

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

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

Years Ended September 30, 2015 and 2014

**NORTHERN ARIZONA REGIONAL
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AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL
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Years Ended September 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC. AND SUBSIDIARIES

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ***Northern Arizona Regional Behavioral Health Authority, Inc. and Subsidiaries*** (the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2015 and 2014, and the related consolidated statements of activities and change in net assets and cash flows for the years then ended, 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. and Subsidiaries** as of September 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended, 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 15, 2016 on our consideration of **Northern Arizona Regional Behavioral Health Authority, Inc. and Subsidiaries'** 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. and Subsidiaries'** internal control over financial reporting and compliance.



January 15, 2016

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 37,251,280	\$ 30,333,463
Marketable securities	6,760,136	7,033,401
Accounts receivable:		
Grants and contracts	1,617,602	734,362
Other	58,669	61,755
Prepaid expenses and other current assets	<u>90,304</u>	<u>580,722</u>
TOTAL CURRENT ASSETS	45,777,991	38,743,703
INVESTMENT IN JOINT VENTURE	2,400,000	-
PROPERTY AND EQUIPMENT, net	<u>9,871,988</u>	<u>9,230,855</u>
TOTAL ASSETS	<u>\$ 58,049,979</u>	<u>\$ 47,974,558</u>

<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Amounts payable to providers	\$ 6,416,396	\$ 2,428,841
Accounts payable and accrued expenses	1,829,703	1,170,362
Unreported services payable	445,358	296,000
Payable to funding source	780,000	980
Community reinvestment program payable	100,885	-
Accrued leave time	84,740	573,486
Unearned revenue	-	28,658
Risk pool payable	<u>453,770</u>	<u>453,770</u>
TOTAL CURRENT LIABILITIES	10,110,852	4,952,097
UNRESTRICTED NET ASSETS	<u>47,939,127</u>	<u>43,022,461</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 58,049,979</u>	<u>\$ 47,974,558</u>

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
REVENUES AND GAINS		
Arizona Department of Health Services	\$ 197,755,419	\$ 159,008,205
Other grants and contract revenue	145,501	276,721
Provider service fees	437,695	506,164
Other services	13,330	21,133
Interest income	102,136	58,057
Rental revenue	75,373	78,395
Miscellaneous	<u>11,107</u>	<u>15,583</u>
TOTAL REVENUES AND GAINS	<u>198,540,561</u>	<u>159,964,258</u>
EXPENSES		
Program service fees distributed to providers	177,094,171	142,380,942
Salaries	9,685,138	7,401,242
Employee related expenses	2,013,390	1,932,593
Operating	1,748,339	1,863,325
Professional and outside services	1,200,894	1,438,998
Depreciation and amortization	631,426	728,384
Occupancy	645,978	397,514
Travel	222,361	175,344
Community reinvestment program	<u>382,198</u>	<u>27,531</u>
TOTAL EXPENSES	<u>193,623,895</u>	<u>156,345,873</u>
CHANGE IN UNRESTRICTED NET ASSETS	4,916,666	3,618,385
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>43,022,461</u>	<u>39,404,076</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 47,939,127</u>	<u>\$ 43,022,461</u>

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,916,666	\$ 3,618,385
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	631,426	728,384
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Grants and contracts receivable	(883,240)	1,157,321
Providers receivable	-	5,919
Other receivables	3,086	(40,190)
Prepaid expenses and other current assets	490,418	(86,487)
Increase (decrease) in:		
Amounts payable to providers	3,987,555	(2,588,389)
Accounts payable and accrued expenses	659,341	254,509
Unreported services payable	149,358	(105,743)
Payable to funding source	779,020	(16,829)
Community reinvestment program payable	100,885	-
Accrued leave time	(488,746)	80,939
Unearned revenue	(28,658)	12,853
Net cash provided by operating activities	10,317,111	3,020,672
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(10,947,005)	(11,814,014)
Purchases of property and equipment	(1,272,559)	(595,527)
Proceeds from maturities of marketable securities	11,220,270	13,137,940
Investment in joint venture	(2,400,000)	-
Change in other assets	-	20,000
Net cash provided by (used in) investing activities	(3,399,294)	748,399
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,917,817	3,769,071
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	30,333,463	26,564,392
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 37,251,280	\$ 30,333,463

See Notes to Consolidated Financial Statements

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(1) Organization operations and summary of significant accounting policies

Nature of operations - Northern Arizona Regional Behavioral Health Authority, Inc. and Subsidiaries (NARBHA), located in Flagstaff, Arizona, is an Arizona nonprofit corporation. Through a contract with the Arizona Department of Health Services (ADHS), which expired 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 \$146,000 and \$277,000 in revenue for the years ended September 30, 2015 and 2014, 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 year 2014 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 encompassed 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. In connection with NARBHA's bid, NARBHA created WTDG, Inc. (WTDG), an Arizona nonprofit corporation. The purpose of WTDG was 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 were 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. During the year ended September 30, 2015, WTDG incurred no costs related to the RFP response and WTDG was formally closed with the remaining assets (cash) being transferred back to NARBHA.

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 Company with Health Choice of Northern Arizona (a division of IASIS Healthcare) (See Note 5). The joint venture is called Health Choice Integrated Care, LLC (HCIC) and NARBHA is a 48% owner. NARBHA and Health Choice of Northern Arizona 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. On December 18, 2014, ADHS awarded the Northern Arizona Integrated RBHA contract to HCIC. The contract has an initial three year term with two-two year renewal options for a potential maximum length of 7 years. The allowable administrative overhead on the new contract and the allowable services profit have been raised to 8% and 4%, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

Upon the conclusion of NARBHA's contract with ADHS on September 30, 2015, the operations of NARBHA entered a run-out phase for claims relating to operations in effect prior to that date, which will continue as long as required by ADHS. Additionally, in conjunction with NARBHA's investment in HCIC and no longer holding the RBHA contract directly, the NARBHA Board changed the organization's name to The NARBHA Institute effective October 1, 2015 with the broad aspiration of aligning a 50 year legacy of stewardship with the profound need to advance and improve integrated wellness in the community. A comprehensive Community Need and Resource Review has been commissioned and will be conducted throughout 2016 to fully inform the future philanthropic agenda. The NARBHA Institute continues to be a 501(c)3 public charity located in Flagstaff, Arizona.

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 was required to maintain a minimum deposit balance of \$8,321,000 with the lending institution until September 30, 2015.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

Grants and contracts receivable - At September 30, 2015 and 2014, NARBHA had amounts outstanding from ADHS and ADOH for the provision of comprehensive behavioral healthcare services and housing 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, 2015 and 2014 and, accordingly, an allowance for doubtful accounts is not considered necessary. At September 30, 2015 and 2014, grants and contracts receivable consisted entirely of amounts due from the state of Arizona through ADHS of \$1,616,956 and \$686,147 and ADOH of \$646 and \$48,215, respectively. Management believes any loss due to a concentration of credit risk will be minimal.

Property and equipment - Purchased property and equipment is recorded at cost. Donated property and equipment is recorded at fair value at the date of contribution to NARBHA. Betterments or renewals in excess of \$2,000 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 2015 and 2014.

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, 2015 and 2014, \$0 and \$5,405, respectively, of Federal Block Grant funds were deferred. The amount of Non-TXIX funds unexpended at September 30, 2015 and 2014 was \$0 and \$23,253, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

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

In fiscal year 2014, NARBHA was awarded the State Prevention Framework/Partnership for Success (SPF/PFS) Grant by ADHS. 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.

Also awarded in fiscal year 2014 by ADHS 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.

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, a subcontracted provider. 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 September 30, 2015.

In fiscal year 2013, the Arizona State Office of the Governor in partnership with ADHS 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 ADHS.

For the NARBHA contracts with ADOH, revenue is recognized when the eligible costs are incurred. The request for payment that is submitted is based on the monies expended for rental assistance to qualified participants. These grants are funded with U.S. Department of Housing and Urban Development funds 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, 2015 and September 30, 2014. For the year ended September 30, 2015 and 2014, 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 benefits administration 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

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

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

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

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, 2015 and 2014, pharmacy rebates totaled approximately \$154,000 and \$128,000, 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 years ended September 30, 2015 and 2014. 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 2012, 2013, 2013 short year and 2014 are subject to examination by the IRS generally for three years after they were filed. As of the date of this report, the fiscal 2015 tax return had not yet been filed. WNC is a disregarded entity for tax purposes. WTDG is an Arizona non-profit corporation which files Form 1120.

Subsequent events - NARBHA has evaluated subsequent events through January 15, 2016, which is the date the consolidated financial statements were available to be issued.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(2) Marketable securities

Marketable securities consist of:	<u>2015</u>	<u>2014</u>
Negotiable bank certificates of deposit	\$ 6,760,136	\$ 6,783,522
U.S. Treasury Bills	-	249,879
Total marketable securities	<u>\$ 6,760,136</u>	<u>\$ 7,033,401</u>

(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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities				
Negotiable bank certificates of deposit	\$ -	\$ 6,760,136	\$ -	\$ 6,760,136

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>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(4) Property and equipment

Property and equipment consists of:

	2015	2014
Cost and donated value:		
Land and improvements	\$ 2,184,588	\$ 2,102,600
Buildings and improvements	7,611,761	6,427,860
Furniture and equipment	4,804,065	4,709,521
Vehicles	270,021	270,021
Construction in progress	-	112,125
Total cost and donated value	14,870,435	13,622,127
Accumulated depreciation and amortization	(4,998,447)	(4,391,272)
Net property and equipment	\$ 9,871,988	\$ 9,230,855

Depreciation and amortization expense charged to operations was \$631,426 for 2015 and \$728,384 for 2014.

As of September 30, 2014, construction in progress consisted of certain building improvements. These projects were placed in service in January 2015. Additionally, during fiscal year 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) Investment in joint venture

NARBHA accounts for its investment in HCIC under the equity method of accounting in accordance with FASB ASC 272, *Limited Liability Companies*, and FASB ASC 323, *Investments – Equity Method and Joint Ventures*. Under this method, the investment balance is adjusted based on a percentage of the income and losses realized by HCIC in proportion to NARBHA's ownership interest.

For the year ended September 30, 2015 HCIC received \$2,400,000 in contributions from NARBHA and \$2,600,000 in contributions from Health Choice with no other income statement activity. As of September 30, 2015 HCIC had \$5,000,000 in cash and equity which comprises HCIC's statement of financial position.

On October 1, 2015, NARBHA entered into an agreement to sell certain assets including MIS/Telemedicine equipment, all moveable property located at NARBHA's main administration facility, certain vehicles, and software and related licenses to Health Choice Management Company (HCMC), an entity related to HCIC. The total sales proceeds were \$2.5 million. Additionally, NARBHA funded certain accrued leave time for their former employees who moved to HCIC, effective October 1, 2015, totaling \$189,078.

In October 2015, NARBHA also entered into an agreement to lease its main administration facility to HCMC under an operating lease agreement. The lease term began on October 1, 2015 and terminates September 30, 2018. The lease includes two mandatory renewals, each of two years, at the prevailing market rent rate if HCIC's contract with ADHS is renewed. Minimum future payments under this lease agreement are as follows:

<u>Years Ending September 30,</u>	
2016	\$ 642,582
2017	642,582
2018	642,582
Total future rental payments	\$ 1,927,746

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(6) Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis. 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.

	2015	2014
Program expenses	\$ 178,509,261	\$ 143,604,135
Management and general expenses	15,114,634	12,741,738
Total functional expenses	\$ 193,623,895	\$ 156,345,873

(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 \$639,399 and \$487,011 years ended September 30, 2015 and 2014, respectively. Subsequent to year-end NARBHA terminated the 401(k) plan.

(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 2015 and 2014, BHIP paid the annual premium for NARBHA of \$91,612 and \$108,402, respectively. NARBHA then entered into a contract to repay BHIP on a quarterly basis. As of September 30, 2015 and 2014, NARBHA owed BHIP \$33,789 and \$54,201, respectively, under this agreement which is included in accounts payable and accrued expenses. As of September 30, 2015 and 2014, 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 under the BHIP program and amounted to approximately \$92,000 and \$1,400 for the years ended September 30, 2015 and 2014, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(8) Insurance (continued)

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, 2015 and 2014 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 September 30, 2015 and 2014.

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 \$669,000 and \$932,000 for the years ended September 30, 2015 and 2014, respectively. During the year ended September 30, 2015 both AHIP and BHIP changed their fiscal year-ends to December 31. Subsequent to September 30, 2015, NARBHA terminated its participation in AHIP and BHIP and purchased commercial insurance.

(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 \$18,203,874 and \$15,520,813 for 2015 and 2014. The performance bond requirement will remain at \$18,203,874 through the run-out of claims for fiscal year 2016.

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 requirement.

The cost of obtaining the performance bond and letter of credit totaled \$143,980 and \$145,076 for the years ended September 30, 2015 and 2014, respectively. NARBHA amortizes the cost over the renewal period.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(10) Contract requirements

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.

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 (\$15,306,521 as of September 30, 2015). 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, 2015 and 2014.

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

In addition, NARBHA is subject to a profit risk corridor calculation that calculates a return of premium to the extent certain financial ratios are not met by program types. NARBHA did not record a return of premiums as a result of the profit risk corridor calculation for the years ended September 30, 2015 and 2014.

Prior to fiscal year 2011, NARBHA could be subject to a potential encounter withhold by ADHS if NARBHA reported less than the minimum number of encounters as stipulated in the Contract. As of June 30, 2011, the encounter withhold concept was replaced by a possible sanction for failing to meet the minimum number of encounters. Typically, NARBHA has up to eight months after fiscal year end to submit encounters related to the fiscal year.

For the year ended September 30, 2015, NARBHA believes that the encounter value will not exceed the minimum percentage of encounters as stipulated in the Contract. Accordingly, at September 30, 2015, NARBHA has recorded a payable to funding source of \$780,000.

For the year ended September 30, 2014, NARBHA anticipated meeting the required encounter threshold. Accordingly, as of September 30, 2014, NARBHA did not record a liability associated with an encounter sanction. Through the date of this report, ADHS has not yet completed its encounter evaluation assessment for the year ended September 30, 2014. However, NARBHA management continues to anticipate meeting the required encounter threshold.

ADHS has a right to sanction NARBHA for other matters of non-compliance of the Contract, as determined by ADHS. NARBHA received no sanctions for the years ended September 30, 2015 and 2014.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(11) Commitments and contingencies

Supported housing grant - In fiscal year 2013, NARBHA was awarded a supportive housing grant of \$2,325,062 from ADHS. 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, 2015 and 2014, accumulated depreciation for all 5 housing complexes was \$147,844 and \$85,208, respectively. 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, 2015 and 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. 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, 2015 and 2014, NARBHA's Board of Directors approved amounts that resulted in expenses of \$382,198 and \$27,531, respectively, to be spent on various behavioral health community projects. The outstanding balance still to be paid as of September 30, 2015 and 2014 was \$100,885 and \$0, respectively. In addition, for the years ended September 30, 2015 and 2014, \$0 and \$250,000, respectively, was approved by the Board of Directors to be paid to WNC for housing renovations. This amount is eliminated in consolidation.

Risk pool payable - In June 2009, NARBHA established a "pool" of money available to subcontracted service providers 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 each of the years ended September 30, 2015 and 2014, NARBHA's Board of Directors approved no amounts to fund the risk pool. Amounts outstanding as of September 30, 2015 and 2014 totaled \$453,770. The amounts outstanding as of September 30, 2015 and 2014 are included in risk pool payables in the consolidated statements of financial position.

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, 2015 and 2014, 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(11) Commitments and contingencies (continued)

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.

SUPPLEMENTAL SCHEDULES



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

To the Board of Directors of

NORTHERN ARIZONA REGIONAL BEHAVIORAL HEALTH AUTHORITY, INC. AND SUBSIDIARIES

We have audited the accompanying supplemental schedules of activities on pages 19 and 20 (as defined in the contract dated July 1, 2010, between **Northern Arizona Regional Behavioral Health Authority, Inc. and Subsidiaries** (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, 2015.

Management's Responsibility for the Supplemental Schedules

Management is responsible for the preparation and fair presentation of these supplemental 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 supplemental 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, and supplemental schedule of activities - disclosures referred to above present fairly, in all material respects, the financial position and activities of **Northern Arizona Regional Behavioral Health Authority, Inc. and Subsidiaries** as of and for the year ended September 30, 2015, 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. and Subsidiaries**, others within the entity, the state of Arizona and the ADHS-DBHS, and is not intended to be and should not be used by anyone other than these specified parties.

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

January 15, 2016

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

SUPPLEMENTAL SCHEDULE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

September 30, 2015

ASSETS

	Well North				
	<u>NARBHA</u>	<u>Communities</u>	<u>WTDG</u>	<u>Eliminations</u>	<u>Totals</u>
CURRENT ASSETS					
Cash and cash equivalents	\$ 37,165,162	\$ 86,118	\$ -	\$ -	\$ 37,251,280
Marketable securities	6,760,136	-	-	-	6,760,136
Accounts receivable:					
Grants and contracts	1,617,602	-	-	-	1,617,602
Other	59,298	41,400	-	(42,029)	58,669
Prepaid expenses and other current assets	<u>87,354</u>	<u>2,950</u>	<u>-</u>	<u>-</u>	<u>90,304</u>
TOTAL CURRENT ASSETS	45,689,552	130,468	-	(42,029)	45,777,991
INVESTMENT IN JOINT VENTURE	2,400,000	-	-	-	2,400,000
PROPERTY AND EQUIPMENT, net	<u>7,666,035</u>	<u>2,205,953</u>	<u>-</u>	<u>-</u>	<u>9,871,988</u>
TOTAL ASSETS	<u>\$ 55,755,587</u>	<u>\$ 2,336,421</u>	<u>\$ -</u>	<u>\$ (42,029)</u>	<u>\$ 58,049,979</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES					
Amounts payable to providers	\$ 6,416,396	\$ -	\$ -	\$ -	\$ 6,416,396
Accounts payable and accrued expenses	1,821,719	50,013	-	(42,029)	1,829,703
Unreported services payable	445,358	-	-	-	445,358
Payable to funding source	780,000	-	-	-	780,000
Community reinvestment program payable	100,885	-	-	-	100,885
Accrued leave time	84,740	-	-	-	84,740
Risk pool payable	<u>453,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>453,770</u>
TOTAL CURRENT LIABILITIES	10,102,868	50,013	-	(42,029)	10,110,852
UNRESTRICTED NET ASSETS	<u>45,652,719</u>	<u>2,286,408</u>	<u>-</u>	<u>-</u>	<u>47,939,127</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 55,755,587</u>	<u>\$ 2,336,421</u>	<u>\$ -</u>	<u>\$ (42,029)</u>	<u>\$ 58,049,979</u>

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

SUPPLEMENTAL SCHEDULE

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended September 30, 2015

	Well North				Totals
	<u>NARBHA</u>	<u>Communities</u>	<u>WTDG</u>	<u>Eliminations</u>	
REVENUES AND GAINS					
Arizona Department of Health Services	\$ 197,755,419	\$ -	\$ -	\$ -	\$ 197,755,419
Other grants and contract revenue	145,501	-	-	-	145,501
Provider service fees	437,695	-	-	-	437,695
Other services	13,330	-	-	-	13,330
Interest income	102,136	-	-	-	102,136
Rental revenue	-	75,373	-	-	75,373
Donations	-	247,797	-	(247,797)	-
Miscellaneous	11,107	-	-	-	11,107
TOTAL REVENUES AND GAINS	<u>198,465,188</u>	<u>323,170</u>	<u>-</u>	<u>(247,797)</u>	<u>198,540,561</u>
EXPENSES AND LOSSES					
Program service fees distributed to providers	177,094,171	-	-	-	177,094,171
Salaries	9,669,649	15,489	-	-	9,685,138
Employee related expenses	2,010,291	3,099	-	-	2,013,390
Operating	1,747,295	1,044	-	-	1,748,339
Professional and outside services	1,197,412	3,482	-	-	1,200,894
Depreciation and amortization	568,790	62,636	-	-	631,426
Occupancy	459,320	434,455	-	(247,797)	645,978
Travel	222,224	137	-	-	222,361
Community reinvestment program	382,198	-	-	-	382,198
TOTAL EXPENSES	<u>193,351,350</u>	<u>520,342</u>	<u>-</u>	<u>(247,797)</u>	<u>193,623,895</u>
CHANGE IN UNRESTRICTED NET ASSETS	5,113,838	(197,172)	-	-	4,916,666
DISTRIBUTION TO MEMBER	-	-	(50,000)	50,000	-
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>40,538,881</u>	<u>2,483,580</u>	<u>50,000</u>	<u>(50,000)</u>	<u>43,022,461</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 45,652,719</u>	<u>\$ 2,286,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,939,127</u>

OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2015

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 Health Services:			
Block Grants for Community Mental Health Services (MHBG):			
SMI - Non Title XIX	93.958	11356415170214	\$ 437,721
Children - Non Title XIX	93.958	11356415170214	583,747
Total Mental Health Block Grant			<u>1,021,468</u>
Block Grants for Prevention and Treatment of Substance Abuse (SABG):			
Substance Abuse	93.959	11356415170214	2,770,982
Crisis	93.959	11356415170214	516,989
Prevention	93.959	11356415170214	566,652
Total Substance Abuse Block Grant			<u>3,854,623</u>
Centers for Medicare and Medicaid Services (CMS)			
Medical Assistance Program			
SMI - Title XIX	93.778	68660047910029	48,264,618
Children - Title XIX	93.778	68660047910029	39,250,256
Substance Abuse/General Mental Health - Title XIX	93.778	68660047910029	32,516,256
PASRR	93.778	68660047910029	450
Total CMS Medical Assistance Program			<u>120,031,580</u>
Projects for Assistance in Transition from Homelessness (PATH)	93.150	11356415170214	<u>181,213</u>
Block Grants for Substance Abuse and Mental Health Services:			
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – SBIRT	93.243	11356415170214	1,032,564
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – AZ Strategic PRV Framework	93.243	11356415170214	415,068
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – CABHI	93.243	11356415170214	301,055
Total Substance Abuse and Mental Health Services			<u>1,748,687</u>
Children's Health Insurance Program - Title XXI	93.767	68660047910029	<u>60,117</u>
Total Arizona Department of Health Services			<u>126,897,688</u>
Total U.S. Department of Health and Human Services			<u>126,897,688</u>
U.S. Department of Housing and Urban Development			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	524-14, 517-15	37,171
Continuum of Care Program	14.267	546-14	106,934
Total U.S. Department of Housing and Urban Development			<u>144,105</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 127,041,793</u>

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

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2015

(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. and Subsidiaries** under programs of the federal government for the year ended September 30, 2015. 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. and Subsidiaries**, 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. and Subsidiaries**.

(2) Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in *OMB Circular A-122, Cost Principles for Non-profit Organizations*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

The program titles and CFDA numbers were obtained from the 2015 *Catalog of Federal Domestic Assistance*.

(4) Subrecipients

Of the federal expenditures presented in the schedule, **Northern Arizona Regional Behavioral Health Authority, Inc. and Subsidiaries** 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 (MHBG)	93.958	\$ 943,048
Block Grants for Prevention and Treatment of Substance Abuse (SABG)	93.959	3,501,870
Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program	93.778	112,160,735
Centers for Medicare and Medicaid Services (CMS) Medical Assistance Program – PASRR	93.778	450
Projects for Assistance in Transition from Homelessness (PATH)	93.150	173,965
Children's Health Insurance Program - Title XXI	93.767	59,727
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – SBIRT	93.243	717,781
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – AZ PRV Framework	93.243	205,449
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – CABHI	93.243	204,433
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	26,419
Continuum of Care Program	14.267	106,934



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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.
AND SUBSIDIARIES**

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. and Subsidiaries**, which comprise the consolidated statement of financial position as of September 30, 2015, 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 15, 2016.

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. and Subsidiaries'** 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. and Subsidiaries'** internal control. Accordingly, we do not express an opinion on the effectiveness of **Northern Arizona Regional Behavioral Health Authority, Inc. and Subsidiaries'** 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. and Subsidiaries***' 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." The signature is written in a cursive, flowing style.

January 15, 2016



Mayer Hoffman McCann P.C.

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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.
AND SUBSIDIARIES**

Report on Compliance for Each Major Federal Program

We have audited **Northern Arizona Regional Behavioral Health Authority, Inc. and Subsidiaries'** 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. and Subsidiaries'** major federal programs for the year ended September 30, 2015. **Northern Arizona Regional Behavioral Health Authority, Inc. and Subsidiaries'** 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. and Subsidiaries'** 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. and Subsidiaries'** 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. and Subsidiaries'** compliance.

Opinion on Each Major Federal Program

In our opinion, **Northern Arizona Regional Behavioral Health Authority, Inc. and Subsidiaries'** 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, 2015.

Report on Internal Control Over Compliance

Management of **Northern Arizona Regional Behavioral Health Authority, Inc. and Subsidiaries'** 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. and Subsidiaries'** 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. and Subsidiaries'** 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.



January 15, 2016

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2015

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
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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. AND SUBSIDIARIES**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2015

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