

*Consolidated  
Financial Statements  
Years Ended  
June 30, 2006 and 2005*



*Blue Ridge Behavioral Healthcare and Subsidiaries*

# ***Blue Ridge Behavioral Healthcare and Subsidiaries***

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## *Report of Independent Auditors*

Board of Directors  
***Blue Ridge Behavioral Healthcare and Subsidiaries***

We have audited the accompanying consolidated statements of net assets of ***Blue Ridge Behavioral Healthcare and Subsidiaries*** as of June 30, 2006 and 2005, and the related consolidated statements of revenues, expenses and change in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of ***Blue Ridge Behavioral Healthcare and Subsidiaries***' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of America, and *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Blue Ridge Behavioral Healthcare and Subsidiaries*** as of June 30, 2006 and 2005, and the results of their operations and their cash flows for the years 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 September 27, 2006, on our consideration of ***Blue Ridge Behavioral Healthcare and Subsidiaries***' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 - 12 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 measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our 2006 audit was performed for the purpose of forming an opinion on the consolidated financial statements of ***Blue Ridge Behavioral Healthcare and Subsidiaries*** taken as a whole. The accompanying information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and we express no opinion or other form of assurance on it. Additionally, the accompanying schedules of expenditures of federal awards and findings and questioned costs are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*Goodman Company L.L.P.*

Roanoke, Virginia  
September 27, 2006

## *Management's Discussion and Analysis*

The following Management's Discussion and Analysis (MD&A) of *Blue Ridge Behavioral Healthcare (BRBH) and Subsidiaries* provides the reader with an introduction and overview to the financial activities for the fiscal year ended June 30, 2006.

Following this MD&A are the consolidated basic financial statements of BRBH and Subsidiaries together with the notes, which are essential to a full understanding of the data contained in the consolidated financial statements. In addition to the basic consolidated financial statements and accompanying notes, there is certain required supplementary information regarding schedule of expenditures of federal awards and schedule of insurance.

The consolidated financial statements are prepared on the accrual basis as required by the Governmental Accounting Standards Board. BRBH provides behavioral health care services in the areas of mental health, mental retardation and substance abuse services. These services place BRBH in the health care arena in accordance with the American Institute of Certified Public Accountants (AICPA) and is therefore classified as a Governmental Health Care Organization.

### *Mission and Organizational Structure*

The mission of BRBH is to support and promote the health, independence and self-worth of individuals and families impacted by mental illness, mental retardation, and substance abuse by providing quality community-based services that are responsive to individual's needs.

BRBH was established in 1969 pursuant to the Code of Virginia as a Community Services Board responsible for providing a system of comprehensive quality services in mental health, mental retardation, and substance abuse, as well as monitoring and evaluating such services to ensure their cost effectiveness and applicability to citizen needs. BRBH has 40 programs and about 450 employees working to provide these services.

State and local governments, federal agencies, and client fees provide funding for services. BRBH directly operates and contracts for an array of services in its catchment area, which includes the Cities of Roanoke and Salem, and the Counties of Botetourt, Craig, and Roanoke. These local political subdivisions appoint members to the Board of Directors of Blue Ridge Behavioral Healthcare.

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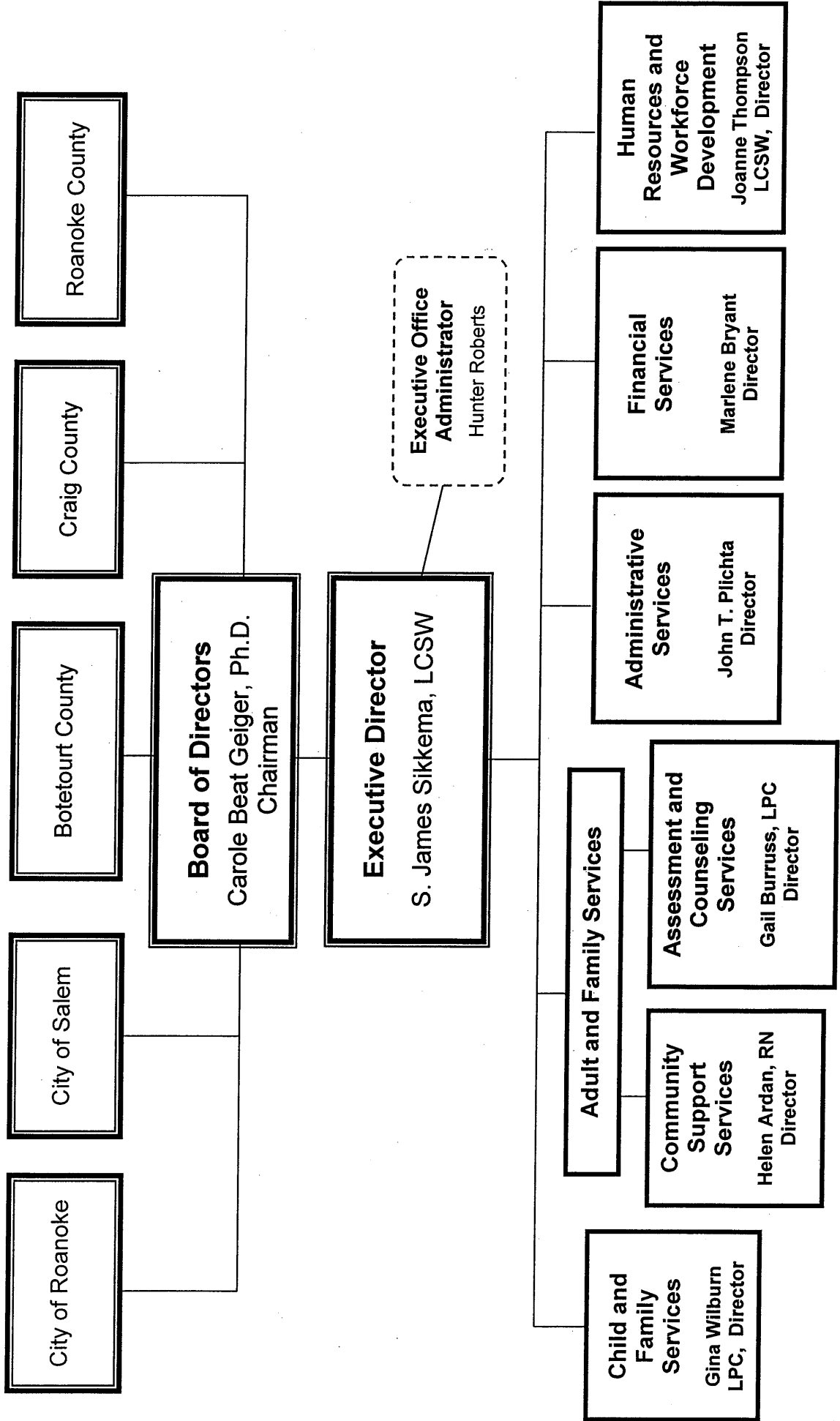
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(City of Roanoke resident)

# BLUE RIDGE BEHAVIORAL HEALTHCARE

Revised 06/05



## ***Results of Operations***

The change in consolidated net assets as of June 30, 2006, was \$(139,378), compared to the change in consolidated net assets as of June 30, 2005 of \$(882,246).

### ***Consolidated Summary of Operations and Changes in Net Assets***

	<b>2006</b>	<b>2005</b>
Operating revenues - fees	\$ 12,082,671	\$ 10,004,648
Operating expenses	23,631,346	21,907,667
Operating loss	(11,548,675)	(11,903,019)
Appropriations - state, local, federal funds	11,742,388	11,449,400
Other non-operating income and expenses - net	(333,091)	(428,627)
Change in net assets	\$ (139,378)	\$ (882,246)

Operating revenues increased from the previous year due to an increase in the Medicaid case management rate and increased billings in Children's Day Treatment. Additional staff, hired in Children's Day Treatment and Regional Crisis Stabilization, contributed to the increase in operating expenses. In addition, the first adjustment to mid-point salary range for those employees identified through the Management Advisory Group's Compensation and Classification study increased operating expenses. Additional State awards of funds for MH Acute-Care (Local Inpatient Purchase of Service or LIPOS), Regional Discharge Assistance Planning (RDAP), a new award for Regional Crisis Stabilization, and a State cost-of-living adjustment account for the increase in appropriations. Federal block grant funds decreased slightly.

### ***Consolidated Financial Position Summary***

	<b>2006</b>	<b>2005</b>
<b>Assets:</b>		
Current and restricted assets	\$ 3,374,478	\$ 2,259,784
Property and equipment-net	15,871,160	16,585,612
Escrow deposits	168,772	168,757
Total assets	\$ 19,414,410	\$ 19,014,153
<b>Liabilities:</b>		
Current liabilities	\$ 2,998,493	\$ 2,312,251
Long term liabilities	5,735,248	5,881,855
Total liabilities	8,733,741	8,194,106
Net assets	10,680,669	10,820,047
Total liabilities and net assets	\$ 19,414,410	\$ 19,014,153

### ***Summary Comparison of Budget to Actual***

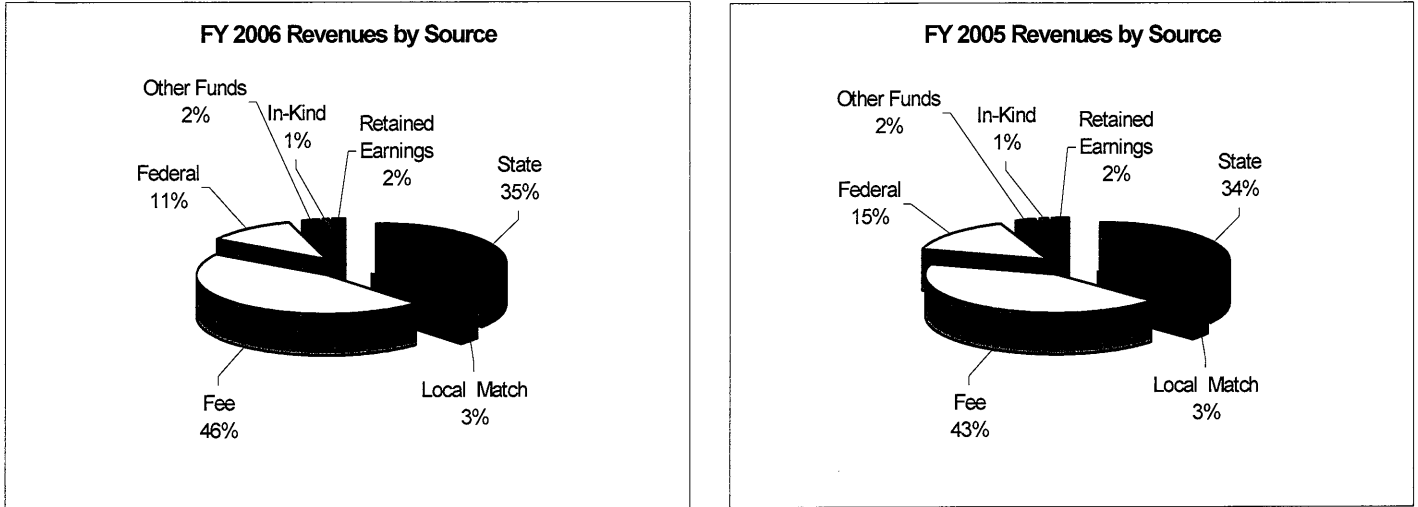
The Fourth Quarter Performance Report compares the accomplishment of service and consumer objectives to the annual Performance Contract as negotiated with the Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS). In addition, actual revenues received and service costs are compared to the budgeted amounts in the Performance Contract.

The Fourth Quarter Performance Report stated actual revenue of \$24,356,040 or 2.2% higher than budgeted revenues per the FY2006 Revised Performance Contract. Operating expenses totaled \$23,057,034 or 3.2% lower than budgeted expenses.

The following pages compare FY2006 Fourth Quarter Performance Report revenue and expense information to the FY2005 Fourth Quarter Performance Report.

## Revenues

The following charts show the major sources and the percentage of operating revenues for the years ended June 30, 2006 and 2005.



A summary of revenue sources for the years ended June 30, 2006 and 2005, including the percentage of change of 2006 in relation to 2005, is as follows:

	2006	% of Total	2005	\$ Incr(Decr)	% Incr/-Decr
State	\$8,540,516	35.07%	\$7,303,272	\$1,237,244	16.94%
Local Match	696,576	2.86%	683,626	12,950	1.89%
Fee	11,211,348	46.03%	9,177,650	2,033,698	22.16%
Federal	2,757,199	11.32%	3,205,141	(447,942)	-13.98%
Other Funds	536,499	2.20%	511,162	25,337	4.96%
In-Kind	224,000	0.92%	224,000	-	0.00%
Retained Earnings	389,902	1.60%	505,682	(115,780)	-22.90%
<b>Total</b>	<b>\$24,356,040</b>	<b>100.00%</b>	<b>\$21,610,533</b>	<b>\$2,745,507</b>	<b>12.70%</b>

Crisis stabilization, MH Acute Care, and Regional Discharge Assistance funds increased State revenues. Funding for the Pharmacy, previously provided through Federal dollars, was switched to State dollars in FY2006. Fee increases are attributed to an increase in the Medicaid reimbursement rate for Case Management services and an increase in the provision of Children's Day Treatment services. The Burrell Center, recognized as a contribution to BRBH valued at \$5.6 million over 25 years, is listed as In-Kind.

