	-	-	882,884	
DISCLOSURE OF SERVICES EXPENSES FROM NON ADHS SOURCES ON LINE 520																							
Itemization of Items Reported on Line 520	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Service Expenses Non-ADHS Sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
DISCLOSURE OF ALL OTHER OPERATING ON LINE 607																							
Itemization of Items Reported on Line 607	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Supplies, computer/tele-med maint, printing phone, recruiting, insurance, surety bond, etc	203,258	91,991	20,952	11,100	9,821	271	312,444	16,698	38,712	630	337	43	212,174	1,093	564	26,718	12,254	-	2,312	-	-	961,372	
Sanctions assessed by ADHS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,838	
Qualifying Incentive Payments Passed to Providers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total All Other Operating	203,258	91,991	20,952	11,100	9,821	271	312,444	16,698	38,712	630	337	43	212,174	1,093	564	26,718	12,254	-	2,312	-	-	961,372	
DISCLOSURE OF ENCOUNTER WITHHOLD EXPENSES ON LINE 650																							
Itemization of Items Reported on Line 650	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Encounter Withhold	448,421	359,917	37,671	-	-	-	1,170,068	7,716	-	-	-	-	245,542	-	-	-	-	-	-	-	-	2,269,335	
Recoupment of encounter withhold from providers	(319,553)	(256,483)	(26,845)	-	-	-	(833,813)	(5,498)	-	-	-	-	(174,978)	-	-	-	-	-	-	-	-	(1,617,170)	
Total Encounter Withhold Expenses	128,868	103,434	10,826	-	-	-	336,255	2,218	-	-	-	-	70,564	-	-	-	-	-	-	-	-	652,165	
DISCLOSURE OF NON ADHS AND/OR UNRELATED ADMINISTRATIVE EXPENSES ON LINE 651																							
Itemization of Items Reported on Line 651	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,502	
Other Telemed expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,315	
Provider Support	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	448,304	
Total Non ADHS and/or Unrelated Administrative Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	494,121	
DISCLOSURE OF UNRELATED BUSINESS EXPENSES LINE 701																							
Itemization of Items Reported on Line 701	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
RFP Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	440,041	
Community Reinvestment/Collaboration of Care (note 1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	477,900	
Total Unrelated Business Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	917,941	

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

SCHEDULE 3 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2009

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	\$ 1,768,899
SMI - Title XIX	93.778	68660047917631	<u>1,642,446</u>
Total Arizona Department of Economic Security			<u>3,411,345</u>
Arizona Department of Health Services:			
Mental Health Block Grant (CMHS):			
SMI - Non Title XIX	93.958	11356415170214	69,824
Children - Non Title XIX	93.958	11356415170214	<u>952,057</u>
Total Mental Health Block Grant			<u>1,021,881</u>
Substance Abuse Prevention and Treatment Block Grant (SAPT):			
Substance Abuse/General Mental Health Prevention	93.959	11356415170214	2,738,914
	93.959	11356415170214	<u>380,596</u>
Total Substance Abuse Block Grant			<u>3,119,510</u>
Centers for Medicare and Medicaid Services (CMS):			
Medical Assistance Program			
SMI - Title XIX	93.778	68660047910029	33,095,070
Children - Title XIX	93.778	68660047910029	30,720,718
Substance Abuse/General Mental Health - Title XIX	93.778	68660047910029	22,090,370
PASSAR	93.778	68660047910029	<u>1,200</u>
Total CMS Medical Assistance Program			<u>85,907,358</u>
Projects for Assistance in Transition from Homelessness (PATH)	93.150	11356415170214	88,750
Substance Abuse & Mental Health Services Projects of Regional and National Significance	93.243	11356415170214	28,554
National Bioterrorism Hospital Preparedness Program	93.889	11356415170214	251
KidsCare, Title XXI	93.767	68660047910029	<u>1,670,126</u>
Total Arizona Department of Health Services			<u>91,836,430</u>
Total U.S. Department of Health and Human Services			<u>95,247,775</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 95,247,775</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, 2009

(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 2009 *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	\$ 800,101
Substance Abuse Prevention and Treatment Block Grant (SAPT)	93.959	2,804,572
Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – Title XIX	93.778	78,160,735
Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – PASSAR	93.778	1,200
Projects for Assistance in Transition from Homelessness (PATH)	93.150	82,094
KidsCare, Title XXI	93.767	1,616,994



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

To the Board of Directors of

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC.

We have audited the financial statements of **Northern Arizona Regional Behavioral Health Authority, Inc.** as of and for the year ended June 30, 2009, and have issued our report thereon dated October 7, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, 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 7, 2009

Maya Hoffman McCann P.C.



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO 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 the compliance of **Northern Arizona Regional Behavioral Health Authority, Inc.** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. **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 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. Our audit does not provide a legal determination of **Northern Arizona Regional Behavioral Health Authority, Inc.'s** compliance with those requirements.

In our opinion, **Northern Arizona Regional Behavioral Health Authority, Inc.** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

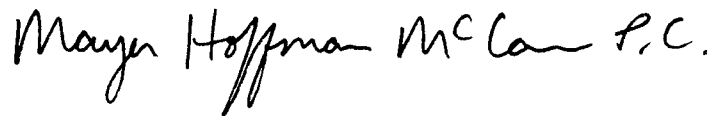
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, 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 7, 2009

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2009

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

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

The Independent Auditors' Report on the basic financial statements of **Northern Arizona Regional Behavioral Health Authority, Inc.** at and for the year ended June 30, 2009 was an unqualified opinion.

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

The audit of the basic financial statements of **Northern Arizona Regional Behavioral Health Authority, Inc.** at and for the year ended June 30, 2009 disclosed no matters involving the internal control over financial reporting and its operations that are considered to be significant deficiencies.

C. Noncompliance Material to the Financial Statements:

The audit disclosed no instances of noncompliance material to the basic financial statements of **Northern Arizona Regional Behavioral Health Authority, Inc.** at and for the year ended June 30, 2009.

D. Significant Deficiencies in Internal Control over Major Programs:

The audit of compliance of **Northern Arizona Regional Behavioral Health Authority, Inc.** at and for the year ended June 30, 2009 disclosed no significant deficiencies.

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

The Independent Auditors' Report on compliance with requirements applicable to each major Federal program for the year ended June 30, 2009 was an unqualified opinion.

F. Findings Relating to Major Programs:

As indicated in Section III, the audit disclosed no findings related to major programs for the year ended June 30, 2009.

G. Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Amount Expended</u>
93.778	Medical Assistance Program	<u>\$ 89,318,703</u>
93.959	Substance Abuse Prevention and Treatment Block Grant (SAPT)	<u>\$ 3,119,510</u>

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

The threshold for distinguishing between Type A and Type B programs was \$2,857,433 for the year ended June 30, 2009.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2009

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS (continued)

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

Northern Arizona Regional Behavioral Health Authority, Inc. qualified as a low-risk auditee under applicable provisions of OMB Circular A-133 for the year ended June 30, 2009.

II. FINANCIAL STATEMENT AUDIT FINDINGS

None

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

IV. STATUS OF PRIOR AUDIT FINDINGS

None