PBH

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Area Board of Directors
PBH
Concord, North Carolina

We have audited the accompanying financial statements of the governmental activities and the major funds and the aggregate remaining fund information of PBH (the "Organization") as of and for the year ended June 30, 2011, which collectively comprise PBH's basic financial statements as listed in the preceding Table of Contents. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these basic financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major funds, and the aggregate remaining fund information of the PBH as of June 30, 2011, and the respective changes in financial position, where appropriate, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2011 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Organization. The accompanying schedule of expenditures of Federal and State awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

LarsonAllen LLP

LarsonAllen LLP

Charlotte, North Carolina
November 17, 2011

Management's Discussion and Analysis

Overview of the Financial Statements

As Management of PBH, we offer readers of the PBH's financial statements this narrative overview and analysis of the financial activities of PBH for the fiscal year ended June 30, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Organization's financial statements, which follow this narrative.

Required Financial Statements

The Organization's financial statements report information of the Organization using accounting methods similar to those used by public-sector managed health care organizations. The significant difference is in the level of risk reserves that are established due to the at-risk contractual relationship under which the Organization operates.

These statements offer short-term and long-term financial information about its activities.

The Organization's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Organization through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Organization.

The government-wide financial statements are designed to provide the reader with a broad overview of the Organization's finances similar in format to a financial statement of a private-sector business. The government-wide statements provide short-term and long-term information about the Organization's financial status as a whole.

The two government-wide statements report the Organization's net assets and how they have changed. Net assets are the difference between the Organization's total assets and total liabilities. Measuring net assets is one way to gauge the Organization's financial condition.

The fund financial statements provide a more detailed look at the Organization's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. PBH, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Organization's budget ordinance. The Organization has two governmental funds, the general fund and the capital reserve fund.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the Organization

The Statement of Net Assets and the Statement of Activities report the net assets of the Organization and the changes in them. The Organization's net assets – the difference between assets and liabilities - are a way to measure financial health or financial position. Over time, increases or decreases in the Organization's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed governmental legislation.

Statement of Net Assets

A summary of the Organization's Statements of Net Assets at June 30, 2011, 2010 and 2009 is presented in Table A-1.

Table A-1
Condensed Statements of Net Assets
June 30, 2011, 2010 and 2009

	2011	2010	2009
Current Assets	$ 63,575,573	$ 49,876,768	$ 49,570,731
Capital Assets	22,684,770	11,526,727	7,044,258
Total Assets	86,260,343	61,403,495	56,614,989
Current Liabilities	13,875,605	8,400,910	8,863,871
Long-Term Liabilities	4,906,917	1,056,687	950,580
Total Liabilities	18,782,522	9,457,597	9,814,451
Net Assets			
Invested in Capital Assets, Net of Related Debt	18,729,267	11,526,727	7,044,258
Restricted	22,410,547	16,283,229	19,173,677
Unrestricted Net Assets	26,338,007	24,135,942	20,582,603
Total Net Assets	$ 67,477,821	$ 51,945,898	$ 46,800,538
Total Liabilities and Net Assets	$ 86,260,343	$ 61,403,495	$ 56,614,989

The net assets of the Organization increased to $67,477,821 during 2011, a $15,531,923 increase from 2010. The Organization has operated under a Medicaid Waiver since April 1, 2005. The capitation rate paid is established by an actuarial study of the historical service cost for the Medicaid population included in the Waiver agreement. The revenues to the Organization are broken down into funding for consumer services and administrative services from both Medicaid and the State of North Carolina. To the extent that there are increases in net assets, a portion of those increases are required by contractual agreement to be restricted to provide services in future periods.

Statement of Activities

While the Statement of Net Assets shows the change in net assets, the Statements of Activities provide answers to the nature and source of these changes.

Table A-2
Condensed Statements of Changes in Net Assets
Years Ended June 30, 2011, 2010 and 2009

	2011	2010	2009
Revenues			
Program Revenues			
Charges for Services	$ 128,448,148	$ 120,923,813	$ 116,217,005
Operating Grants and Contributions	31,141,321	32,375,880	35,294,032
General Revenues			
County Revenue	2,860,225	2,712,841	2,584,781
Interest Income	170,548	152,205	594,621
Gain (Loss) on Disposal of Capital Assets	(39,070)	(49,028)	28,169
Total Revenues	162,581,172	156,115,711	154,718,608
Expenses			
Local Management Entity Administration	21,012,800	18,679,370	17,477,033
Contracted Services	126,019,617	132,169,090	134,153,279
Property Management	16,832	121,891	201,913
Total Expenses	147,049,249	150,970,351	151,832,225
Changes in Net Assets	15,531,923	5,145,360	2,886,383
Net Assets - Beginning of Year	51,945,898	46,800,538	43,914,155
Net Assets - End of Year	$ 67,477,821	$ 51,945,898	$ 46,800,538

The Organization's operating revenues increased by 4.1% in 2011. Service fees increased by 6.2% due to the increase in the number of people enrolled in Medicaid. The Organization's operating expenses in 2011 decreased approximately 2.6% due to lower levels of expenditures for contracted services and property management. PBH has operated a Medicaid Managed Care waiver under contract with the Department of Health and Human Services since April 1, 2005. The Organization receives Medicaid funding on a per member per month basis. In addition to the waiver, the Organization operates under a single stream funding arrangement with the State of North Carolina, Department of Health and Human Services Division of Mental Health, Developmental Disabilities, and Substance Abuse. The two funding sources comprise approximately 98% of the revenues of the Organization. During the 2011 fiscal year, the waiver and single stream income contributed significantly towards operations.

Budgetary Analysis

Over the course of the year, the Organization revised the budget several times primarily due to increased Medicaid revenue.

Capital Assets and Debt Administration

At June 30, 2011, 2010 and 2009, the Organization had invested $22,684,770, $11,526,727, and $7,044,258, respectively, in capital assets, net of accumulated depreciation, as shown in Table A-3.

Table A-3
Capital Assets
June 30, 2011, 2010 and 2009

	2011	2010	2009
Construction in Progress	$ -	$ 3,499,612	$ 263,668
Land	2,597,598	2,597,598	2,597,598
Vehicles and Other Equipment	1,282,784	1,561,129	1,171,518
Leasehold Improvements	82,991	121,695	183,083
Buildings	18,721,397	3,746,693	2,828,391
Total Capital Assets	$ 22,684,770	$ 11,526,727	$ 7,044,258

At June 30, 2011, the Organization had outstanding debt associated with these capital assets of $3,955,503. At June 30, 2010 and 2009, there was no outstanding debt associated with capital assets.

Financial Analysis of the Organization's Funds

As noted earlier, the Organization uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Organization's governmental fund is to provide information on near-term inflows, outflows, and balances of useable resources. Such information is useful in assessing the Organization's operating activity. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Organization. At the end of the 2011 fiscal year, the unassigned fund balance of the General Fund was $5,036,982 while the total fund balance was $49,565,337 (which includes $19,210,415 that is restricted by the Medicaid waiver contract). As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to total expenditures. Unassigned fund balance represents 3.4% of total General Fund expenditures, while total fund balance represents 33.7% of that same amount at June 30, 2011. The Organization's contract with the Department of Health and Human Services requires a risk reserve of 15% of its Medicaid revenue to cover potential operating losses in the Medicaid waiver. These funds must be held in a Restricted Risk Reserve and may only be used with permission of the Department of Health and Human Services. The Restricted Risk Reserve is included in the total fund balance.

The Organization's total fund balance, exclusive of the Medicaid Risk Reserve, is 20.6% of the General Fund expenditures at June 30, 2011. The primary increase in the fund balance of the general fund was due to a planned decrease in utilization of certain high cost Medicaid and State services and a lower rate of utilization in alternate services.

At June 30, 2011 the governmental funds of the Organization reported a combined fund balance of $49,565,337; an increase of 19.5% from 2010.

Economic and Other Factors

Currently the Organization is the only Local Management Entity (LME) in North Carolina to operate under a Medicaid 1915 b/c Waiver. The 2007 legislature approved additional LME organizations to seek approval to operate under a similar Medicaid waiver; however, no other LME's are currently operating under this waiver, although approvals are being granted to other LME's. In addition, the Organization operates under a single stream funding arrangement with the Division of Mental Health, Developmental Disabilities, and Substance Abuse. The Division has established criteria for other LME organizations to apply for single stream funding. The Organization believes that public policy will continue to support the Organization's current funding arrangements with the Department of Health and Human Services.

Finance Contact

The Organization's financial statements are designed to present users with a general overview of the Organization's finances and to demonstrate the Organization's accountability. If you have any questions about the report or need additional financial information, please contact the Finance Director, PBH, 4855 Milestone Avenue, Kannapolis, North Carolina 28081.

Basic Financial Statements

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PBH
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS	
Cash and Cash Equivalents	$ 60,152,543
Due from Other Governments	469,304
Accounts Receivable	2,730,828
Prepaid Expenses	222,898
Land	2,597,598
Other Capital Assets (Net of Accumulated Depreciation):	
Vehicles and Other Equipment	1,282,784
Leasehold Improvements	82,991
Buildings	18,721,397
Total Assets	$ 86,260,343
LIABILITIES	
Accounts Payable and Other Current Liabilities	$ 13,738,697
Current Portion of Installment Note	136,908
Long-Term Liabilities:	
Due in More Than One Year - Installment Note	3,818,595
Due in More Than One Year - Compensated Absences	1,088,322
Total Liabilities	$ 18,782,522
NET ASSETS	
Invested in Capital Assets, net of related debt	$ 18,729,267
Restricted:	
Stabilization of State Statue	3,200,132
Medicaid Risk Reserve	19,210,415
Unrestricted	26,338,007
	$ 67,477,821

See accompanying Notes to Financial Statements.

PBH
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Net Expenses and Change in Net Assets
Governmental Activities:				
Client Services:				
Local Management Entity Administration	$ 21,012,800	$ 17,301,035	$ 4,883,910	$ 1,172,145
Contracted Services	126,019,617	111,133,363	26,257,411	11,371,157
Property Management	16,832	13,750	-	(3,082)
Total Governmental Activities	$ 147,049,249	$ 128,448,148	$ 31,141,321	12,540,220
General Revenues:				
Interest Income				170,548
Loss on Sale of Capital Assets				(39,070)
County Revenues				2,860,225
Total General Revenues				2,991,703
CHANGE IN NET ASSETS				15,531,923
Net Assets - Beginning of Year				51,945,898
NET ASSETS - END OF YEAR				$ 67,477,821

See accompanying Notes to Financial Statements.

PBH
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2011

	Major		Total Governmental Funds
	General	Capital Reserve	
ASSETS			
Cash and Cash Equivalents	$ 60,152,543	$ -	$ 60,152,543
Due from Other Governments	469,304	-	469,304
Accounts Receivable, Net of Allowance for Uncollectible Accounts and Contractual Allowances	2,730,828	-	2,730,828
Prepaid Expenses and Deposits	222,898	-	222,898
Total Assets	$ 63,575,573	$ -	$ 63,575,573
LIABILITIES			
Accounts Payable and Other Current Liabilities	$ 13,738,697	$ -	$ 13,738,697
Deferred Revenue	271,539	-	271,539
Total Liabilities	14,010,236	-	14,010,236
FUND BALANCES			
Nonspendable	222,898	-	222,898
Restricted:			
Stabilization of State Statute	3,200,132	-	3,200,132
Medicaid Risk Reserve	19,210,415	-	19,210,415
Committed	21,894,910		21,894,910
Unassigned	5,036,982	-	5,036,982
Total Fund Balances	49,565,337	-	49,565,337
Total Liabilities and Fund Balances	$ 63,575,573	$ -	$ 63,575,573
Amounts Reported in the Statement of Net Assets are Different Because:			
Fund Balance	$ 49,565,337	$ -	$ 49,565,337
Capital Assets Used in Governmental Activities are not Financial Resources and therefore, are not Reported in the Funds	22,684,770	-	22,684,770
Liability for Installment Note is not Due and Payable in the Current Period and therefore, is not Reported in the Fund	(3,955,503)	-	(3,955,503)
Liability for Earned Revenues, but Deferred in the Fund	271,539	-	271,539
Liability for Compensated Absences is not Due and Payable in the Current Period and therefore, is not Reported in the Fund	(1,088,322)	-	(1,088,322)
	$ 67,477,821	$ -	$ 67,477,821

See accompanying Notes to Financial Statements.

PBH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	Major		
	General	Capital Reserve Fund	Total Governmental Funds
REVENUES			
Intergovernmental:			
County	$ 2,860,225	$ -	$ 2,860,225
State	28,815,219	-	28,815,219
Federal	2,054,564	-	2,054,564
Medicaid	127,646,578	-	127,646,578
Other Income	972,117	-	972,117
Total Revenues	162,348,703	-	162,348,703
EXPENDITURES			
Current:			
Personnel	15,084,745	-	15,084,745
Professional Services	2,121,160	-	2,121,160
Contracts	125,527,505	-	125,527,505
Property Expense	16,832	-	16,832
Capital Outlay	12,234,247	-	12,234,247
Other Expenses	3,178,870	-	3,178,870
Debt Service:			
Principal Retirement	44,497	-	44,497
Interest	51,368	-	51,368
Total Expenditures	158,259,224	-	158,259,224
Revenues Over Expenditures Before Other Financing Sources	4,089,479	-	4,089,479
Other Financing Sources & Uses:			
Proceeds from Long Term Debt	4,000,000	-	4,000,000
Transfers to (from) Other Funds	7,263,670	(7,263,670)	-
Total Other Financing Sources and Uses	11,263,670	(7,263,670)	4,000,000
CHANGE IN FUND BALANCE	15,353,149	(7,263,670)	8,089,479
Fund Balance - Beginning of Year	34,212,188	7,263,670	41,475,858
FUND BALANCE - END OF YEAR	$ 49,565,337	$ -	$ 49,565,337

See accompanying Notes to Financial Statements.

PBH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Net Changes in Fund Balances - Total Governmental Funds	$ 8,089,479
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	11,197,113
Some expenses in the statement of activities that do not require current financial resources are not reported as expenses in the funds.	(31,635)
Book value of capital assets disposed	(39,070)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governemental funds. Neither transaction has any effect on net assets.	(3,955,503)
Revenues in the funds that do not provide current financial resources are not reported as revenues in the Statement of Activities	271,539
Change in Net Assets	$ 15,531,923

See accompanying Notes to Financial Statements.

PBH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES – GENERAL AND ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUNDS – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental:				
County	$ 2,864,184	$ 2,860,224	$ 2,860,225	$ 1
State & Federal	32,312,697	34,015,665	30,869,783	(3,145,882)
Medicaid	124,581,201	128,157,401	127,646,578	(510,823)
Other Income	715,000	923,905	972,117	48,212
Total Revenues	160,473,082	165,957,195	162,348,703	(3,608,492)
EXPENDITURES				
Personnel	15,070,807	15,737,119	15,084,745	652,374
Professional Services	1,637,222	2,564,812	2,121,160	443,652
Contracts	139,281,263	143,538,010	125,527,505	18,010,505
Property Expense	15,000	117,308	16,832	100,476
Capital Outlay	158,446	4,454,719	12,234,247	(7,779,528)
Other Expenses	4,310,344	3,864,358	3,178,870	685,488
Debt Service:				
Principal Retirement	-	44,500	44,497	3
Interest	-	51,500	51,368	132
Total Expenditures	160,473,082	170,372,326	158,259,224	12,113,102
Revenues Over (Under) Expenditures Before Other Financing Sources	-	(4,415,131)	4,089,479	8,504,610
Other Financing Sources:				
Appropriated Fund Balance	-	4,415,131	-	(4,415,131)
Proceeds from Long Term Debt	-	4,000,000	4,000,000	-
Transfers (to) from Other Funds	-	7,263,670	7,263,670	-
Total Other Financing Sources (Uses)	-	15,678,801	11,263,670	(4,415,131)
Change in Fund Balance	$ -	$ 11,263,670	15,353,149	4,089,479
Fund Balance - Beginning			34,212,188	
FUND BALANCE - ENDING			$ 49,565,337	

See accompanying Notes to Financial Statements.

Capital Reserve Fund			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
$ -	$ -	$ -	$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	(7,263,670)	(7,263,670)	-
-	(7,263,670)	(7,263,670)	-
$ -	$ (7,263,670)	(7,263,670)	$ -
		7,263,670	
		$ -	

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of PBH, formerly Piedmont Area Mental Health, Developmental Disabilities and Substance Abuse Authority, (the "Organization") conform to generally accepted accounting principles in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Organization is a Local Management Entity designated by and functioning under the control of the North Carolina Department of Health and Human Services to manage and coordinate mental health, developmental disabilities and substance abuse services through contract providers primarily in Cabarrus, Stanly, Union, Rowan, and Davidson Counties. The services, as a Local Management Entity, include reviewing and evaluating the area needs and programs in mental health, mental impairment, mental retardation, alcoholism, drug dependency and related fields, and developing jointly with the North Carolina Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, an annual plan for the effective development, use and control of state and local facilities and resources in a comprehensive program of behavioral health services for the residents of the area. The Organization is governed by a 20-member board of directors. The Organization is an area organization empowered by Chapter 122C of the North Carolina General Statutes with the responsibility to oversee and control all activities related to mental health, developmental disabilities, and substance abuse services in its target area. As required by generally accepted accounting principles, these financial statements present all accounts of the Organization.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statements. The statement of net assets and the statement of activities display information about the primary government (the "Organization"). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Organization. Governmental activities generally are financed through patient charges, third-party reimbursements, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Organization does not have any business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Organization's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues may include: a) any fees and charges that might be paid by the recipients of goods or services offered by the programs and also include Medicaid Waiver Capitation payments, and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, which include state and federal grants. Revenues that are not classified as program revenues are presented as general revenues.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Basis of Accounting (Continued)

Basis of Presentation, Measurement Focus – Basis of Accounting (Continued)

Fund Financial Statements. The fund financial statements provide information about the Organization's funds. Separate statements for each fund category – *governmental* – are presented. The emphasis of fund financial statements is on major governmental funds, displayed in a separate column. There are no remaining governmental funds that were aggregated and reported as non-major funds.

The Organization reports the following major governmental funds:

General Fund. This is the Organization's primary operating fund. It accounts for all financial resources of the general government.

Capital Reserve Fund. This fund was created by Board resolution on June 29, 2009 to set aside and to accumulate funding for board approved capital projects.

Measurement Focus, Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Organization are maintained during the year using the modified accrual basis of accounting.

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Organization gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Basis of Accounting (Continued)

Measurement Focus, Basis of Accounting (Continued)

Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Organization considers all revenues available if they are collected within sixty (60) days after year-end.

Intergovernmental revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

C. Budgetary Data

The Organization's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than $5,000. The governing board must approve all amendments. During the year, several amendments to the original budget were necessary as required by state law primarily when funding changes are approved. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

D. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Organization are made in board-designated official depositories and are secured as required by G.S. 159-31. The Organization may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Organization may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Organization to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Equity (Continued)

1. Deposits and Investments (Continued)

The Organization's investments with a maturity of more than one (1) year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

2. Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Organization considers demand deposits and investments purchased with an original maturity of three (3) months or less, which are not limited as to use, to be cash and cash equivalents.

3. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years and evaluating current information related to the collectability of individual receivables.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization costs are as follows: leasehold improvements, equipment, and vehicles, $5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the Organization are depreciated on a straight-line basis over the following estimated useful lives:

	Years
Vehicles and Other Equipment	5-15
Leasehold Improvements	5-15
Buildings	10-30

6. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Equity (Continued)

7. Compensated Absences

The vacation policies of the Organization provide for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Organization's government-wide fund, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

The sick leave policy of the Organization provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any accumulated sick leave up to 20 days will be paid to employees retiring at age 55 or older with at least 15 years of service. The current portion of accumulated sick leave is not considered material; therefore, no expenditure or liability has been reported in the governmental funds.

8. Net Assets/Fund Balances

<u>Net Assets</u>

Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

<u>Fund Balances</u>

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balances can be spent.

The governmental fund types classify fund balances as follows:

<u>Nonspendable Fund Balance</u>

This classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

Prepaid Expenses-the portion of fund balance that is not an available resource because it represents the year-end balance of prepaid expenses, which are not spendable resources.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Equity (Continued)

8. Net Assets/Fund Balances (Continued)

Restricted Fund Balance

This classification includes revenue resources that are restricted to specific purposes externally imposed by creditors or imposed by law which includes the Medicaid Risk Reserve. The Organization has a contractual agreement with the North Carolina Department of Health and Human Services Division of Medical Assistance. The agreement requires that the Organization maintain a reserve of the monthly capitation payments that is equal to fifteen percent of the previous year's total contract. This reserve is fully funded as of June 30, 2011.

Restricted for Stabilization of State Statute

The portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Committed Fund Balance

The portion of fund balance that can only be used for specific purpose imposed by a majority vote of the Organization's governing body (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

Committed Fund Balance at June 30, 2011 consists of the following:

General Medicaid Risk Reserve	$ 7,394,910
CRC-Davidson Renovations	2,500,000
CRC-Cabarrus Renovations	2,000,000
Service Development	1,500,000
Medicaid Service Reserve	1,000,000
Start-Up Expansion	3,500,000
IT Infrastructure	2,500,000
Support Needs Matrix Transition	1,500,000
	$ 21,894,910

Assigned Fund Balance

The portion of fund balance that the Authority's governing board has budgeted.

Unassigned Fund Balance

The portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

NOTE 2 DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All of the Organization's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Organization in its name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Organization, these deposits are considered to be held by their agents in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Organization or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Organization under the Pooling Method, the potential exists for under-collaterization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Organization has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Organization complies with the provisions of G. S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2011, the Organization's deposits had a carrying amount of $59,149,723 and a bank balance of $50,622,758. Of the bank balance, $500,000 was covered by federal depository insurance; $50,122,758 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2011, the Organization had cash on hand of $1,150.

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments

At June 30, 2011, the Organization's investments of $1,001,670 consisted solely of deposits in the NC Capital Management Trust Cash Portfolio, an SEC-registered (2a-7) money market mutual fund.

Interest Rate Risk: The Organization has no policy on interest rate risk.

Credit Risk: The Organization has no formal policy regarding credit risk, but has internal management procedures that limits the Organization's investments to the provisions of G. S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Organization's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2011.

Custodial Credit Risk: The Organization has no policy on custodial credit risk.

The Organization's investments in the North Carolina Capital Management Trust are exempt from risk categorization because the Organization does not own any identifiable securities in these mutual funds.

3. Receivables

Receivables at the government-wide level at June 30, 2011, were as follows:

	Fees	Other Governments	Total
Governmental Activities:			
General	$ 2,730,828	$ 469,304	$ 3,200,132
Total Receivables	2,730,828	469,304	3,200,132
Less Allowance for Doubtful Accounts and Contractual Adjustments	-	-	-
Total-Governmental Activities	$ 2,730,828	$ 469,304	$ 3,200,132

The Organization's accounts receivable are presented net of the allowance for uncollectible accounts and contractual adjustments of $0.

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not Being Depreciated:				
Land	$ 2,597,598	$ -	$ -	$ 2,597,598
Construction in Progress	3,499,612	-	3,499,612	-
Total Capital Assets not Being Depreciated	6,097,210	-	3,499,612	2,597,598
Capital Assets Being Depreciated:				
Vehicles and Other Equipment	3,795,432	121,398	395,736	3,521,094
Leasehold Improvements	509,721	-	82,316	427,405
Buildings	5,021,826	15,612,461	-	20,634,287
Total Capital Assets Being Depreciated	9,326,979	15,733,859	478,052	24,582,786
Less Accumulated Depreciation for:				
Vehicles and Other Equipment	2,234,303	383,161	379,154	2,238,310
Leasehold Improvements	388,026	16,216	59,828	344,414
Buildings	1,275,133	637,757	-	1,912,890
Total Accumulated Depreciation	3,897,462	1,037,134	438,982	4,495,614
Governmental Activity, Capital Assets, Net	$ 11,526,727	$ 14,696,725	$ 3,538,682	$ 22,684,770

Primary Government

Depreciation expense for the year ending June 30, 2011 was charged to functions/programs of the primary government as follows:

LME Administration	$ 1,037,134

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2011, were as follows:

	Vendors	Liability for Claims Incurred, but not Reported	Total
Governmental Activities:			
General	$ 8,624,936	$ 5,113,761	$ 13,738,697
Total-Governmental Activities	$ 8,624,936	$ 5,113,761	$ 13,738,697

2. Pension Plan Obligations

a. Retirement Plan

Plan Description. The Organization has a defined contribution retirement plan covering all eligible employees working at least 1,000 hours per year administered through Cigna Life Insurance Company. The plan provides retirement and disability benefits to plan members and beneficiaries. Additional information on the plan may be obtained by writing to Cigna Life Insurance Company, 680 Town Clock Plaza, Dubuque, IA 52001, or by calling (319) 557-6827.

Funding Policy. The plan is optional and contributory by the employees. The Organization matches employee contributions dollar-for-dollar up to three percent of compensation. The Organization may elect to contribute additional amounts on behalf of eligible employees based on compensation and years of service. The Organization's contributions to the plan for the years ended June 30, 2011, 2010, and 2009, were $736,648, $681,543, and $571,708, respectively. The contributions made by the Organization equaled the required contributions for each year.

3. Other Post-employment Benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Organization makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium plus a 2% administrative fee is paid-in-full monthly by the insured.

This program is offered for a duration of 18 months after the employee's termination date. There is no associated cost to the Organization under this program, and there were 5 participants as of June 30, 2011.

Under Governmental Accountings Standards Statement Number 45 which was effective for the Organization's fiscal year ending June 30, 2009, required that the Organization measure and record its obligation for post-employment benefits and to recognize as an expense, the periodic cost at providing such benefits, if any. Since the Organization does not offer any post-employment benefits, there was no impact on the financial statements of the Organization.

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

4. Risk Management

The Organization is exposed to various risks of losses related to torts; malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization carries commercial insurance to cover substantially all risks of loss. The Organization obtains commercial general liability and auto liability coverage. Property and auto liability coverage is $5,000,000 per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up the statutory limits.

The Organization does not own any properties subject to flood damage and therefore does not carry any flood insurance.

The Organization carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 159.29, the Organization's employees that have access to $100 or more at a given time of the Organization's funds are performance bonded through a commercial surety bond. The Finance Officer is individually bonded for $500,000. All remaining employees are also bonded under a blanket bond of $500,000.

5. Contingent Liabilities

At June 30, 2011, the Organization was a defendant to various lawsuits. In the opinion of the Organization's management, the ultimate resolution of these legal matters should not have a material adverse effect on the Organization's financial position.

6. Long-Term Obligations

As of June 30, 2011, the governmental long-term debt of the financial reporting entity consisted of the following:

Accrued Compensated Absences:	
Non-Current Portion	$ 1,088,322

Long-Term Obligation Activity

The following is a summary of changes in the Organization's long-term obligations for the fiscal year ended June 30, 2011:

	Balance July 1, 2010	Net Increase (Decrease)	Balance June 30, 2011	Amounts Due within One Year
Governmental Activities:				
Compensated Absences	$ 1,056,687	$ 31,635	$ 1,088,322	$ -
Installment Debt Issued	-	3,955,503	3,955,503	136,908
Total General Long-Term Debt	$ 1,056,687	$ 3,987,138	$ 5,043,825	$ 136,908

Compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave-time as it is earned.

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

6. Long-Term Obligations

Installment Purchase

As authorized by North Carolina State law [G.S.160A-20], PBH financed the construction of an administrative office complex during the fiscal year ended June 30, 2011 by installment purchase.

The proceeds of the installment loan were made on February 14, 2011. The transaction requires 240 monthly principal and interest payments of $23,966 at an interest rate of 3.87%. The future minimum payments as of June 30, 2011, including $1,697,720 of interest, are:

June 30,	Principal	Interest
2012	$ 136,908	$ 150,684
2013	142,320	145,272
2014	147,927	139,665
2015	153,751	133,841
2016	159,815	127,777
2017-2021	898,598	539,362
2022-2026	1,090,101	347,859
2030-2034	1,226,083	113,260
	$ 3,955,503	$ 1,697,720

NOTE 3 SUMMARY DISCLOSURES OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Noncancellable Operating Leases

The Organization leases certain operating facilities under noncancellable operating leases. Three of the leases for facilities are renewable at the option of the Organization. Future lease payments due under these leases subsequent to June 30, 2011 are as follows:

Year Ending June 30,	Amount
2012	$ 110,936
	$ 110,936

Total rent expense for all operating leases amounted to $204,211 for the year ended June 30, 2011.

Federal and State-Assisted Programs

The Organization has received proceeds from several Federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Other Information

The statewide expansion of the 1915 (b)/(c) waivers builds on the management functions and capacities of the LME's to include the management of Medicaid resources within a managed care capitated environment. In order to be a successful managed care organization (MCO), LME's need a sufficient number of covered lives to be financially stable.

As part of this expansion, the State of North Carolina has adopted legislation requiring further consolidation of the LME's throughout the state. Although final details are incomplete at this date, there are plans that will consolidate three additional LME's into PBH in the near future.

PBH
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GENERAL FUND – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental:				
County	$ 2,864,184	$ 2,860,224	$ 2,860,225	$ 1
State & Federal	32,312,697	34,015,665	30,869,783	(3,145,882)
Medicaid	124,581,201	128,157,401	127,646,578	(510,823)
Other Income	715,000	923,905	972,117	48,212
Total Revenues	160,473,082	165,957,195	162,348,703	(3,608,492)
EXPENDITURES				
Local Management Entity Administration:				
Personnel	14,403,679	14,939,097	14,601,496	337,601
Professional Services	1,587,222	2,470,312	2,121,160	349,152
Capital Outlay	64,000	119,200	121,398	(2,198)
Other Expense	4,256,239	3,582,417	3,170,007	412,410
	20,311,140	21,111,026	20,014,061	1,096,965
Provider Contracts:				
Personnel	667,128	798,022	483,249	314,773
Professional Services	50,000	94,500	-	94,500
Capital Outlay	94,446	23,946	-	23,946
Contract Expenditures	139,281,263	143,538,010	125,527,505	18,010,505
Other Expense	54,105	281,941	8,863	273,078
	140,146,942	144,736,419	126,019,617	18,716,802
Property Management:				
Property Expense	15,000	117,308	16,832	100,476
Capital Outlay	-	4,311,573	12,112,849	(7,801,276)
	15,000	4,428,881	12,129,681	(7,700,800)
Debt Service:				
Principal Retirement	-	44,500	44,497	3
Interest	-	51,500	51,368	132
	-	96,000	95,865	135
Total Expenditures	160,473,082	170,372,326	158,259,224	12,113,102
Revenues Over Expenditures Before Other Financing Sources	-	(4,415,131)	4,089,479	8,504,610

PBH
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GENERAL FUND – BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2011

Other Financing Sources (Uses):				
Appropriated Fund Balance	-	4,415,131	-	(4,415,131)
Proceeds from Long Term Debt	-	4,000,000	4,000,000	-
Transfers (to) from Other Funds	-	7,263,670	7,263,670	-
Total Other Financing Sources (Uses):	-	15,678,801	11,263,670	(4,415,131)
Change in Fund Balance	$ -	$ 11,263,670	15,353,149	$ 4,089,479
Fund Balance - Beginning of Year			34,212,188	
Fund Balance - End of Year			$ 49,565,337	

PBH
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – CAPITAL RESERVE FUND – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Transfers (to) from Other Funds	$ -	$ -	$ (7,263,670)	$ 7,263,670
Change in Fund Balance	$ -	$ -	(7,263,670)	$ 7,263,670
Fund Balance - Beginning of Year			7,263,670	
FUND BALANCE - END OF YEAR			$ -	

Compliance Section

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 Area Board of Directors
PBH
Concord, North Carolina

We have audited the financial statements of the governmental activities and the major funds, of PBH, formerly Piedmont Area Mental Health, Developmental Disabilities, and Substance Abuse Authority (the "Organization"), as of and for the year ended June 30, 2011, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated November 17, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of management, others within the Organization, members of the Area Board of Directors, and Federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LarsonAllen LLP

LarsonAllen LLP

Charlotte, North Carolina
November 17, 2011

LarsonAllen LLP
CPAs, Consultants & Advisors
www.larsonallen.com

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Area Board of Directors
PBH
Concord, North Carolina

Compliance

We have audited PBH'S (the "Organization") compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2011. The Organization'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 the Organization's management. Our responsibility is to express an opinion on the Organization'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 State, 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 the Organization'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 on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its Federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the 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 the Organization's internal control over compliance.

A *deficiency in 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, 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 that will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and 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 management, others within the Organization, members of the Area Board of Directors, 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.

LarsonAllen LLP

LarsonAllen LLP

Charlotte, North Carolina
November 17, 2011

LarsonAllen LLP
CPAs, Consultants & Advisors
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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH APPLICABLE SECTIONS OF OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

To the Area Board of Directors
PBH
Concord, North Carolina

Compliance
We have audited PBH'S (the "Organization") compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement and* the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the Organization's major State programs for the year ended June 30, 2011. The Organization's major State 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 State programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization'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; applicable sections of OMB Circular A-133 as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act, 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 State program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2011.

Internal Control over Compliance
Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to State programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major State 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 the Organization's internal control over compliance.

A *deficiency in 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, detect and correct, noncompliance with a type of compliance requirement of a State 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 State program that will not be prevented, or detected and corrected, on a timely basis..

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and 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 management, others within the Organization, members of the Area Board of Directors, and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LarsonAllen LLP

LarsonAllen LLP

Charlotte, North Carolina
November 17, 2011

PBH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? ___ yes _X_ no
- Significant deficiencies 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 Federal programs:

- Material weakness (es) identified? ____yes _X_ no
- Significant deficiencies identified that are not considered to be material weaknesses ____yes _X_ none reported

Noncompliance material to financial statements noted? ____yes _X_ no

Type of auditors' report issued on compliance for major Federal programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ___yes _X_ no

Identification of major Federal programs:

CFDA Numbers	Names of Federal Program or Cluster
14.238	Shelter Plus Care Program
93.958	Block Grant for Community Mental Health Services
93.667	Social Services Block Grant
93.959	Block Grant for Prevention and Treatment of Substance Abuse

The above programs are tested as part of a state identified unit cost cluster.
Dollar threshold used to distinguish Between Type A and Type B Programs $300,000

Auditee qualified as low-risk auditee? ___yes _X_ no

State Awards

• Material weakness(es) identified?	____yes	_X_no
• Significant deficiencies identified that are not considered to be material weaknesses	____yes	_X_none reported
Noncompliance material to State awards?	____yes	_X_no

Type of auditors' report issued on compliance for major State programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?	____yes	_X_no

Identification of major State programs:

Program Name
Single Stream Line Funding

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

Section IV – State Award Findings and Questioned Costs

None reported.

Section V – Summary Schedule of Prior Year Audit Findings

None reported.

PBH
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2011

		Federal Expenditures	State Expenditures
Federal Awards			
U.S. Department of Housing and Urban Development			
Shelter Plus Care Program	14.238	$ 328,429	$ -
Total U.S. Department of Housing and Urban Development		328,429	-
U.S. Department of Health and Human Services			
Substance Abuse and Mental Health Service Administration			
Passed-through the N.C. Dept. of Health and Human Services:			
Division of Mental Health, Developmental Disabilities and Substance Abuse Services:			
Block Grant for Community Mental Health Services -			
Community Based Program-Mental Health	93.958	366,438	-
Gero Teams	93.958	54,600	-
Social Service Block Grant -			
Community Based Programs Mental Health	93.667	172,233	-
Community Based Programs Intellectual and			-
Developmental Disabilities	93.667	315,149	
			-
Block Grant for Prevention and Treatment of Substance Abuse -			
MAJORS Substance Abuse	93.959	1,301	
Treatment Alternatives for Women	93.959	261,079	
SVSS to IV Drug Users	93.959	217,641	
Substance Abuse-Substance Abuse Prevention	93.959	901,861	
Total U.S. Department of Health and Human Services		2,290,302	-
Total Federal Awards and State Matches		2,618,731	-
State Awards			
N.C. Department of Health and Human Services			
Division of Mental Health, Developmental Disabilities and Substance Abuse Services:			
Single Stream Line Funding		-	28,852,701
Systems Management Transition		-	23,000
Multidisciplinary Evaluation		-	2,400
Total Division of Mental Health, Developmental Disabilities and Substance Abuse Services:		-	28,878,101
Total State Awards		-	28,878,101
Total Federal and State Awards		$ 2,618,731	$ 28,878,101

PBH
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2011

Basis of Presentation

The preceding schedule of expenditures of Federal and state awards includes the Federal and state grant activity of PBH and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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 general purpose financial statements.

PBH

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012

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CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

To the Area Board of Directors
PBH
Concord, North Carolina

We have audited the accompanying financial statements of the governmental activities and the major fund of PBH (the "Organization") as of and for the year ended June 30, 2012, which collectively comprise PBH's basic financial statements as listed in the preceding Table of Contents. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these basic financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of PBH as of June 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison of the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, and is also not a required part of the financial statements. The schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with 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 financial statements taken as a whole.

As discussed in Note 5 to the financial statements, the Organization entered into Management Merger and Dissolution Agreements with Alamance-Caswell, OPC, and Five Counties during the year. The agreements provide that the Organization will assume operations for each of the entities through June 30, 2012. On July 1, 2012 the Organization became the area authority in those counties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
November 28, 2012

Management's Discussion and Analysis

Overview of the Financial Statements

As Management of PBH (the "Organization"), we offer readers of the PBH's financial statements this narrative overview and analysis of the financial activities of PBH for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Organization's financial statements, which follow this narrative.

Required Financial Statements

The Organization's financial statements report information of the Organization using accounting methods similar to those used by public-sector managed health care organizations. The significant difference is in the level of risk reserves that are established due to the at-risk contractual relationship under which the Organization operates.

These statements offer short-term and long-term financial information about its activities.

The Organization's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Organization through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Organization.

The government-wide financial statements are designed to provide the reader with a broad overview of the Organization's finances similar in format to a financial statement of a private-sector business. The government-wide statements provide short-term and long-term information about the Organization's financial status as a whole.

The two government-wide statements report the Organization's net assets and how they have changed. Net assets are the difference between the Organization's total assets and total liabilities. Measuring net assets is one way to assess the Organization's financial condition.

The fund financial statements provide a more detailed look at the Organization's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. PBH, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Organization's budget ordinance. For the Fiscal year ended June 30, 2012, all operations of the Organization were accounted for, and reported within, the General Fund.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the Organization

The Statement of Net Assets and the Statement of Activities report the net assets of the Organization and the changes in them. The Organization's net assets – the difference between assets and liabilities – are a way to measure financial health or financial position. Over time, increases or decreases in the Organization's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed governmental legislation.

Statement of Net Assets

A summary of the Organization's Statements of Net Assets at June 30, 2012, 2011 and 2010 is presented in Table A-1.

Table A-1
Condensed Statements of Net Assets
June 30, 2012, 2011 and 2010

	2012	2011	2010
Current Assets	$ 95,737,101	$ 63,575,573	$ 49,876,768
Capital Assets	22,538,953	22,684,770	11,526,727
Total Assets	118,276,054	86,260,343	61,403,495
Current Liabilities	34,317,376	13,875,605	8,400,910
Long-Term Liabilities	5,242,193	4,906,917	1,056,687
Total Liabilities	39,559,569	18,782,522	9,457,597
Net Assets			
Invested in Capital Assets, Net of Related Debt	18,720,358	18,729,267	11,526,727
Restricted	34,236,554	22,410,547	16,283,229
Unrestricted Net Assets	25,759,573	26,338,007	24,135,942
Total Net Assets	$ 78,716,485	$ 67,477,821	$ 51,945,898

The net assets of the Organization increased to $78,716,485 during 2012, an $11,238,664 increase from 2011, primarily resulting from an excess of revenues over expenditures during the fiscal year, including approximately $9 million in Fund balance transfers from other Local Management Entities. The Organization has operated under a Medicaid Waiver since April 1, 2005. The capitation rate paid is established by an actuarial study of the historical service cost for the Medicaid population included in the Waiver agreement. The revenues to the Organization are broken down into funding for consumer services and administrative services from both Medicaid and the State of North Carolina. To the extent that there are increases in net assets, a portion of those increases are required by contractual agreement to be restricted to provide services in future periods.

Statement of Activities

While the Statement of Net Assets shows the change in net assets, the Statements of Activities provide answers to the nature and source of these changes.

Table A-2
Condensed Statements of Changes in Net Assets
Fiscal Years Ended June 30, 2012, 2011 and 2010

	2012	2011	2010
Revenues			
Program Revenues			
Charges for Services	$ 205,263,128	$ 128,448,148	$ 120,923,813
Operating Grants and Contributions	40,336,853	31,141,321	32,375,880
General Revenues			
County Revenue	4,671,702	2,860,225	2,712,841
Interest Income	110,738	170,548	152,205
Loss on Disposal of Capital Assets	(66,805)	(39,070)	(49,028)
Total Revenues	250,315,616	162,581,172	156,115,711
Expenses			
Local Management Entity Administration	33,366,673	21,012,800	18,679,370
Contracted Services	214,738,580	126,019,617	132,169,090
Property Management	26,209	16,832	121,891
Total Expenses	248,131,462	147,049,249	150,970,351
Changes in Net Assets	2,184,154	15,531,923	5,145,360
Transfers from Other Local Management Entities	9,054,510	-	-
Total Changes in Net Assets	11,238,664	15,531,923	5,145,360
Net Assets - Beginning of Year	67,477,821	51,945,898	46,800,538
Net Assets - End of Year	$ 78,716,485	$ 67,477,821	$ 51,945,898

The Organization's operating revenues increased by 54.0% in 2012. Service fees increased by 59.8% due to the increase in the number of people enrolled in Medicaid which was significantly impacted by the transfer of operations of three additional Local Management Entities ("LME's") during the 2012 fiscal year. The Organization's operating expenses in 2012 increased approximately 68.7% from higher levels of expenditures for contracted services and overall operating costs associated with the transfer of operations. PBH has operated a Medicaid Managed Care waiver under contract with the Department of Health and Human Services since April 1, 2005. The Organization receives Medicaid funding on a per member per month basis. In addition to the waiver, the Organization operates under a single stream funding arrangement with the State of North Carolina, Department of Health and Human Services Division of Mental Health, Developmental Disabilities, and Substance Abuse. The two funding sources comprise approximately 98% of the revenues of the Organization. During the 2012 fiscal year, the waiver and single stream income contributed significantly towards operations.

Budgetary Analysis

Over the course of the year, the Organization revised the budget several times primarily due to changes in Medicaid and State revenue, and for fund balance transfers from other LME's.

Capital Assets and Debt Administration

At June 30, 2012, 2011 and 2010, the Organization had invested $22,538,953, $22,684,770, and $11,526,727, respectively, in capital assets, net of accumulated depreciation, as shown in Table A-3.

Table A-3
Capital Assets
June 30, 2012, 2011 and 2010

	2012	2011	2010
Construction in Progress	$ -	$ -	$ 3,499,612
Land	2,597,598	2,597,598	2,597,598
Vehicles and Other Equipment	1,852,140	1,282,784	1,561,129
Leasehold Improvements	47,708	82,991	121,695
Buildings	18,041,507	18,721,397	3,746,693
Total Capital Assets	$ 22,538,953	$ 22,684,770	$ 11,526,727

At June 30, 2012 and 2011, the Organization had outstanding debt associated with these capital assets of $3,818,595 and $3,955,503, respectively. At June 30, 2010, there was no outstanding debt associated with capital assets.

Financial Analysis of the Organization's Funds

As noted earlier, the Organization uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Organization's governmental fund is to provide information on near-term inflows, outflows, and balances of useable resources. Such information is useful in assessing the Organization's operating activity. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the primary operating fund of the Organization. At the end of the 2012 fiscal year, the spendable unrestricted fund balance of the General Fund was $26,949,101, while the total fund balance was $61,562,045 (which includes $20,895,518 that is restricted by the Medicaid waiver contract). As a measure of the general fund's liquidity, it is useful to compare both the unrestricted fund balance and the total fund balance to total expenditures. As of June 30, 2012, spendable unrestricted fund balance represents 10.9% of total General Fund expenditures, while total fund balance represents 24.8% of total General Fund expenditures. The Organization's contract with the Department of Health and Human Services requires a risk reserve of 15% of its Medicaid revenue to cover potential operating losses in the Medicaid waiver. These funds must be held in a Restricted Risk Reserve and may only be used with permission of the Department of Health and Human Services. The Restricted Risk Reserve is included in the total fund balance.

The Organization's total fund balance, exclusive of the Medicaid Risk Reserve, is 16.4% of the General Fund expenditures at June 30, 2012. The primary increase in the fund balance of the general fund was due to fund balance transfers of approximately $9 million in cash and equipment from other LME's. There will be additional transfers of cash and equipment from those LME's when final activities are completed.

At June 30, 2012 the governmental funds of the Organization reported a combined fund balance of $61,562,045; an increase of 24.2% from 2011.

Economic and Other Factors

The Organization operates under a Medicaid 1915 b/c Waiver. During fiscal 2012, other LME's received approval to operate as managed care organizations under a similar Medicaid waiver. In addition, the Organization operates under a single stream funding arrangement with the Division of Mental Health, Developmental Disabilities, and Substance Abuse. The Division has established criteria for other LME organizations to apply for single stream funding. The Organization believes that public policy will continue to support the Organization's current funding arrangements with the Department of Health and Human Services.

Finance Contact

The Organization's financial statements are designed to present users with a general overview of the Organization's finances and to demonstrate the Organization's accountability. If you have any questions about the report or need additional financial information, please contact the Corporate Controller, Cardinal Innovations Healthcare Solutions, 4855 Milestone Avenue, Kannapolis, North Carolina 28081.

Basic Financial Statements

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PBH
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS	
Cash and Cash Equivalents	$ 82,019,675
Due from Other Governments	175,699
Accounts Receivable	13,165,337
Prepaid Expenses	376,390
Land	2,597,598
Other Capital Assets (Net of Accumulated Depreciation):	
Vehicles and Other Equipment	1,852,140
Leasehold Improvements	47,708
Buildings	18,041,507
Total Assets	$ 118,276,054
LIABILITIES	
Accounts Payable and Other Current Liabilities	$ 34,175,056
Current Portion of Installment Note	142,320
Long-Term Liabilities:	
Due in More Than One Year - Installment Note	3,676,275
Due in More Than One Year - Compensated Absences	1,565,918
Total Liabilities	$ 39,559,569
NET ASSETS	
Invested in Capital Assets, net of related debt	$ 18,720,358
Restricted:	
Stabilization of State Statue	13,341,036
Medicaid Risk Reserve	20,895,518
Unrestricted	25,759,573
Total Net Assets	$ 78,716,485

See accompanying Notes to Financial Statements.

PBH
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Net Expenses and Change in Net Assets
Governmental Activities:				
Client Services:				
Local Management Entity Administration	$ 33,366,673	$ 1,006,096	$ -	$ (32,360,577)
Contracted Services	214,738,580	204,242,032	40,336,853	29,840,305
Property Management	26,209	15,000	-	(11,209)
Total Governmental Activities	$ 248,131,462	$ 205,263,128	$ 40,336,853	(2,531,481)
General Revenues:				
Interest Income				110,738
Loss on Sale of Capital Assets				(66,805)
County Revenues				4,671,702
Total General Revenues				4,715,635
CHANGE IN NET ASSETS				2,184,154
Transfers from Other Local Management Entities				9,054,510
Total Change In Net Assets				11,238,664
Net Assets - Beginning of Year				67,477,821
NET ASSETS - END OF YEAR				$ 78,716,485

See accompanying Notes to Financial Statements.

PBH
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2012

ASSETS	
Cash and Cash Equivalents	$ 82,019,675
Due from Other Governments	175,699
Accounts Receivable, Net of Allowance for Uncollectible Accounts and Contractual Allowances	13,165,337
Prepaid Expenses and Deposits	376,390
Total Assets	$ 95,737,101
LIABILITIES	
Accounts Payable and Other Current Liabilities	$ 34,175,056
Total Liabilities	34,175,056
FUND BALANCES	
Nonspendable	376,390
Restricted:	
Stabilization of State Statute	13,341,036
Medicaid Risk Reserve	20,895,518
Committed	10,000,000
Assigned	16,949,101
Unassigned	-
Total Fund Balances	61,562,045
Total Liabilities and Fund Balances	$ 95,737,101

Amounts Reported in the Statement of Net Assets are Different Because:	
Fund Balance	$ 61,562,045
Capital Assets Used in Governmental Activities are not Financial Resources and therefore, are not Reported in the Funds	22,538,953
Liability for Installment Note is not Due and Payable in the Current Period and therefore, is not Reported in the Fund	(3,818,595)
Liability for Compensated Absences is not Due and Payable in the Current Period and therefore, is not Reported in the Fund	(1,565,918)
	$ 78,716,485

See accompanying Notes to Financial Statements.

PBH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental:				
County	$ 2,860,224	$ 4,872,830	$ 4,671,702	$ (201,128)
State & Federal	35,687,752	55,039,585	40,608,392	(14,431,193)
Medicaid	116,091,662	205,171,511	204,242,032	(929,479)
Other Income	796,200	1,270,158	1,154,309	(115,849)
Total Revenues	155,435,838	266,354,084	250,676,435	(15,677,649)
EXPENDITURES				
Personnel	17,083,112	22,345,146	20,744,639	1,600,507
Professional Services	2,946,507	7,542,300	5,487,190	2,055,110
Supplies	540,740	1,870,482	1,706,169	164,313
Current Obligations	1,555,549	2,782,562	2,514,594	267,968
Fixed Expenses	867,364	1,198,210	987,967	210,243
Capital Outlay	300,000	1,166,000	989,335	176,665
Contracts	131,559,266	226,723,539	214,738,580	11,984,959
Property Expense	15,000	15,000	26,209	(11,209)
Other Expenses	280,300	2,422,845	163,650	2,259,195
Debt Service:				
Principal Retirement	139,000	136,000	136,908	(908)
Interest	149,000	152,000	150,685	1,315
Total Expenditures	155,435,838	266,354,084	247,645,926	18,708,158
Revenues Over Expenditures Before Other Financing Sources	-	-	3,030,509	3,030,509
Other Financing Sources:				
Tranfers from Other LME's	-	8,966,199	8,966,199	-
Total Other Financing Sources	-	8,966,199	8,966,199	-
Change in Fund Balance	$ -	$ 8,966,199	11,996,708	$ 3,030,509
Fund Balance - Beginning			49,565,337	
FUND BALANCE - ENDING			$ 61,562,045	

See accompanying Notes to Financial Statements.

PBH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS – TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2012

Net Changes in Fund Balances - Total Governmental Funds	$ 11,996,708
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(144,848)
Some expenses in the statement of activities that do not require current financial resources are not reported as expenses in the funds.	(477,596)
Book value of capital assets disposed.	(89,280)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governemental funds. Neither transaction has any effect on net assets.	136,908
Liabilities for earned, but deferred revenues in funds statements.	(271,539)
Book value of capital assets transferred to the Organization by another Local Management Entity.	88,311
Change in Net Assets	$ 11,238,664

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of PBH, formerly Piedmont Area Mental Health, Developmental Disabilities and Substance Abuse Authority, (the "Organization") conform to generally accepted accounting principles in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Organization is a Local Management Entity designated by and functioning under the control of the North Carolina Department of Health and Human Services to manage and coordinate mental health, developmental disabilities and substance abuse services through contract providers primarily in Cabarrus, Stanly, Union, Rowan, Davidson, Alamance, Caswell, Franklin, Granville, Halifax, Granville, Warren, Orange, Person, and Chatham Counties. The services, as a Local Management Entity, include reviewing and evaluating the area needs and programs in mental health, mental impairment, mental retardation, alcoholism, drug dependency and related fields, and developing jointly with the North Carolina Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, an annual plan for the effective development, use and control of state and local facilities and resources in a comprehensive program of behavioral health services for the residents of the area. During Fiscal Year 2012, the Organization was governed by a 20-member board of directors. The Organization is an area organization empowered by Chapter 122C of the North Carolina General Statutes with the responsibility to oversee and control all activities related to mental health, developmental disabilities, and substance abuse services in its target area (See Note 5). As required by generally accepted accounting principles, these financial statements present all accounts of the Organization.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statements. The statement of net assets and the statement of activities display information about the primary government (the "Organization"). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Organization. Governmental activities generally are financed through patient charges, third-party reimbursements, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Organization does not have any business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Organization's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Basis of Accounting (Continued)

Basis of Presentation, Measurement Focus – Basis of Accounting (Continued)

Program revenues may include: a) any fees and charges that might be paid by the recipients of goods or services offered by the programs and also include Medicaid Waiver Capitation payments, and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, which include state and federal grants. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Organization's funds. Separate statements for each fund category – *governmental* – are presented. The emphasis of fund financial statements is on major governmental funds, displayed in a separate column. There are no remaining governmental funds that were aggregated and reported as non-major funds.

The Organization reports the following major governmental fund:

General Fund. This is the Organization's primary operating fund. It accounts for all financial resources of the general government.

Measurement Focus, Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Organization are maintained during the year using the modified accrual basis of accounting.

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Organization gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Basis of Accounting (Continued)

Measurement Focus, Basis of Accounting (Continued)

Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Organization considers all revenues available if they are collected within ninety (90) days after year-end.

Intergovernmental revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

C. Budgetary Data

The Organization's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than $5,000. The governing board must approve all amendments. During the year, several amendments to the original budget were necessary as required by state law primarily when funding changes are approved. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

D. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Organization are made in board-designated official depositories and are secured as required by G.S. 159-31. The Organization may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Organization may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Organization to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Equity (Continued)

1. Deposits and Investments (Continued)

The Organization's investments with a maturity of more than one (1) year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

2. Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Organization considers demand deposits and investments purchased with an original maturity of three (3) months or less, which are not limited as to use, to be cash and cash equivalents.

3. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years and evaluating current information related to the collectability of individual receivables.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization costs are as follows: leasehold improvements, equipment, and vehicles, $5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the Organization are depreciated on a straight-line basis over the following estimated useful lives:

	Years
Vehicles and Other Equipment	5-15
Leasehold Improvements	5-15
Buildings	10-30

6. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Equity (Continued)

7. Compensated Absences

The vacation policies of the Organization provide for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Organization's government-wide fund, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

The sick leave policy of the Organization provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any accumulated sick leave up to 20 days will be paid to employees retiring at age 55 or older with at least 15 years of service. The current portion of accumulated sick leave is not considered material; therefore, no expenditure or liability has been reported in the governmental funds.

8. Net Assets/Fund Balances

Net Assets

Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balances can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance

This classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

Prepaid Expenses – the portion of fund balance that is not an available resource because it represents the year-end balance of prepaid expenses, which are not spendable resources.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Equity (Continued)

8. Net Assets/Fund Balances (Continued)

Restricted Fund Balance

This classification includes revenue resources that are restricted to specific purposes externally imposed by creditors or imposed by law which includes the Medicaid Risk Reserve. The Organization has a contractual agreement with the North Carolina Department of Health and Human Services Division of Medical Assistance. The agreement requires that the Organization maintain a reserve of the monthly capitation payments that is equal to fifteen percent of the previous year's total contract. This reserve for the Organization's original catchment area is fully funded as of June 30, 2012. The reserves for the additional catchment areas were added to operations in the current year and are being funded as required by the Medicaid waiver agreements.

Restricted for Stabilization of State Statute

The portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Committed Fund Balance

The portion of fund balance that can only be used for specific purpose imposed by a majority vote of the Organization's governing body (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

Committed Fund Balance at June 30, 2012 consists of the following:

CRC-Davidson Renovations	$ 2,500,000
CRC-Cabarrus Renovations	2,000,000
Service Development	500,000
Medicaid Service Reserve	500,000
Strategic Initiatives	1,000,000
Support Needs Matrix Transition	3,500,000
	$ 10,000,000

Assigned Fund Balance

The portion of fund balance that the Authority's governing board, or its delegate has constrained for specific purposes, but is neither restricted nor committed. As of June 30, 2012, Fund Balance in the amount of $16,949,101 has been assigned to General, Medicaid Risk Reserves.

Unassigned Fund Balance

The portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Equity (Continued)

8. Net Assets/Fund Balances (Continued)

Fund Balance Transfers
As part of ongoing expansion, Authority received the following transfers from other LME's, during the year on the modified accrual basis of accounting.

Alamance-Caswell LME	$1,766,733
Five Counties LME	5,354,507
Orange-Person-Chatham LME	1,844,959
	$8,966,199

These transfers were part of the individual agreements with each Local Management Entity and are discussed in more detail in Notes 4 and 5.

NOTE 2 DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All of the Organization's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Organization in its name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Organization, these deposits are considered to be held by their agents in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Organization or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Organization under the Pooling Method, the potential exists for under-collaterization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Organization has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all Pooling Method financial institutions and to monitor them for compliance. The Organization complies with the provisions of G.S.159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2012, the Organization's deposits had a carrying amount of $81,016,086 and a bank balance of $81,816,941. Of the bank balance, $500,000 was covered by federal depository insurance; $81,316,941 in interest bearing deposits were covered by collateral held under the Pooling Method.

At June 30, 2012, the Organization had cash on hand of $1,350.

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments

At June 30, 2012, the Organization's investments of $1,002,239 consisted solely of deposits in the NC Capital Management Trust Cash Portfolio, an SEC-registered (2a-7) money market mutual fund.

Interest Rate Risk: The Organization has no policy on interest rate risk.

Credit Risk: The Organization has no formal policy regarding credit risk, but has internal management procedures that limits the Organization's investments to the provisions of G.S.159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Organization's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2012.

Custodial Credit Risk: The Organization has no policy on custodial credit risk.

The Organization's investments in the North Carolina Capital Management Trust are exempt from risk categorization because the Organization does not own any identifiable securities in these mutual funds.

3. Receivables

Receivables at the government-wide level at June 30, 2012, were as follows:

	Other Governments	Total
Governmental Activities:		
General	$ 13,341,036	$ 13,341,036
Total Receivables	13,341,036	13,341,036
Less Allowance for Doubtful Accounts and Contractual Adjustments	-	-
Total-Governmental Activities	$ 13,341,036	$ 13,341,036

Management of the Organization determined that no allowance for uncollectible accounts or contractual adjustments was necessary at June 30, 2012.

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not Being Depreciated:				
Land	$ 2,597,598	$ -	$ -	$ 2,597,598
Total Capital Assets not Being Depreciated	2,597,598	-	-	2,597,598
Capital Assets Being Depreciated:				
Vehicles and Other Equipment	3,521,094	1,103,916	650,426	3,974,584
Leasehold Improvements	427,405	-	74,543	352,862
Buildings	20,634,287	-	-	20,634,287
Total Capital Assets Being Depreciated	24,582,786	1,103,916	724,969	24,961,733
Less Accumulated Depreciation for:				
Vehicles and Other Equipment	2,238,310	474,448	590,314	2,122,444
Leasehold Improvements	344,414	6,115	45,375	305,154
Buildings	1,912,890	679,890	-	2,592,780
Total Accumulated Depreciation	4,495,614	1,160,453	635,689	5,020,378
Governmental Activity, Capital Assets, Net	$ 22,684,770	$ (56,537)	$ 89,280	$ 22,538,953

During the year, capital assets with a net book value of $88,311 were transferred to the Organization from Alamance-Caswell Local Management Entity. Those assets are included in the above disclosure and are also included in the transfers from other LME's in the Statement of Activities.

Primary Government

Depreciation expense for the year ending June 30, 2012 was charged to functions/programs of the primary government as follows:

LME Administration	$ 1,134,183

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2012, were as follows:

	Vendors	Liability for Claims Incurred, but not Reported	Total
Governmental Activities:			
General	$ 13,284,483	$ 20,890,573	$ 34,175,056
Total-Governmental Activities	$ 13,284,483	$ 20,890,573	$ 34,175,056

2. Pension Plan Obligations

a. Retirement Plan

Plan Description. The Organization has a defined contribution retirement plan covering all eligible employees working at least 1,000 hours per year administered through Cigna Life Insurance Company. The plan provides retirement and disability benefits to plan members and beneficiaries. Additional information on the plan may be obtained by writing to Cigna Life Insurance Company, 680 Town Clock Plaza, Dubuque, Iowa 52001, or by calling (319) 557-6827.

Funding Policy. The plan is optional and contributory by the employees. The Organization matches employee contributions dollar-for-dollar up to three percent of compensation. The Organization may elect to contribute additional amounts on behalf of eligible employees based on compensation and years of service. The Organization's contributions to the plan for the years ended June 30, 2012, 2011, and 2010, were $822,501, $736,648, and $681,543, respectively. The contributions made by the Organization equaled the required contributions for each year.

3. Other Post-employment Benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Organization makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium plus a 2% administrative fee is paid-in-full monthly by the insured.

This program is offered for a duration of 18 months after the employee's termination date. There is no associated cost to the Organization under this program, and there was 1 participant as of June 30, 2012.

Governmental Accountings Standards Statement No. 45 which was effective for the Organization's fiscal year ending June 30, 2009, required that the Organization measure and record its obligation for post-employment benefits and to recognize as an expense, the periodic cost at providing such benefits, if any. Since the Organization does not offer any post-employment benefits, there was no impact on the financial statements of the Organization.

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

4. Risk Management

The Organization is exposed to various risks of losses related to torts; malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization carries commercial insurance to cover substantially all risks of loss. The Organization obtains commercial general liability and auto liability coverage. Property and auto liability coverage is $5,000,000 per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up the statutory limits.

The Organization does not own any properties subject to flood damage and therefore does not carry any flood insurance.

The Organization carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 159.29, the Organization's employees that have access to $100 or more at a given time of the Organization's funds are performance bonded through a commercial surety bond. The Finance Officer is individually bonded for $500,000. All remaining employees are also bonded under a blanket bond of $500,000.

5. Contingent Liabilities

At June 30, 2012, the Organization was a defendant to various lawsuits. In the opinion of the Organization's management, the ultimate resolution of these legal matters should not have a material adverse effect on the Organization's financial position.

6. Long-Term Obligations

As of June 30, 2012, the governmental long-term debt of the financial reporting entity consisted of the following:

Non-Current Portion	$ 5,242,193

Long-Term Obligation Activity

The following is a summary of changes in the Organization's long-term obligations for the fiscal year ended June 30, 2012:

	Balance July 1, 2011	Net Increase (Decrease)	Balance June 30, 2012	Amounts Due within One Year
Governmental Activities:				
Compensated Absences	$ 1,088,322	$ 477,596	$ 1,565,918	$ -
Installment Debt Issued	3,955,503	(136,908)	3,818,595	142,320
Total General Long-Term Debt	$ 5,043,825	$ 340,688	$ 5,384,513	$ 142,320

Compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave-time as it is earned.

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

6. Long-Term Obligations

Installment Purchase

As authorized by North Carolina State Law [G.S.160A-20], PBH financed the construction of an administrative office complex during the fiscal year ended June 30, 2011 by installment purchase.

The proceeds of the installment loan were made on February 14, 2011. The transaction requires 240 monthly principal and interest payments of $23,966 at an interest rate of 3.87%. The future minimum payments as of June 30, 2012, including $1,547,036 of interest, are:

Year Ending June 30,	Principal	Interest
2013	$ 142,320	$ 145,272
2014	147,927	139,665
2015	153,751	133,841
2016	159,815	127,777
2017	166,106	121,486
2018-2022	933,998	503,962
2023-2027	1,133,044	304,916
2028-2031	981,634	70,117
	$ 3,818,595	$ 1,547,036

NOTE 3 SUMMARY DISCLOSURES OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Noncancellable Operating Leases

The Organization leases certain operating facilities under noncancellable operating leases. Three of the leases for facilities are renewable at the option of the Organization. Future lease payments due under these leases subsequent to June 30, 2012 are as follows:

Year Ending June 30,	Amount
2013	$ 81,377
2014	83,755
	$ 165,132

Total rent expense for all operating leases amounted to $272,060 for the year ended June 30, 2012.

Federal and State-Assisted Programs

The Organization has received proceeds from several Federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

NOTE 4 2012 EXPANSION

The statewide expansion of the 1915 (b)/(c) waivers builds on the management functions and capacities of the LME's to include the management of Medicaid resources within a managed care capitated environment. In order to be a successful managed care organization (MCO), LME's need a sufficient number of covered lives to be financially stable.

As part of this expansion, the State of North Carolina has adopted legislation requiring further consolidation of the LME's throughout the state.

The Organization entered into a joint resolution dated October 1, 2011 with Alamance and Caswell counties to expand the operations of the Organization to those counties. As of that date, the Organization became the area authority and MCO for the original counties covered by the Organization as well as Alamance and Caswell Counties. During the fiscal year ended June 30, 2012, the Organization recorded the following in connection with the expansion to Alamance and Caswell counties:

Cash	$ 1,766,733
Vehicles	88,311
Total Assets	$ 1,855,044
Accrued Vacation and Sick Pay	$ 16,617
Fund Balance	1,838,427
Total Liabilities and Fund Balance	$ 1,855,044

NOTE 4 2012 EXPANSION (CONTINUED)

The Organization entered into a Management Merger and Dissolution Agreement dated January 1, 2012 with Five County Mental Health Authority ("Five Counties"). As of that date, Five Counties assigned to the Organization all rights and obligations of the contract between Five Counties and the North Carolina Department of Health and Human Services through June 30, 2012. The parties to this agreement further agreed to establish by joint resolution that the Organization would become the area authority and MCO for the existing counties covered by the Organization as well as Franklin, Granville, Halifax, Vance, and Warren counties on July 1, 2012.

The Organization transferred certain specific assets from Five Counties that were deemed necessary for continuing the operation of the Business, as stated in the Management Merger and Dissolution Agreement with Five Counties. The Organization did not assume any obligations other than accrued vacation and sick pay as disclosed below. During the fiscal year ended June 30, 2012, the Organization recorded the following in connection with the expansion to the Five Counties area:

Cash	$ 5,354,507
Total Assets	$ 5,354,507
Accrued Vacation and Sick Pay	$ 116,705
Fund Balance	5,237,802
Total Liabilities and Fund Balance	$ 5,354,507

As of June 30, 2012, the assets and liabilities of the Five Counties governmental funds consisted of cash in the amount of $20,158, accounts receivable of $25,735 and accounts payable and accrued expenses of $45,893. No such assets or liabilities have been transferred to the Organization subsequent to June 30, 2012. The Organization deemed that the capitalized software of $111,302 and equipment of $14,801 were not necessary for continuing operations of the business and accordingly, such assets were not transferred to the Organization.

Subsequent to June 30, 2012, Five Counties transferred title and ownership of the following net capital assets to the Organization:

Buildings	$ 450,582
Furniture and Equipment	89,394
Vehicles	67,492
Total Assets Transferred	$ 607,468

NOTE 4 2012 EXPANSION (CONTINUED)

The Organization entered into a Management Merger and Dissolution Agreement dated April 1, 2012 with Orange-Person-Chatham Mental Health, Developmental Disabilities, and Substance Abuse Authority ("OPC"). As of that date, OPC assigned to the Organization all rights and obligations of the contract between OPC and the North Carolina Department of Health and Human Services through June 30, 2012. The parties to this agreement further agreed to establish by joint resolution that the Organization would become the area authority and MCO for the existing counties covered by the Organization as well as Orange, Person, and Chatham counties on July 1, 2012. . The Organization transferred certain specific assets from the OPC area that were deemed necessary for continuing the operation of the Business, as stated in the Management Merger and Dissolution Agreement with OPC. During the fiscal year ended June 30, 2012, the Organization recorded the following in connection with the expansion to the OPC area:

Accounts Receivable - Operations, Net	$	329,859
Accounts Receivable - Fund Balance		1,844,959
Total Assets	$	2,174,818
Accrued Vacation and Sick Pay	$	50,651
Fund Balance		2,124,167
Total Liabilities and Fund Balance	$	2,174,818

As of June 30, 2012, the assets and liabilities of the OPC governmental funds consisted of cash in the amount of $5,722,117, accounts receivable and prepaids of $274,162 and total liabilities of $2,890,407. Subsequent to June 30, 2012, OPC transferred $1,600,000 of cash and fixed assets of $22,793 to the Organization pursuant to the Management Merger and Dissolution Agreement.

NOTE 5 SUBSEQUENT EVENTS

Effective July 1, 2012, Alamance, Cabarrus, Caswell, Chatham, Davidson, Franklin, Granville, Halifax, Orange, Person, Rowan, Stanly, Union, Vance and Warren counties passed a joint resolution establishing Cardinal Innovations Healthcare Solutions. Cardinal Innovations Healthcare Solutions now serves as the area authority and MCO for all 15 counties.

PBH
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GENERAL FUND – BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental:				
County	$ 2,860,224	$ 4,872,830	$ 4,671,702	$ (201,128)
State & Federal	35,687,752	55,039,585	40,608,392	(14,431,193)
Medicaid	116,091,662	205,171,511	204,242,032	(929,479)
Other Income	796,200	1,270,158	1,154,309	(115,849)
Total Revenues	155,435,838	266,354,084	250,676,435	(15,677,649)
EXPENDITURES				
Local Management Entity Administration:				
Personnel	17,083,112	22,345,146	20,744,639	1,600,507
Professional Services	2,946,507	7,542,300	5,487,190	2,055,110
Supplies	540,740	1,870,482	1,706,169	164,313
Current Obligations	1,555,549	2,782,562	2,514,594	267,968
Fixed Expenses	867,364	1,198,210	987,967	210,243
Capital Outlay	300,000	1,071,000	978,040	92,960
Other Expense	280,300	2,422,845	163,650	2,259,195
	23,573,572	39,232,545	32,582,249	6,650,296
Provider Contracts:				
Capital Outlay	-	95,000	11,295	83,705
Contract Expenditures	131,559,266	226,723,539	214,738,580	11,984,959
	131,559,266	226,818,539	214,749,875	12,068,664
Property Management:				
Property Expense	15,000	15,000	26,209	(11,209)
	15,000	15,000	26,209	(11,209)
Debt Service:				
Principal Retirement	139,000	136,000	136,908	(908)
Interest	149,000	152,000	150,685	1,315
	288,000	288,000	287,593	407
Total Expenditures	155,435,838	266,354,084	247,645,926	18,708,158
Revenues Over Expenditures Before Other Financing Sources	-	-	3,030,509	3,030,509
Other Financing Sources (Uses):				
Transfers from Other Local Management Entitities	-	8,966,199	8,966,199	-
Total Other Financing Sources (Uses):	-	8,966,199	8,966,199	-
Change in Fund Balance	$ -	$ 8,966,199	11,996,708	$ 3,030,509
Fund Balance - Beginning of Year			49,565,337	
Fund Balance - End of Year			$ 61,562,045	

Compliance Section

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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 Area Board of Directors
PBH
Concord, North Carolina

We have audited the financial statements of the governmental activities and the major funds, of PBH, (the "Organization"), as of and for the year ended June 30, 2012, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated November 28, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of management, others within the Organization, members of the Area Board of Directors, and Federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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Charlotte, North Carolina
November 28, 2012

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Area Board of Directors
PBH
Concord, North Carolina

Compliance

We have audited PBH's (the "Organization") compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2012. The Organization'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 the Organization's management. Our responsibility is to express an opinion on the Organization'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 State, 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 the Organization'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 on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its Federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the 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 the Organization's internal control over compliance.

A *deficiency in 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, 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 that will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and 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 management, others within the Organization, members of the Area Board of Directors, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
November 28, 2012

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH APPLICABLE SECTIONS OF OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

To the Area Board of Directors
PBH
Concord, North Carolina

Compliance

We have audited PBH's (the "Organization") compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement and* the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the Organization's major State programs for the year ended June 30, 2012. The Organization's major State 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 State programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization'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; applicable sections of OMB Circular A-133 as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act, 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 State program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to State programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major State 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 the Organization's internal control over compliance.

A *deficiency in 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, detect and correct, noncompliance with a type of compliance requirement of a State 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 State program that will not be prevented, or detected and corrected, on a timely basis..

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and 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 management, others within the Organization, members of the Area Board of Directors, and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
November 28, 2012

PBH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? ___ yes _X_ no
- Significant deficiencies 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 Federal programs:

- Material weakness (es) identified? ____yes _X_ no
- Significant deficiencies identified that are not considered to be material weaknesses ____yes _X_ none reported

Noncompliance material to financial statements noted? ____yes _X_ no

Type of auditors' report issued on compliance for major Federal programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ___yes _X_ no

Identification of major Federal programs:

CFDA Numbers	Names of Federal Program or Cluster
93.958	Block Grant for Community Mental Health Services
93.959	Block Grant for Prevention and Treatment of Substance Abuse

The above programs are tested as part of a state identified unit cost cluster.
Dollar threshold used to distinguish Between Type A and Type B Programs $300,000

Auditee qualified as low-risk auditee? _X_ yes __no

State Awards

- Material weakness(es) identified? ____yes _X_no
- Significant deficiencies identified that are not considered to be material weaknesses ____yes _X_none reported

Noncompliance material to State awards? ____yes _X_no

Type of auditors' report issued on compliance for major State programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? ____yes _X_no

Identification of major State programs:

Program Name

Single Stream Line Funding

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

Section IV – State Award Findings and Questioned Costs

None reported.

Section V – Summary Schedule of Prior Year Audit Findings

None reported.

PBH
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FISCAL YEAR ENDED JUNE 30, 2012

		Federal Expenditures	State Expenditures
Federal Awards			
U.S. Department of Housing and Urban Development			
Shelter Plus Care Program	14.238	$ 424,450	$ -
Total U.S. Department of Housing and Urban Development		424,450	-
U.S. Department of Health and Human Services			
Substance Abuse and Mental Health Service Administration			
Passed-Through the N.C. Dept. of Health and Human Services:			
Division of Mental Health, Developmental Disabilities and Substance Abuse Services:			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	10,457	-
Block Grant for Community Mental Health Services -			
Community Based Program-Mental Health	93.958	694,827	-
Community Based Program-Mental Health	93.667	10,450	-
Social Service Block Grant -			
Community Based Programs Mental Health	93.667	2,881	-
Community Based Programs Intellectual and Developmental Disabilities	93.667	103,050	-
Community Based Programs Substance Abuse Prevention	93.667	181,903	-
Block Grant for Prevention and Treatment of Substance Abuse -			
Community Based Programs-Substance Abuse	93.959	1,444,173	-
Total U.S. Department of Health and Human Services		2,447,740	-
Total Federal Awards and State Matches		2,872,190	-
State Awards			
N.C. Department of Health and Human Services			
Division of Mental Health, Developmental Disabilities and Substance Abuse Services:			
Single Stream Line Funding		-	31,014,273
Total Division of Mental Health, Developmental Disabilities and Substance Abuse Services:		-	31,014,273
Total State Awards		-	31,014,273
Total Federal and State Awards		$ 2,872,190	$ 31,014,273

PBH
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2012

Basis of Presentation

The preceding schedule of expenditures of Federal and state awards includes the Federal and state grant activity of PBH and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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 general purpose financial statements.

CARDINAL INNOVATIONS HEALTHCARE SOLUTIONS

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Area Board of Directors
PBH
Concord, North Carolina

We have audited the accompanying financial statements of the governmental activities and the major fund of PBH (the "Organization") as of and for the year ended June 30, 2012, which collectively comprise PBH's basic financial statements as listed in the preceding Table of Contents. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these basic financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of PBH as of June 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison of the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, and is also not a required part of the financial statements. The schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with 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 financial statements taken as a whole.

As discussed in Note 5 to the financial statements, the Organization entered into Management Merger and Dissolution Agreements with Alamance-Caswell, OPC, and Five Counties during the year. The agreements provide that the Organization will assume operations for each of the entities through June 30, 2012. On July 1, 2012 the Organization became the area authority in those counties.

CliftonLarsonAllen LLP

Charlotte, North Carolina
November 28, 2012

Management's Discussion and Analysis

Overview of the Financial Statements

As Management of Cardinal Innovations Healthcare Solutions (the "Organization"), we offer readers of the Organization's financial statements this narrative overview and analysis of the financial activities of the Organization for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Organization's financial statements, which follow this narrative.

Required Financial Statements

The Organization's financial statements report information of the Organization using accounting methods similar to those used by private-sector managed health care organizations. The significant difference from publicly managed health care organizations is in the level of risk reserves that are established due to the at-risk contractual relationship under which the Organization operates.

The Organization's basic financial statements consist of four components: 1) statement of net position, 2) statement of revenues, expenses and changes in net position, 3) statement of cash flows, and 4) notes to the financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Organization.

The financial statements are designed to provide the reader with a broad overview of the Organization's finances similar in format to a financial statement of a private-sector business. These financial statements also provide short-term and long-term information about the Organization's financial status as a whole.

The financial statements have been prepared as a business-type activity under the full accrual basis of accounting. All operations have been reported in one enterprise fund, which is a type of proprietary fund, including services funded by the Medicaid 1915(b)(c) waiver program, services funded by the federal and State financial assistance, county appropriations, and other fees and charges.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The supplemental schedules, which are prepared on a modified accrual basis, provide a look at the Organization's activities using a current measurement focus. The Organization, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Organization's budget ordinance. For the Fiscal year ended June 30, 2013, all operations of the Organization were accounted for, and reported within, a single fund.

Financial Analysis of the Organization

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report the net assets of the Organization and the changes in them. The Organization's net position – the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, increases or decreases in the Organization's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors should also be considered such as changes in economic conditions, population growth, and new or changed governmental legislation.

Proprietary Fund Balance Sheet

A summary of the Organization's Statement of Net Position at June 30, 2013, 2012 and 2011 is presented in Table A-1.

Table A-1
Condensed Statement of Net Position
June 30, 2013, 2012 and 2011

	2013	2012	2011
Current assets	$ 74,253,519	$ 74,841,583	$ 44,365,158
Noncurrent assets	47,257,646	43,434,471	41,895,185
Total assets	$ 121,511,165	$ 118,276,054	$ 86,260,343
Current liabilities	$ 26,418,023	$ 34,317,376	$ 13,875,605
Long-term liabilities	5,566,884	5,242,193	4,906,917
Total liabilities	31,984,907	39,559,569	18,782,522
Net position			
Net investment in capital assets	19,223,601	18,720,358	18,729,267
Restricted	25,264,504	34,236,554	22,410,547
Unrestricted	45,038,153	25,759,573	26,338,007
Total net position	89,526,258	78,716,485	67,477,821
Total liabilities and net position	$ 121,511,165	$ 118,276,054	$ 86,260,343

The net position of the Organization increased to $89,526,258 during 2013, a $10,809,773 increase from 2012, primarily resulting from an excess of revenues over expenses during the fiscal year, including approximately $3.6 million in net position transfers from other local management entities. The Organization has operated under a Medicaid Waiver since April 1, 2005. The capitation rate paid is established by an actuarial study of the historical service cost for the Medicaid population included in the Waiver agreement. The revenues to the Organization are broken down into funding for consumer services and administrative services from both Medicaid and the State of North Carolina. To the extent that there are increases in net position, a portion of those increases are restricted by contractual agreement.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position depicts the nature and source of changes in net position.

Table A-2
Condensed Statements of Changes in Net Position
Fiscal Years Ended June 30, 2013, 2012 and 2011

	2013	2012	2011
Revenues			
Intergovernmental:			
County	$ 7,228,578	$ 4,671,202	$ 2,860,225
State & federal	71,138,208	40,336,853	31,141,322
Medicaid	282,549,315	204,242,032	127,646,578
Other income	606,374	1,021,596	801,569
Total operating revenues	361,522,475	250,271,683	162,449,694
Total nonoperating revenues	16,272	43,933	131,478
Total revenues	361,538,747	250,315,616	162,581,172
Expenses			
Local management entity administration	44,825,133	33,392,882	21,029,632
Contracted services	309,545,684	214,738,580	126,019,617
Total expenses	354,370,817	248,131,462	147,049,249
Changes in net position	7,167,930	2,184,154	15,531,923
Transfers from other local management entities	3,641,843	9,054,510	-
Total changes in net position	10,809,773	11,238,664	15,531,923
Net position - beginning of year	78,716,485	67,477,821	51,945,898
Net position - end of year	$ 89,526,258	$ 78,716,485	$ 67,477,821

The Organization's operating revenues and operating expenses increased in fiscal 2013 by 44.4% and 42.8%, respectively, primarily due to the transfer of operations of three additional local management entities ("LME's") during the 2012 fiscal year. The Organization has operated a Medicaid managed care waiver under contract with the Department of Health and Human Services since April 1, 2005, and receives Medicaid funding on a per member per month basis. In addition, the Organization operates under a single stream funding arrangement with the State of North Carolina, Department of Health and Human Services Division of Mental Health, Developmental Disabilities, and Substance Abuse. The two funding sources comprise approximately 98% of the revenues of the Organization. During the 2013 fiscal year, the waiver and single stream income contributed significantly towards operations. The change in net position in 2013 of approximately $7.2 million includes restricted risk reserve funds received of approximately $3.4 million and an adjustment to reduce amounts due under State settlements of approximately $3.7 million; absent these items, the organization would have generated a $0.1 million in change in net position, representing approximately break-even profitability levels.

Budgetary Analysis

Over the course of the year, the Organization revised the budget several times primarily due to changes in Medicaid and State revenue, and for net position transfers from other LME's.

Capital Assets and Debt Administration

At June 30, 2013, 2012 and 2011, the Organization had invested $22,899,876, $22,538,953, and $22,684,770, respectively, in capital assets, net of accumulated depreciation, as shown in Table A-3.

Table A-3
Capital Assets
June 30, 2013, 2012 and 2011

	2013	2012	2011
Land	$ 2,594,098	$ 2,597,598	$ 2,597,598
Vehicles and other equipment	1,613,439	1,852,140	1,282,784
Leasehold improvements	1,141,889	47,708	82,991
Buildings	17,550,450	18,041,507	18,721,397
Total capital assets	$ 22,899,876	$ 22,538,953	$ 22,684,770

At June 30, 2013, 2012 and 2011, the Organization had outstanding debt associated with these capital assets of $3,676,275, $3,818,595 and $3,955,503, respectively.

Financial Analysis of the Organization's Funds

As noted above, the Organization reports all operations in a single enterprise fund, which is a type of propriety fund. Proprietary funds are presented using the economic resources measurement focus and the accrual basis of accounting. This basis of presentation is consistent with standards issued by the Governmental Accounting Standards Board, and with periodic reporting provided to the Division of Medical Assistance of the North Carolina Department of Health and Human Services.

As a measure of liquidity, it is useful to compare both the unrestricted net position and the total net position to total expenses. As of June 30, 2013, unrestricted net position represents 12.7% of total operating expenses, while total net position represents 25.3% of total operating expenses. The Organization's contract with the Department of Health and Human Services requires a risk reserve of 15% of its Medicaid revenue to cover potential operating losses in the Medicaid waiver. These funds must be held in a restricted risk reserve and may only be used with permission of the Department of Health and Human Services. The restricted risk reserve is included in the total net position balance.

The Organization's total net position, exclusive of the Medicaid risk reserve, was 18.4% of the operating expenses at June 30, 2013. The primary increase in net position was due to an excess of revenues over expenses for the 2013 fiscal year and to net position transfers during fiscal 2013 of approximately $3.6 million from other LME's.

Economic and Other Factors

The Organization operates under a Medicaid 1915 b/c waiver. During fiscal 2012 and 2013, other LME's received approval to operate as managed care organizations under a similar Medicaid waiver. In addition, the Organization operates under a single stream funding arrangement with the Division of Mental Health, Developmental Disabilities, and Substance Abuse. The Division has established criteria for other LME organizations to apply for single stream funding. The Organization believes that public policy will continue to support the Organization's current funding arrangements with the Department of Health and Human Services.

Finance Contact

The Organization's financial statements are designed to present users with a general overview of the Organization's finances and to demonstrate the Organization's accountability. If you have any questions about the report or need additional financial information, please contact the Corporate Controller, Cardinal Innovations Healthcare Solutions, 4855 Milestone Avenue, Kannapolis, North Carolina 28081.

Basic Financial Statements

CARDINAL INNOVATIONS HEALTHCARE SOLUTIONS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

ASSETS	
Current assets:	
Cash and cash equivalents	$ 72,732,304
Accounts receivable	899,528
Due from other governments	97,206
Prepaid expenses	524,481
Total current assets	74,253,519
Noncurrent assets:	
Restricted cash and cash equivalents	24,267,770
Capital assets:	
Land	2,594,098
Other capital assets (net of accumulated depreciation):	
Buildings	17,550,450
Leasehold improvements	1,141,889
Vehicles and other equipment	1,613,439
Other noncurrent assets	90,000
Total noncurrent assets	47,257,646
Total assets	121,511,165
LIABILITIES	
Current liabilities:	
Accounts payable	7,643,968
Incurred but not reported claims	14,173,393
Other current liabilities	4,452,735
Current portion of installment note	147,927
Total current liabilities	26,418,023
Noncurrent liabilities:	
Long-term installment note	3,528,348
Compensated absences	2,038,536
Total noncurrent liabilities	5,566,884
Total liabilities	31,984,907
NET POSITION	
Net investment in capital assets	19,223,601
Restricted:	
Stabilization of state statute	996,734
Medicaid risk reserve	24,267,770
Unrestricted	45,038,153
Total net position	$ 89,526,258

CARDINAL INNOVATIONS HEALTHCARE SOLUTIONS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

OPERATING REVENUES	
Intergovernmental:	
County	$ 7,228,578
State & Federal	71,138,208
Medicaid	282,549,315
Other income	606,374
Total operating revenues	361,522,475
OPERATING EXPENSES	
Contracted services	309,545,684
Salary & wages	23,474,058
Payroll benefits & expenses	6,598,395
Professional services	7,765,489
Supplies & materials	874,730
Travel & vehicles	426,337
Utilities & postage	919,421
Depreciation	1,181,438
Property expenses	38,179
Other expenses	3,547,086
Total operating expenses	354,370,817
Operating income	7,151,658
NONOPERATING REVENUES (EXPENSES)	
Interest income	23,051
Miscellaneous income	138,494
Interest expense	(145,273)
Total nonoperating revenues (expenses)	16,272
Income before transfers	7,167,930
TRANSFERS FROM LOCAL MANAGEMENT ENTITIES	3,641,843
Change in net position	10,809,773
Total net position - beginning	78,716,485
Total net position - ending	$ 89,526,258

CARDINAL INNOVATIONS HEALTHCARE SOLUTIONS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from federal, state and local agencies	$ 371,364,812
Payments to suppliers	(19,326,662)
Payments to employees	(23,324,379)
Payments for contracted services	(316,075,088)
Other receipts, net	458,283
Net cash provided by operating activities	13,096,966
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from local management entities	3,017,549
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(1,094,367)
Proceeds from sale of assets	211,015
Principal paid on installment note	(142,320)
Interest paid on installment note	(145,273)
Other receipts	103,778
Net cash used by capital and related financing activities	(1,067,167)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	23,051
Other payments	(90,000)
Net cash used by investing activities	(66,949)
Net increase in cash and cash equivalents	14,980,399
Total cash and cash equivalents - beginning	82,019,675
Total cash and cash equivalents - ending	$ 97,000,074
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 7,151,658
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,181,438
Changes in assets and liabilities:	
Accounts receivable	12,265,809
Due from other governments	78,493
Prepaid expenses	(148,091)
Accounts payable	842,975
Incurred but not reported claims	(6,717,180)
Other current liabilities	(2,030,754)
Compensated absences	472,618
Net cash provided by operating activities	$ 13,096,966

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Cardinal Innovations Healthcare Solutions, formerly PBH (the "Organization") conform to generally accepted accounting principles in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

Effective July 1, 2012, Alamance, Cabarrus, Caswell, Chatham, Davidson, Franklin, Granville, Halifax, Orange, Person, Rowan, Stanly, Union, Vance and Warren counties passed a joint resolution establishing Cardinal Innovations Healthcare Solutions. Cardinal Innovations Healthcare Solutions now serves as the area authority and managed care organization ("MCO") for all 15 counties.

The Organization is a local management entity ("LME") designated by and functioning under the control of the North Carolina Department of Health and Human Services to manage and coordinate mental health, developmental disabilities and substance abuse services through contract providers primarily in its fifteen county area. The services, as an LME, include reviewing and evaluating the area needs and programs in mental health, mental impairment, mental retardation, alcoholism, drug dependency and related fields, and developing jointly with the North Carolina Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, an annual plan for the effective development, use and control of state and local facilities and resources in a comprehensive program of behavioral health services for the residents of the area. During fiscal year 2013, the Organization was governed by a board of directors of not more than 13 members. The Organization is an area authority empowered by Chapter 122C of the North Carolina General Statutes with the responsibility to oversee and control all activities related to mental health, developmental disabilities, and substance abuse services in its target area. As required by generally accepted accounting principles, these financial statements present all accounts of the Organization.

B. Basis of Presentation, Measurement Focus

Basis of Presentation

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows display information about the primary government of the Organization. These statements include all of the financial activities of the Organization. Eliminations have been made, where necessary, to properly reflect reported amounts. These statements include the business-type activities of the Organization.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Measurement Focus (continued)

Measurement Focus

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Organization gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

C. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Organization are made in board-designated official depositories and are secured as required by G.S. 159-31. The Organization may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Organization may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Organization to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Organization’s investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT’s share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Fund Equity (continued)

2. Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Organization considers demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

3. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years and evaluating current information related to the collectability of individual receivables.

4. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the accompanying financial statements.

5. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represents monies received under State contracts which may not be expended without obtaining prior approval from the State. These funds are maintained in separate bank accounts.

6. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Minimum capitalization costs are as follows: leasehold improvements, equipment, and vehicles, $5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the Organization are depreciated on a straight-line basis over the following estimated useful lives:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Fund Equity (continued)

6. Capital Assets (continued)

	Years
Vehicles and Other Equipment	5-15
Leasehold Improvements	5-15
Buildings	10-30

7. Long-Term Obligations

Long-term obligations are reported as liabilities and classified as short-term or long-term depending on their respective maturities.

8. Compensated Absences

The vacation policies of the Organization provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the proprietary fund, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

The sick leave policy of the Organization provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any accumulated sick leave up to 20 days will be paid to employees retiring at age 55 or older with at least 15 years of service. The current portion of accumulated sick leave is not considered material; therefore, no expenditure or liability has been recognized in the proprietary fund.

9. Net Position

Net position is classified as net investment in capital assets, restricted; and unrestricted.

Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute as follows:

<u>Stabilization of State Statute</u>

The portion of net position that is restricted by State Statute [G.S. 159-8(a)].

<u>Medicaid Risk reserve</u>

This classification includes revenue resources that are restricted under a contractual agreement with the North Carolina Department of Health and Human Services Division of Medical Assistance. The agreement requires that the Organization maintain a reserve of the monthly capitation payments that is equal to fifteen percent of the previous year's total contract. This reserve for the Organization's original catchment area is fully funded as of June 30, 2013. Reserves for the catchment areas added as part of the 2012 expansion were added to operations in the current year and are being funded as required by the Medicaid waiver agreements.

NOTE 2 DETAIL NOTES ON ALL FUNDS

A. ASSETS

1. Cash and Cash Equivalents

At June 30, 2013, the Organization's unrestricted and restricted bank deposits had a total carrying amount of $95,996,422 and a bank balance of $97,414,433. Of such deposits, $24,267,770 were restricted risk reserve bank deposits maintained in separate bank accounts as required by the Organization’s contract with the Division of Medical Assistance of the North Carolina Department of Health and Human Services. At June 30, 2013, the Organization had cash on hand of $950.

Of the total bank balance, $500,000 was covered by federal depository insurance; $96,914,433 in deposits were covered by collateral held under the Pooling Method.

All of the Organization’s bank deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Organization in its name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Organization, these deposits are considered to be held by their agents in the entity’s name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Organization or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Organization under the Pooling Method, the potential exists for under-collaterization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Organization has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all Pooling Method financial institutions and to monitor them for compliance. The Organization complies with the provisions of G.S.159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2013, the Organization’s unrestricted cash and cash equivalents also included investments of $1,002,702 consisted solely of deposits in the NC Capital Management Trust Cash Portfolio, an SEC-registered (2a-7) money market mutual fund.

Interest Rate Risk: The Organization has no policy on interest rate risk.

Credit Risk: The Organization has no formal policy regarding credit risk, but has internal management procedures that limits the Organization’s investments to the provisions of G.S.159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Organization’s investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor’s as of June 30, 2013.

Custodial Credit Risk: The Organization has no policy on custodial credit risk.

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. ASSETS (CONTINUED)

2. Cash and Cash Equivalents (continued)

The Organization's investments in the North Carolina Capital Management Trust are exempt from risk categorization because the Organization does not own any identifiable securities in these mutual funds.

3. Receivables

Accounts receivable as of June 30, 2013, was comprised primarily of amounts from State, Federal and County agencies. Due from other governments as of June 30, 2013 was comprised of amounts due from County agencies.

Management of the Organization determined that no allowance for uncollectible accounts or contractual adjustments was necessary at June 30, 2013.

4. Prepaids

At June 30, 2013, prepaid expenses consist primarily of items prepaid for insurance, rents and utilities.

5. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 2,597,598	$ -	$ 3,500	$ 2,594,098
Total capital assets not being depreciated	2,597,598	-	3,500	2,594,098
Capital assets being depreciated:				
Vehicles and other equipment	3,974,584	210,040	203,244	3,981,380
Leasehold improvements	352,862	1,138,779	225,979	1,265,662
Buildings	20,634,287	369,842	246,677	20,757,452
Total capital assets being depreciated	24,961,733	1,718,661	675,900	26,004,494
Less accumulated depreciation for:				
Vehicles and other equipment	2,122,444	438,309	192,812	2,367,941
Leasehold improvements	305,154	40,514	221,895	123,773
Buildings	2,592,780	702,615	88,393	3,207,002
Total accumulated depreciation	5,020,378	1,181,438	503,100	5,698,716
Capital assets, net	$22,538,953	$ 537,223	$ 176,300	$ 22,899,876

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

A. ASSETS (CONTINUED)

5. Capital Assets (continued)

During the year, capital assets with a net book value of $624,294 were transferred to the Organization from other LME's. Those assets are included in the above disclosure and are also included in *Transfers from local management entities* in the Statement of Revenues, Expenses and Changes in Net Position.

6. Other noncurrent assets

At June 30, 2013, other noncurrent assets consisted of lease rental security deposits.

B. LIABILITIES

1. Payables

Accounts payable, incurred but not reported claims and other current liabilities at June 30, 2013, were comprised of the following:

	Accounts Payable	Incurred but not Reported Claims	Other Current Liabilities
Vendors	$ 1,531,443	$ -	$ 278,778
Claims payable	5,659,749	14,173,393	1,212,587
Due to State	-	-	2,961,370
Other	452,776	-	-
	$ 7,643,968	$ 14,173,393	$ 4,452,735

Amounts reflected as Due to State primarily relate to the receipt of capitation payments by the Organization, under the Organization's Medicaid contract, for consumers who were no longer eligible for coverage.

2. Long-Term Obligations

The following is a summary of changes in the Organization's long-term obligations for the fiscal year ended June 30, 2013:

	Balance June 30, 2012	Net Increase (Decrease)	Balance June 30, 2013	Amounts Due within One Year
Installment debt outstanding	$ 3,818,595	$ (142,320)	$ 3,676,275	$ 147,927
Compensated absences	1,565,918	472,618	2,038,536	-
Total long-term obligations	$ 5,384,513	$ 330,298	$ 5,714,811	$ 147,927

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. LIABILITIES (CONTINUED)

3. Installment Purchase

As authorized by North Carolina State Law [G.S.160A-20], the Organization financed the construction of an administrative office complex during the fiscal year ended June 30, 2011 by installment purchase.

The proceeds of the installment loan were made on February 14, 2011. The transaction requires 240 monthly principal and interest payments of $23,966 at an interest rate of 3.87%. The future minimum payments as of June 30, 2013, including $1,404,536 of interest, are as follows:

Year Ending June 30,	Principal	Interest
2014	$ 147,927	$ 139,666
2015	153,754	133,839
2016	159,811	127,782
2017	166,107	121,486
2018	172,650	114,943
2019-2023	970,792	467,174
2024-2028	1,177,679	260,287
2029-2031	727,555	39,359
	$ 3,676,275	$ 1,404,536

Pension Plan Obligations

Retirement Plan

Plan Description. The Organization has a defined contribution retirement plan covering all full time eligible employees and is generally effective on the first day of the month following the date of hire. The plan is administered through Principal Financial Group. The plan provides retirement and disability benefits to plan members and beneficiaries. Additional information on the plan may be obtained by writing to Principal Financial Group 711 High Street Des Moines, IA 50392 or call at 1-800-986-3343.

Funding Policy. The plan is optional and contributory by the employees. The Organization matches employee contributions dollar-for-dollar up to three percent of compensation. The Organization may elect to contribute additional amounts on behalf of eligible employees based on compensation and years of service. The Organization's contributions to the plan for the years ended June 30, 2013, 2012, and 2011, were $1,271,061, $822,501, and $736,648, respectively. The contributions made by the Organization equaled the required contributions for each year.

NOTE 2 DETAIL NOTES ON ALL FUNDS (CONTINUED)

B. LIABILITIES (CONTINUED)

4. Pension Plan Obligations (continued)

Other Post-employment Benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Organization makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium plus a 2% administrative fee is paid-in-full monthly by the insured.

This program is offered for a duration of 18 months after the employee's termination date. There is no associated cost to the Organization under this program, and there were four participants as of June 30, 2013.

Governmental Accountings Standards Statement No. 45 which was effective for the Organization's fiscal year ending June 30, 2009, required that the Organization measure and record its obligation for post-employment benefits and to recognize as an expense, the periodic cost of providing such benefits, if any. Since the Organization does not offer any post-employment benefits, there was no impact on the financial statements of the Organization.

NOTE 3 SUMMARY DISCLOSURES OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Noncancellable Operating Leases

Future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2013 are as follows:

Year Ending June 30,	Amount
2014	$ 174,450
2015	112,788
2016	92,036
2017	8,775
2018	7,704
Thereafter	-
	$ 395,753

Total rent expense for all operating leases amounted to $466,723 for the fiscal year ended June 30, 2013.

Federal and State-Assisted Programs

The Organization has received proceeds from several Federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial.

NOTE 3 SUMMARY DISCLOSURES OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES (CONTINUED)

Risk Management

The Organization is exposed to various risks of losses related to torts; malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization carries commercial insurance to cover substantially all risks of loss. The Organization obtains commercial general liability and auto liability coverage. Property and auto liability coverage is $5,000,000 per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to the statutory limits.

The Organization does not own any properties subject to flood damage and therefore does not carry any flood insurance.

The Organization carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 159.29, the Organization's employees that have access to $100 or more at a given time of the Organization's funds are performance bonded through a commercial surety bond. The Finance Officer is individually bonded for $500,000. All remaining employees are also bonded under a blanket bond of $500,000.

Contingent Liabilities

At June 30, 2013, the Organization was a defendant to various lawsuits. In the opinion of the Organization's management, the ultimate resolution of these legal matters should not have a material adverse effect on the Organization's financial position.

NOTE 4 2012 EXPANSION

The statewide expansion of the 1915 (b)/(c) waivers builds on the management functions and capacities of the LME's to include the management of Medicaid resources within a managed care capitated environment. In order to be a successful managed care organization (MCO), LME's need a sufficient number of covered lives to be financially stable. As part of this expansion, the State of North Carolina has adopted legislation requiring further consolidation of the LME's throughout the state.

The Organization entered into a joint resolution dated October 1, 2011 with Alamance and Caswell counties to expand the operations of the Organization to those counties. As of that date, the Organization became the area authority and MCO for the original counties covered by the Organization as well as Alamance and Caswell Counties.

NOTE 4 2012 EXPANSION (CONTINUED)

The Organization entered into a Management Merger and Dissolution Agreement dated January 1, 2012 with Five County Mental Health Authority ("Five Counties"). As of that date, Five Counties assigned to the Organization all rights and obligations of the contract between Five Counties and the North Carolina Department of Health and Human Services through June 30, 2012. The parties to this agreement further agreed to establish by joint resolution that the Organization would become the area authority and MCO for the existing counties covered by the Organization as well as Franklin, Granville, Halifax, Vance, and Warren counties on July 1, 2012.

The Organization entered into a Management Merger and Dissolution Agreement dated April 1, 2012 with Orange-Person-Chatham Mental Health, Developmental Disabilities, and Substance Abuse Authority ("OPC"). As of that date, OPC assigned to the Organization all rights and obligations of the contract between OPC and the North Carolina Department of Health and Human Services through June 30, 2012. The parties to this agreement further agreed to establish by joint resolution that the Organization would become the area authority and MCO for the existing counties covered by the Organization as well as Orange, Person, and Chatham counties on July 1, 2012. The Organization transferred certain specific assets from the OPC area that were deemed necessary for continuing the operation of the Business, as stated in the Management Merger and Dissolution Agreement with OPC.

During the 2013 fiscal year, the organization recorded the following in connection with the expansions to Alamance/Caswell, Five Counties and OPC areas:

	Alamance/ Caswell	Five Counties	OPC	Total
Cash	$ (56,892)	$ (3,924)	$ 3,078,365	$ 3,017,549
Capital assets, net of accumulated depreciation:				
Buildings	-	369,558	-	369,558
Leasehold Improvements	-	80,740	22,511	103,251
Furniture and Equipment	-	70,424	18,970	89,394
Vehicles	-	62,091	-	62,091
	$ (56,892)	$ 578,889	$ 3,119,846	$ 3,641,843

Cash payments during fiscal 2013 for Alamance/Caswell primarily relate to payments for the settlement of state funds.

Supplemental Information

CARDINAL INNOVATIONS HEALTHCARE SOLUTIONS
SUPPLEMENTAL SCHEDULE
BALANCE SHEET-MODIFIED ACCRUAL BASIS
JUNE 30, 2013

ASSETS	
Cash and cash equivalents	$ 72,732,304
Restricted cash	24,267,770
Due from other governments	97,206
Accounts receivable, net of allowance for uncollectible accounts and contractual allowances	899,528
Prepaid expenses and deposits	614,481
Total assets	$ 98,611,289
LIABILITIES	
Accounts payable and other current liabilities	$ 26,270,096
Total liabilities	26,270,096
FUND BALANCES	
Nonspendable	614,481
Restricted:	
Stabilization of state statute	996,734
Medicaid risk reserve	24,267,770
Committed	30,000,000
Assigned	8,813,308
Unassigned	7,648,900
Total fund balances	72,341,193
Total liabilities and fund balances	$ 98,611,289

Amounts reported in the Statement of Net Position are different because:	
Fund balance	$ 72,341,193
Capital assets used in governmental activities are not financial resources and, therefore, are not reported on a modified accrual basis	22,899,876
Liability for installment note is not due and payable in the current period and, therefore, is not reported on a modified accrual basis	(3,676,275)
Liability for compensated absences is not due and payable in the current period and, therefore, is not reported on a modified accrual basis	(2,038,536)
Net position	$ 89,526,258

See Accompanying Notes to Supplemental Schedules

CARDINAL INNOVATIONS HEALTHCARE SOLUTIONS
SUPPLEMENTAL SCHEDULE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – MODIFIED ACCRUAL BASIS – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental:				
County	$ 7,418,529	$ 7,102,475	$ 7,228,578	$ 126,103
State & Federal	64,492,674	68,887,980	71,138,208	2,250,228
Medicaid	283,463,663	283,463,663	282,549,315	(914,348)
Other Income	918,500	8,201,369	944,219	(7,257,150)
Total Revenues	356,293,366	367,655,487	361,860,320	(5,795,167)
EXPENDITURES				
Contracted Services				
Inpatient	23,707,615	25,682,305	31,181,037	(5,498,732)
Outpatient	45,712,252	39,746,398	38,738,924	1,007,474
Residential	48,736,416	52,456,436	42,970,604	9,485,832
Innovations	69,592,857	69,592,857	68,687,078	905,779
ICF/MR	71,080,725	71,080,725	77,261,165	(6,180,440)
Community Service	52,968,733	55,121,595	48,537,513	6,584,082
Other	1,133,629	3,276,667	2,169,362	1,107,305
Personnel	29,753,780	30,369,346	29,599,835	769,511
Professional Services	4,346,600	8,965,944	7,765,489	1,200,455
Supplies	702,309	1,517,646	874,730	642,916
Travel & Vehicles	325,372	393,372	426,337	(32,965)
Utilities & Postage	1,008,500	1,008,500	919,421	89,079
Capital Outlay	1,000,000	700,000	1,094,367	(394,367)
Property Expense	15,000	15,000	38,179	(23,179)
Other Expenses	5,919,778	10,466,300	3,547,087	6,919,213
Debt Service:				-
Principal Retirement	141,000	141,000	142,320	(1,320)
Interest	148,800	148,800	145,273	3,527
Total Expenditures	356,293,366	370,682,891	354,098,721	16,584,170
Revenues Over Expenditures Before Other Financing Sources	-	(3,027,404)	7,761,599	10,789,003
Other Financing Sources:				
Transfers from Other LME's	-	3,027,404	3,017,549	(9,855)
Total Other Financing Sources	-	3,027,404	3,017,549	(9,855)
Change in Fund Balance	$ -	$ -	10,779,148	$ 10,779,148
Fund Balance - Beginning			61,562,045	
FUND BALANCE - ENDING			$ 72,341,193	

See Accompanying Notes to Supplemental Schedules

CARDINAL INNOVATIONS HEALTHCARE SOLUTIONS
RECONCILIATION OF THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – MODIFIED ACCRUAL BASIS, TO THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

Net change in fund balances - modified accrual basis	$10,779,148
On the modified accrual basis, capital outlays are reported as expenditures. However, in the Statement of Revenues, Expenses and Changes in Fund Net Assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(87,071)
Some expenses in the Statement of Revenues, Expenses and Changes in Fund Net Assets that do not require current financial resources are not reported as expenses on a modified accrual basis.	(472,618)
Book value of capital assets disposed.	(176,300)
The issuance of long-term debt provides current financial resources on a modified accrual basis, while the repayment of principal of long term debt consumes financial resources on a modified accrual basis. Neither transaction is reported as an operating item in the Statement of Revenues, Expenses and Changes in Fund Net Assets.	142,320
Book value of capital assets transferred to the Organization by other local management entities	624,294
Change in net position	$10,809,773

See Accompanying Notes to Supplemental Schedules

NOTE A. Basis of Presentation, Basis of Accounting

Information included in the supplemental schedules has been reported using the current financial resources measurement focus and the modified accrual basis of accounting reflective of a governmental fund-type presentation. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures on a modified accrual basis.

Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Organization considers all revenues available if they are collected within sixty (60) days after year-end.

Intergovernmental revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

NOTE B. Budgetary Data

The Organization's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund by more than $5,000. The governing board must approve all amendments. During the year, several amendments to the original budget were necessary as required by state law primarily when funding changes are approved. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

NOTE C. Fund Balances

In governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balances can be spent.

NOTE C. Fund Balances (continued)

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance

This classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. This portion of fund balance is not an available resource because it represents the year-end balance of prepaid expenses, which are not spendable resources.

Restricted Fund Balance

This classification includes revenue resources that are restricted to specific purposes externally imposed by creditors or imposed by law which includes the Medicaid risk reserve. The Organization has a contractual agreement with the North Carolina Department of Health and Human Services Division of Medical Assistance. The agreement requires that the Organization maintain a reserve of the monthly capitation payments that is equal to fifteen percent of the previous year's total contract. This reserve for the Organization's original catchment area is fully funded as of June 30, 2013. The reserves for the catchment areas added as part of the 2012 expansion were added to operations in the current year and are being funded as required by the Medicaid waiver agreements.

Restricted for Stabilization of State Statute

The portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Committed Fund Balance

The portion of fund balance that can only be used for specific purpose imposed by a majority vote of the Organization's governing body (highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the governing body.

Committed Fund Balance at June 30, 2013 consists of the following:

CRC-Davidson renovations	$ 2,000,000
CRC-Cabarrus renovations	3,000,000
Medicaid reinvestment reserves	25,000,000
	$ 30,000,000

Assigned Fund Balance

The portion of fund balance that the Authority's governing board, or its delegate, has constrained for specific purposes, but is neither restricted nor committed. As of June 30, 2013, Fund Balance in the amount of $5,565,364 was assigned to general Medicaid risk reserves and $3,247,944 was assigned to development of information technology projects.

Unassigned Fund Balance

The portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

Compliance Section

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 Area Board of Directors
PBH
Concord, North Carolina

We have audited the financial statements of the governmental activities and the major funds, of PBH, (the "Organization"), as of and for the year ended June 30, 2012, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated November 28, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of management, others within the Organization, members of the Area Board of Directors, and Federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Charlotte, North Carolina
November 28, 2012

CliftonLarsonAllen LLP
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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Area Board of Directors
PBH
Concord, North Carolina

Compliance

We have audited PBH's (the "Organization") compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2012. The Organization'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 the Organization's management. Our responsibility is to express an opinion on the Organization'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 State, 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 the Organization'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 on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its Federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the 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 the Organization's internal control over compliance.

A *deficiency in 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, 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 that will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and 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 management, others within the Organization, members of the Area Board of Directors, 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.

CliftonLarsonAllen LLP

Charlotte, North Carolina
November 28, 2012

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH APPLICABLE SECTIONS OF OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

To the Area Board of Directors
PBH
Concord, North Carolina

Compliance

We have audited PBH's (the "Organization") compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement and* the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the Organization's major State programs for the year ended June 30, 2012. The Organization's major State 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 State programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization'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; applicable sections of OMB Circular A-133 as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act, 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 State program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to State programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major State 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 the Organization's internal control over compliance.

A *deficiency in 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, detect and correct, noncompliance with a type of compliance requirement of a State 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 State program that will not be prevented, or detected and corrected, on a timely basis..

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and 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 management, others within the Organization, members of the Area Board of Directors, and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Charlotte, North Carolina
November 28, 2012

CARDINAL INNOVATIONS HEALTHCARE SOLUTIONS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? ___ yes _X_ no
- Significant deficiencies 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 Federal programs:

- Material weakness (es) identified? ____yes _X_ no
- Significant deficiencies identified that are not considered to be material weaknesses ____yes _X_ none reported

Noncompliance material to financial statements noted? ____yes _X_ no

Type of auditors' report issued on compliance for major Federal programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ___yes _X_ no

Identification of major Federal programs:

CFDA Numbers	Names of Federal Program or Cluster
93.958	Block Grant for Community Mental Health Services
93.959	Block Grant for Prevention and Treatment of Substance Abuse

The above programs are tested as part of a state identified unit cost cluster.
Dollar threshold used to distinguish Between Type A and Type B Programs $300,000

Auditee qualified as low-risk auditee? _X_ yes __no

State Awards

- Material weakness(es) identified? ____yes _X_no

- Significant deficiencies identified that are not considered to be material weaknesses ____yes _X_none reported

Noncompliance material to State awards? ____yes _X_no

Type of auditors' report issued on compliance for major State programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? ___yes _X_no

Identification of major State programs:

Program Name

Single Stream Line Funding

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

Section IV – State Award Findings and Questioned Costs

None reported.

Section V – Summary Schedule of Prior Year Audit Findings

None reported.

CARDINAL INNOVATIONS HEALTHCARE SOLUTIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FISCAL YEAR ENDED JUNE 30, 2013

		Federal Expenditures	State Expenditures
Federal Awards			
U.S Department of Housing and Urban Development			
Shelter Plus Care Program	14.238	$ 1,477,223	$ -
Supportive Housing Program	14.235	28,189	-
Continuum of Care Program	14.267	264,656	-
U.S Department of Housing and Urban Development		1,770,068	-
U.S Department of Health and Human Services			
Substance Abuse and Mental Health Service Administration			
Passed-through the N.C. Dept. of Health and Human Services:			
Division of Mental Health, Developmental Disabilities and Substance Abuse Services:			
Projects for Assistance in Transition from homelessness (PATH)	93.150	65,432	-
Block Grant for Community Mental Health Services			
Community Based Program - Mental Health	93.958	66,909	-
Community Based Program - Mental Health	93.667	1,911,310	-
Social Service Block Grant			
Community Based Programs Mental Health	93.667	9,992	-
Community Based Programs Substance Abuse Prevention	93.667	68,678	-
Block Grant for Prevention and Treatment of Substance Abuse - Community Based Programs - Substance Abuse	93.959	2,428,816	-
Total U.S Department of Health and Human Services		4,551,137	-
Total Federal Awards and State Matches		6,321,205	-
State Awards			
N.C. Department of Health and Human Services:			
Division of Mental Health, Developmental Disabilities and Substance Abuse Services:			
Single Stream Line funding		-	70,310,334
Total Division of Mental Health, Developmental Disabilities and Substance Abuse Services		-	70,310,334
Total State Awards		-	70,310,334
Total Federal Awards and State Matches		$ 6,321,205	$ 70,310,334

CARDINAL INNOVATIONS HEALTHCARE SOLUTIONS
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2013

<u>Basis of Presentation</u>

The preceding schedule of expenditures of Federal and state awards includes the Federal and state grant activity of PBH and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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 general purpose financial statements.