HORIZON BEHAVIORAL HEALTH

FINANCIAL REPORT

June 30, 2015

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INTRODUCTORY SECTION

HORIZON BEHAVIORAL HEALTH

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2015

Board of Directors

Jim Sikkema, Chair

Clyde Clark Sr., Vice-Chair

James Borland

Betty Brickhouse

Terrie Conrad

Andy Crawford

Nathania Fleshman

Dana Koenig

Gary Marple

Rob Merryman

William Scott

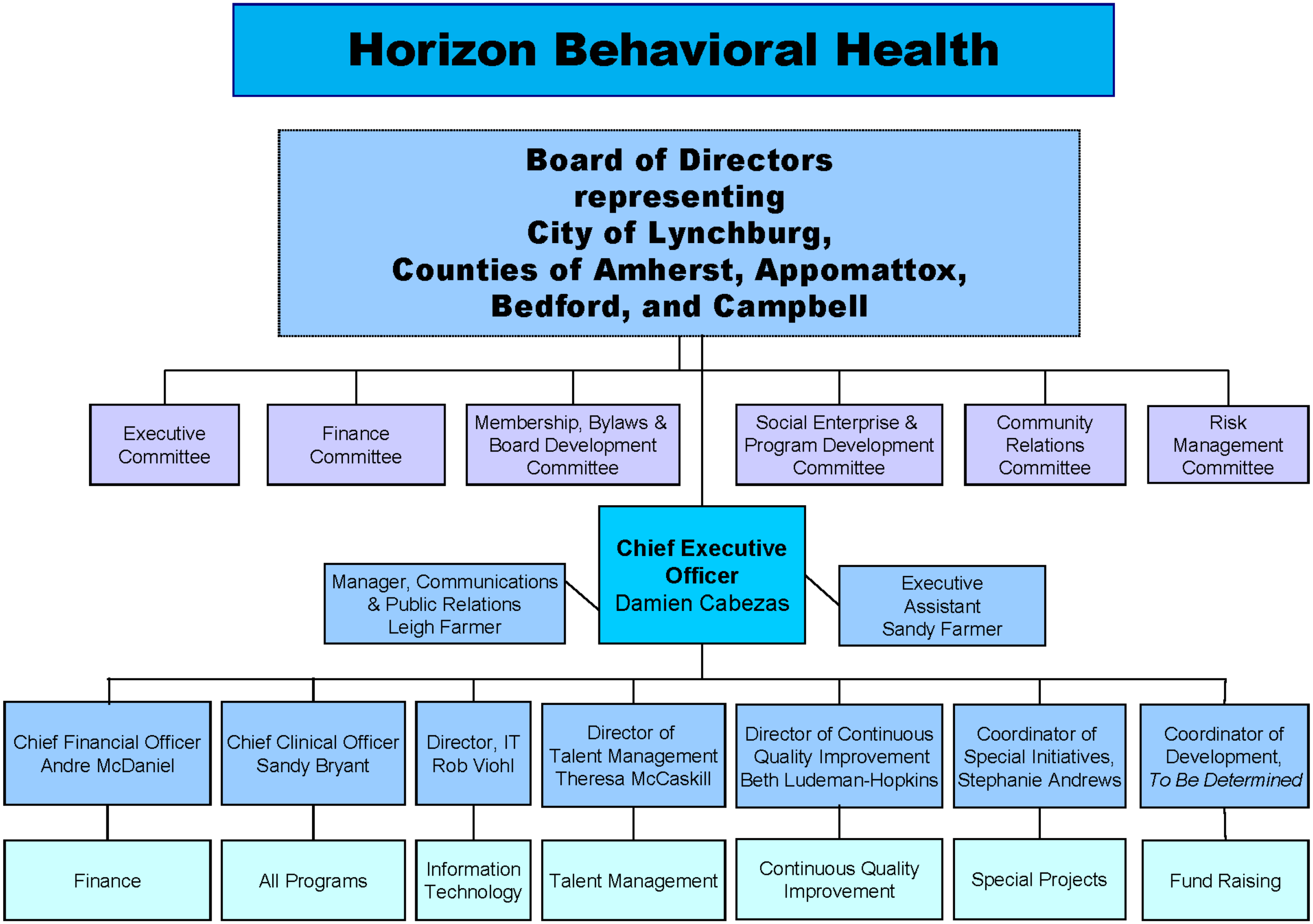
Parks Snead

Mary Lou Spiggle

Claudia Tucker

Principal Management Team

Damien Cabezas	Chief Executive Officer
André McDaniel	Chief Financial Officer
Sandy Bryant	Chief Clinical Officer
Theresa McCaskill	Director of Talent Management
Elizabeth Ludeman-Hopkins	Director of Continuous Quality Improvement
Rob Viohl	Director of IT


Horizon Behavioral Health
Board of Directors representing City of Lynchburg, Counties of Amherst, Appomattox, Bedford, and Campbell
Executive Committee
Finance Committee
Membership, Bylaws & Board Development Committee
Social Enterprise & Program Development Committee
Community Relations Committee
Risk Management Committee
Manager, Communications & Public Relations Leigh Farmer
Chief Executive Officer Damien Cabezas
Executive Assistant Sandy Farmer
Chief Financial Officer Andre McDaniel
Chief Clinical Officer Sandy Bryant
Director, IT Rob Viohl
Director of Talent Management Theresa McCaskill
Director of Continuous Quality Improvement Beth Ludeman-Hopkins
Coordinator of Special Initiatives, Stephanie Andrews
Coordinator of Development, *To Be Determined*
Finance
All Programs
Information Technology
Talent Management
Continuous Quality Improvement
Special Projects
Fund Raising

FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements.

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Horizon Behavioral Health
Lynchburg, Virginia

Report on the Financial Statements

We have audited the accompanying basic financial statements of Horizon Behavioral Health (the "Board"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Horizon Behavioral Health, as of June 30, 2015, and the changes in its financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 14 to the financial statements, the Board adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71.* Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Board's 2014 financial statements, on which, in our report dated January 19, 2015, we expressed an unmodified opinion. The 2014 financial information is provided for comparative purposes only. For the year ended June 30, 2015, beginning net position has been restated to reflect the impacts of adopting GASB 68, as described in Note 14. However, the information for periods prior to June 30, 2014 is not readily available, therefore the 2014 financial information has not been restated to reflect the effects of the new standard.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Board's basic financial statements. The introductory section and combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is 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 is also not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

The combining financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 7, 2015

Horizon Behavioral Health
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2015

The following Management's Discussion and Analysis (MD&A) of the Horizon Behavioral Health's (Horizon) financial performance provides an overview of the Horizon financial activities for the fiscal year ended June 30, 2015.

Following this MD&A are Horizon's basic financial statements with the notes thereto which are essential to a full understanding of the data contained in the financial statements. In addition to the basic financial statements and accompanying notes, there is certain required supplementary information regarding the schedule of expenditures of federal awards and schedule of pension funding progress. Please read this information in conjunction with the financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

Horizon Behavioral Health presents three basic financial statements for the purpose of analyzing the financial position of Horizon as of June 30, 2015. These are: (1) Statement of Net Position; (2) Statement of Revenues, Expenses and Changes in Fund Net Position; and (3) Statement of Cash Flows.

Horizon's financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed as of June 30, 2015. This information is reported on the Statement of Net Position which reflects Horizon's assets in relation to its debts to its suppliers, employees and other creditors. The excess of assets over liabilities is indicated by the value of net position.

Information regarding the results of Horizon's operations during fiscal year 2015 is reported in the Statement of Revenues, Expenses and Changes in Fund Net Position. This statement shows how much overall net position increased during the year as a result of operations.

The Statement of Cash Flows discloses the flow of cash resources into and out of Horizon during the fiscal year 2015 (from operations, contributions and other sources) and how those funds were applied (for example: payment of expenses, repayment of debt, purchase of new property, etc.).

In 2015 Horizon adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The overall effect of this new standard is to reflect Horizon's long-term Virginia Retirement System (VRS) obligations directly in the financial statements. Previously, such amounts were mostly disclosed, but were not recognized as long as the Authority was current with its required VRS contributions. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that Horizon record a net pension liability directly on the statement of net position. Beginning net position has been restated as discussed in footnote 14, and this has had a significant impact on Horizon's net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

Financial Summary

Financial Position: A summary of Horizon's Statement of Net Position as of June 30, 2015 and 2014 is presented below:

Summary Statement of Net Position

	2015	2014
Current assets	$ 5,757,704	$ 6,167,995
Current restricted assets	27,751	22,825
Capital assets	9,155,709	9,940,384
Other non-current assets	4,913,305	356,989
Total assets	**$ 19,854,469**	**$ 16,488,193**
Pension contributions subsequent to measurement date	1,164,448	-
Total deferred outflows of resources	**$ 1,164,448**	**$ -**
Current liabilities	4,521,904	4,739,464
Current liabilities payable from restricted assets	27,751	22,825
Long term liabilities	3,518,638	3,799,953
Total liabilities	**$ 8,068,293**	**$ 8,562,242**
Net difference between projected and actual investment earnings on pension plan investments	2,638,869	-
Unearned revenue	356,687	138,484
Total deferred inflows of resources	**$ 2,995,556**	**$ 138,484**
Net position		
Invested in capital assets	5,173,548	5,655,557
Unrestricted	4,781,520	2,131,910
Total net position	**$ 9,955,068**	**$ 7,787,467**

The financial position of Horizon is reflected by the current ratio (current assets / current liabilities) and was calculated to be 1.3 as of June 30, 2015, and also on June 30, 2014. The current ratio is an indicator of the organization's ability to cover current obligations and being able to cover current obligations 1.3 times is considered adequate.

Change in Net Position: A summary of Horizon Behavioral Health's Statement of Revenues, Expenses and Changes in Fund Net Position for fiscal years 2015 and 2014 is presented below:

Summary Statement of Revenues, Expenses and Changes in Fund Net Position

	2015	2014
Net client service revenue	$ 37,577,175	$ 31,360,302
Operating expenses	47,448,521	44,833,633
Operating income (loss)	(9,871,346)	(13,473,331)
Non-operating revenues - net	9,834,615	10,385,472
Change in net position	$ (36,731)	$ (3,087,859)

Operating revenue is the amount of revenue received from providing client services. The vast majority of those revenues, approximately 94% in FY2015, were received from Medicaid (please see Note 10). During fiscal year 2015, Operating revenue increased by 20% due to increased revenue generated by three new intermediate care facilities, fiscal year 2014 write-offs that did not recur in fiscal year 2015, and systems issues, which prevented invoicing of certain services in fiscal year 2014 were not repeated in fiscal year 2015.

Operating expenses are the sum of direct and indirect costs of operating Horizon. These include salaries and benefits, occupancy, payments to contracting entities, depreciation, etc. Please see the full Statement of Revenues, Expenses and Changes in Fund Net Position for a complete breakdown of these expenditures for fiscal years 2015 and 2014. During fiscal year 2015, Operating expenses increased by 6%. The fiscal year 2015 increase is mainly attributed to higher personnel and health care costs.

Net non-operating revenue is comprised of income received as appropriations or grants, miscellaneous income and is net of interest expense. Appropriations from federal and state sources amounted to 89% for fiscal year 2015 and 91% for fiscal year 2014 of the net non-operating revenue. Appropriations from local governments constituted 9% for fiscal year 2015 and 8% for fiscal year 2014. The remaining non-operating revenue consists of other income, interest income and expense. Net non-operating revenue for fiscal year 2015 was 5% lower than fiscal year 2014.

There was a decrease in net position by $36,731 in fiscal year 2015 and of $3,087,859 in fiscal year 2014.

Cash flows: A summary of Horizon's Statement of Cash Flows for 2015 and 2014 is presented below.

Condensed Statement of Cash Flows

	2015	2014
Cash flows from (to) operating activities	$(11,268,267)	$(11,397,055)
Cash flows from non-capital related financing activities	10,207,808	10,563,337
Cash flows from (to) capital related financing activities	(545,990)	(2,613,128)
Cash flows from investing activities	6,026	12,623
Net cash increase (decrease)	(1,600,423)	(3,434,223)
Cash and cash equivalents, beginning of year	2,724,336	6,158,559
Cash and cash equivalents, end of year	$ 1,123,913	$ 2,724,336

Cash flows from operating activities reconcile the operating loss recorded on the Statement of Revenues, Expenses and Changes in Fund Net Position to cash provided by (used in) operating activities. In this process, the operating loss is decreased by the amount of any non-cash transactions (depreciation pension expense adjustments) and adjusted for changes in assets and liabilities. (Please see the full Statement of Cash Flows for a full listing of these transactions).

Cash flows from non-capital transactions are comprised of income received as appropriations or grants (please see Statement of Revenues, Expenses and Changes in Fund Net Position discussion above). Cash flows from capital activities are comprised of the acquisition of capital assets by Horizon in fiscal years 2015 and 2014, principal payments on mortgages and loans payable (please see Notes 5 and 6). Cash flows from investing activities are comprised of interest income.

There was a net decrease in cash and cash equivalents of $1,600,423 during fiscal year 2015 and a net decrease of $3,434,233 in fiscal year 2014.

Capital Assets and Debt Administration

Capital Assets

On June 30, 2015, Horizon had $9,155,709 in Net Capital Assets. This is comprised of $14,965,080 in capital assets less $5,809,371 in accumulated depreciation (please see Note 5). Of the total capital assets, buildings and improvements constitute 66%, furniture and equipment constitutes 22%, vehicles constitute 7% and land and construction in progress constitutes 5%.

Long Term Debt

Long term obligations as of June 30, 2015 were $3,982,161 (please see Note 6). This is a decrease of $302,666 due to principal payments on long term debt.

Financial Highlights

Based on operating results achieved, Horizon's net position decreased by $36,731 during the fiscal year.

During the fiscal year ended June 30, 2015, Horizon had total expenses of $47,610,737 compared with $45,066,910 the previous year. These figures included interest expense on mortgages and capital leases of $162,216 and $233,277 in 2015 and 2014 respectively.

During the fiscal year ended June 30, 2015, Horizon had net client service revenues of $37,577,175 compared with $31,360,302 for the previous year. This represents an increase of $6,216,873 or 19.8% from fiscal year 2014.

During the fiscal year ended June 30, 2015, Horizon had net revenues from local, state and federal appropriations/grants of $9,640,032 compared with $10,274,984 in fiscal year 2014, a decrease of $634,952 or 6.2% from fiscal year 2014.

During the fiscal year ended June 30, 2015, Horizon had total revenues of $47,574,006 including all sources as compared with $41,979,051 the previous year, an increase of $5,594,955 or 13.3% increase in total revenue.

During the year ended June 30, 2015, total expenses were $36,731 higher than the aggregate of fee revenue, contract revenue, local, state and federal grant, and interest income. The previous year, expenses were $3,087,859 higher than operating revenues.

Total expenses were $1,373,072 lower than the budget for fiscal year ended June 30, 2015. Revenues were $1,446,684 lower than budget. The net variance from budget was unfavorable by $73,612.

Using This Annual Report

This annual report consists of a series of financial statements that include:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Fund Net Position
- Statement of Cash Flows

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. This new reporting model has been adopted according to guidelines of GASB No. 34 (Governmental Accounting Standards Board) and was first implemented at the fiscal year end June 30, 2002.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional information should be addressed to André McDaniel, Chief Financial Officer, Horizon Behavioral Health, 2241 Langhorne Road, Lynchburg, Virginia 24501.

BASIC FINANCIAL STATEMENTS

HORIZON BEHAVIORAL HEALTH

STATEMENT OF NET POSITION
June 30, 2015

	2015	(For Comparative Purposes Only) 2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents (Note 2)	$ 707,269	$ 2,344,522
Accounts receivable, net (Note 3)	4,412,857	3,419,665
Due from other governments (Note 4)	386,883	117,080
Prepaid expenses and other	250,695	286,728
Cash and cash equivalents, restricted for clients (Note 2)	27,751	22,825
Total current assets	5,785,455	6,190,820
Noncurrent assets		
Cash and cash equivalents, restricted for debt reserves (Note 2)	388,893	356,989
Net pension asset (Note 9)	4,524,412	-
Capital assets, net (Note 5)	9,155,709	9,940,384
Total noncurrent assets	14,069,014	10,297,373
Total assets	19,854,469	16,488,193
Deferred outflows of resources		
Pension contributions subsequent to measurement date (Note 9)	1,164,448	-
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities		
Accounts payable	637,300	990,528
Accrued payroll and related liabilities	600,728	651,143
Accrued interest	46,547	48,448
Amounts held for clients, payable from restricted assets	27,751	22,825
Due to other governments	605,882	422,103
Other current liabilities	39,110	19,544
Current portion of long-term liabilities (Note 6)	2,592,337	2,607,698
Total current liabilities	4,549,655	4,762,289
Long-term liabilities (Note 6)	3,518,638	3,799,953
Total liabilities	8,068,293	8,562,242
Deferred inflows of resources		
Net difference between projected and actual investment earnings on pension plan investments (Note 9)	2,638,869	-
Unearned revenue (Note 7)	356,687	138,484
Total deferred inflows of resources	2,995,556	138,484
COMMITMENTS AND CONTINGENCIES (Notes 8 and 12)	-	-
NET POSITION		
Net investment in capital assets	5,173,548	5,655,557
Unrestricted	4,781,520	2,131,910
Total net position	$ 9,955,068	$ 7,787,467

The Notes to Financial Statements are an integral part of this statement.

HORIZON BEHAVIORAL HEALTH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2015

	2015	(For Comparative Purposes Only) 2014
OPERATING REVENUES		
Net client service revenue (Note 10)	$ 37,577,175	$ 31,360,302
OPERATING EXPENSES		
Salaries and benefits	37,654,171	36,387,525
Staff development and recruitment	138,175	176,622
Facility	1,365,508	1,184,534
Supplies	1,780,207	1,657,879
Travel	395,008	409,852
Contractual and professional services	3,010,337	2,270,065
Leases	1,863,913	1,733,440
Insurance	235,032	324,685
Depreciation and amortization	865,082	643,283
Other	141,088	45,748
Total operating expenses	47,448,521	44,833,633
Operating loss	(9,871,346)	(13,473,331)
NONOPERATING REVENUES (EXPENSES)		
Commonwealth of Virginia grants	7,141,462	7,718,673
Federal grants	1,621,873	1,700,715
Contributions from participating local governments (Note 11)	876,697	855,596
Interest income	6,026	21,481
Interest expense	(162,216)	(233,277)
Other income	349,573	309,087
Gain on sale of capital assets	1,200	13,197
Net nonoperating revenues	9,834,615	10,385,472
Change in net position	(36,731)	(3,087,859)
NET POSITION AT JULY 1 (as restated, Note 14)	9,991,799	10,875,326
NET POSITION AT JUNE 30	$ 9,955,068	$ 7,787,467

HORIZON BEHAVIORAL HEALTH

STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	2015	(For Comparative Purposes Only) 2014
OPERATING ACTIVITIES		
Receipts from clients, private insurers, Medicaid, and others	$ 36,497,959	$ 32,246,278
Payments to suppliers	(9,246,463)	(7,437,956)
Payments to employees	(38,544,255)	(36,135,764)
Other receipts (expenses)	24,492	(69,613)
Net cash used in operating activities	(11,268,267)	(11,397,055)
NON-CAPITAL FINANCING ACTIVITIES		
Contributions from local, state, and federal governments	9,858,235	10,018,025
Other receipts	349,573	545,312
Net cash provided by non-capital financing activities	10,207,808	10,563,337
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(80,407)	(2,575,489)
Proceeds from the sale of capital assets	1,200	484,782
Proceeds from issuance of long-term debt	-	489,170
Principal paid on debt	(302,667)	(785,275)
Interest paid on debt	(164,116)	(226,316)
Net cash used in capital and related financing activities	(545,990)	(2,613,128)
INVESTING ACTIVITIES		
Interest received	6,026	12,623
Net cash provided by investing activities	6,026	12,623
Net decrease in cash and cash equivalents	(1,600,423)	(3,434,223)
CASH AND CASH EQUIVALENTS		
Beginning at July 1	2,724,336	6,158,559
Ending at June 30	$ 1,123,913	$ 2,724,336
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 707,269	$ 2,344,522
Cash and cash equivalents, restricted for clients	27,751	22,825
Cash and cash equivalents, restricted for debt reserves	388,893	356,989
	$ 1,123,913	$ 2,724,336

(Continued)

HORIZON BEHAVIORAL HEALTH

STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	2015	(For Comparative Purposes Only) 2014
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (9,871,346)	$ (13,473,331)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	865,082	643,283
Pension expense net of employer contributions	(845,659)	-
Decrease (increase) in:		
Accounts receivable, net	(993,192)	626,228
Due from other governments	(269,803)	(947)
Prepaid expenses and other	36,033	73,700
Increase (decrease) in:		
Accounts payable	(353,228)	291,169
Accrued payroll and related liabilities	(50,415)	299,956
Compensated absences	5,990	(48,195)
Due to other governments	183,779	260,695
Other current liabilities	19,566	(68,211)
Amounts held for clients, payable from restricted assets	4,926	(1,402)
Net cash used in operating activities	$ (11,268,267)	$ (11,397,055)

The Notes to Financial Statements are
an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

Financial reporting entity:

Horizon Behavioral Health (HBH) is a jointly governed entity that operates as an agent for the Counties of Amherst, Appomattox, Bedford, and Campbell, and the City of Lynchburg in the establishment and operation of community mental health disorders, intellectual disabilities, and substance abuse programs as provided for in Chapter 5 of Title 37.2 of the *Code of Virginia* (1950), relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, HBH provides treatment of community mental health disorders, intellectual disabilities, and substance abuse disorders with a system of services that relate to, and are integrated with, existing and planned programs. Substantially all of the entity's funding is from service fees, the Commonwealth of Virginia, the Federal Government, and the aforementioned localities.

Blended component unit:

Horizon Opportunities, Inc. (HOI) was established to hold title to certain real property on behalf of HBH. All real property owned by HOI is leased to HBH.

Although legally a separate entity, HOI is, in substance, part of HBH's operations, and shares some of the same Board of Directors as HBH. Financial information from this unit is combined with the financial statements of HBH as a blended component unit. HBH and this entity are collectively referred to herein as the "Board."

Measurement focus and basis of accounting:

The Board is a governmental health care entity and follows the accounting and reporting practices of the Governmental Accounting Standards Board. The Board's financial statements consist of a single enterprise fund, and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Board distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Board's principal ongoing operations. The principal operating revenues of the Board are fees collected from clients and the related collections from the various third-party insurers including Medicaid. Operating expenses consist of the direct and indirect costs of fulfilling the programs of the Board. All other revenues and expenses are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first.

Use of estimates:

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities as well as the reported revenues and expenses. Actual results could differ from those estimates.

The allowance for uncollectible accounts is a significant estimate that involves a great deal of judgment and the consideration of many factors. By nature, this estimate is not precise and requires re-evaluation as the conditions and factors change. Key factors that affect this calculation are delays in collection from third parties, the need to rebill multiple third-party payers, rate adjustments and settlements with third-party payers, and the financial assistance provided to clients based on their ability to pay.

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents:

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Valuation of receivables:

Receivables are reported net of the estimated allowance for uncollectible accounts. Management estimates this allowance using historical collection data and the aging of accounts receivable.

Net client service revenue:

Net client service revenue is reported at the estimated net realizable amounts from clients, residents, third-party payers, and others for services rendered. Revenue under third-party payer agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement.

Financial assistance:

The Board is required to collect the cost of services from third-party sources and those individuals who are able to pay. However, the payment of amounts charged varies based on individual circumstances and unpaid balances are pursued to the extent of the client's ability to pay. The Board has established procedures for granting financial assistance in cases of hardship. The granting of financial assistance results in a substantial reduction and/or elimination of charges to individual clients. Because the Board does not pursue the collection of amounts determined to qualify for financial assistance, such amounts are not reported as revenue.

Capital assets:

Capital assets include property and equipment with an initial, individual cost of more than $5,000 ($2,500 for information systems equipment) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at date of donation. The costs of normal maintenance and repairs that do not materially add to the value of an asset or its life are expensed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 to 33 1/3 years
Furniture and equipment	3 to 10 years
Motor vehicles	5 years

Restricted assets:

The Board segregates funds held on behalf of clients and for debt service reserves.

Note 1. Summary of Significant Accounting Policies (Continued)

Unearned revenue:

Unearned revenues consist of amounts which have been received, but for which revenue recognition criteria have not been met. Revenues will be recognized when expenses are incurred in accordance with the grantor's requirements. If such expenses are not incurred, the funds may revert back to the grantor.

Deferred outflows/inflows of resources:

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Board has only one item that qualifies for reporting in this category, which consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension asset in the next fiscal year.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Board has two types of items. The first is unearned revenue, which results from restricted grants and earmarked funds attached to specific clients for which revenue recognition criteria have not been met. The second is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period.

Income taxes:

HOI is exempt from federal and state income tax under Section 501(c)(3) of the *Internal Revenue Code*. HBH is exempt from such taxes as a governmental entity. Accordingly, the accompanying financial statements do not reflect a provision for income taxes.

Compensated absences:

Employees are entitled to certain compensated absences based upon length of employment. Effective January 1, 2015 a new sick leave policy was established in that unused sick leave balances may not be carried over into the next calendar year. Legacy employees are allowed to keep and carry over their previous sick leave balances earned prior to January 1, 2014. However, upon separation, legacy employees with five or more consecutive years of service shall be paid up to the lesser of $2,500 or 25% of the sick leave balance. Other sick leave does not vest with the employee and is recorded as an expense when paid. Vacation and certain other compensated absences do vest with the employee. A provision for these vested compensated absences has been recorded in the financial statements. Because the timing of the use of the benefit is not estimable, all of the liability has been classified as current.

Note 1. Summary of Significant Accounting Policies (Continued)

Rental income:

HOI owns various properties which are leased to HBH. Rental income is recognized as earned. Intercompany activity is eliminated from the financial statements. Currently, all rentals are intercompany agreements.

Pensions:

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2. Deposits and Investments

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the *Code of Virginia.* Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in amount from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:

Statutes authorize the Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). Current Board policy is to automatically invest cash reserves on a daily basis through the use of repurchase agreements and in a money market mutual fund with the Board's bank. All investments were held in a money market fund at June 30, 2015 .

Concentration of credit risk:

The Board does not have an investment policy regarding the concentration of credit risk.

Note 2. Deposits and Investments (Continued)

Interest rate risk:

The Board's investment policy does not address interest rate risk, but at June 30, the Board had no investments other than a money market mutual fund.

The Board's deposits and investments consist of the following at June 30:

Deposits and investments:		
Cash on hand	$	1,850
Deposits		750,930
Money market mutual fund		371,133
	$	1,123,913
Statement of net position:		
Cash and cash equivalents	$	707,269
Cash and cash equivalents, restricted for clients		27,751
Cash and cash equivalents, restricted for debt reserves		388,893
	$	1,123,913

Note 3. Accounts Receivable

Accounts receivable consist of the following:

Virginia Department of Medical Assistance Services (Medicaid)	$	4,409,863
Direct client		624,706
Third-party insurers and other		428,288
		5,462,857
Allowance for uncollectible accounts		(1,050,000)
	$	4,412,857

Note 4. Due From Other Governments

Amounts are due from other governments for the reimbursement of expenditures and fees for services provided under various programs and grants, and consist of the following:

DMAS ICF – MR	$	323,926
Other programs		62,957
	$	386,883

Note 5. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	$ 575,978	$ -	$ -	$ 575,978
Construction in progress	111,843	63,437	(14,508)	160,772
Capital assets, nondepreciable	687,821	63,437	(14,508)	736,750
Capital assets, depreciable				
Building and improvements	9,900,942	25,578	-	9,926,520
Furniture and equipment	3,308,942	5,900	-	3,314,842
Vehicles	1,018,384	-	(31,416)	986,968
Capital assets, depreciable	14,228,268	31,478	(31,416)	14,228,330
Less accumulated depreciation	(4,975,705)	(880,287)	46,621	(5,809,371)
Capital assets, depreciable, net	9,252,563	(848,809)	15,205	8,418,959
Capital assets, net	$ 9,940,384	$ (785,372)	$ 697	$ 9,155,709

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes payable	$ 4,284,827	$ -	$ 302,666	$ 3,982,161	$ 463,523
Compensated absences	2,122,824	5,990	-	2,128,814	2,128,814
	$ 6,407,651	$ 5,990	$ 302,666	$ 6,110,975	$ 2,592,337

Note 6. Long-Term Liabilities (Continued)

Annual debt service requirements are as follows:

Fiscal Year	Principal	Interest
2016	$ 463,523	$ 178,354
2017	854,923	161,315
2018	693,444	138,394
2019	428,898	103,375
2020	223,873	89,184
2021-2025	657,500	321,966
2026-2030	660,000	89,736
	$ 3,982,161	$ 1,082,324

Details of notes payable are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance Due
VHDA Mortgage payable[(1)]	7.10%	Dec. 2007	Nov. 2019	$ 318,174	$ 148,163
VML/VACo	[(2)]Variable	[(3)]June 2006	Dec. 2020	$ 1,665,000	612,500
VML/VACo	6.55%	Feb. 2008	Aug. 2028	$ 2,145,000	1,715,000
E.H.R Loan payable	3.45%	Jan. 2012	Oct. 2016	$ 775,000	757,892
Powell-Pearson ICF Mortgage payable[(4)]	3.20%	Feb. 2014	Apr. 2017	$ 489,170	448,306
Timothy House Mortgage	3.25%	Mar. 2013	Apr. 2018	$ 172,800	152,265
Bethany House Mortgage	3.25%	Mar. 2013	Apr. 2018	$ 168,000	148,035
					$ 3,982,161

[(1)]The Board assumed this mortgage as part of its purchase of certain real estate in December 2007. The mortgage on this real estate was originally issued to the prior owner in June 1989 for $469,850.

[(2)]This rate was 1.90% at June 2015. This rate has no cap or floor and is determined by VML/VACO based on market changes in interest rates.

[(3)]In October 2008, the Board borrowed an additional $290,000 on this debt issuance for purchase of property.

[(4)]In February 2014, the debt was refinanced.

Note 7. Unearned Revenues

Unearned revenues consist of the following:

State grants	$	340,492
Federal grants		16,195
	$	356,687

Note 8. Lease Commitments

The Board leases office space, other facilities, computers, equipment, and vehicles under lease terms which range from one to six years. Future minimum lease requirements under non-cancellable operating leases are as follows:

Fiscal Year		
2016	$	1,435,894
2017		1,159,778
2018		872,442
2019		794,463
2020		805,595
2021-2025		1,621,495
2026-2029		846,255
	$	7,535,922

Rental expense for 2015 totaled $1,863,913, excluding $237,869 of intercompany amounts.

Note 9. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Horizon Behavioral Health, (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Note 9. Defined Benefit Pension Plan (Continued)

<u>Plan Description</u> (Continued)

<table>
<tr>
<td>Eligible Members

Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</td>
<td>Eligible Members

Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election

Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</td>
<td>Eligible Members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

• Political subdivision employees*
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

*Non-Eligible Members

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</td>
</tr>
</table>

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Retirement Contributions	**Retirement Contributions**	**Retirement Contributions**
Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.	A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Creditable Service	Creditable Service	Creditable Service
Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Same as Plan 1.	**Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Vesting	**Vesting**	**Vesting**
Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Same as Plan 1.	**Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

		Vesting (Continued) **Defined Contributions Component: (Continued)** • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1. **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable.

Note 9. Defined Benefit Pension Plan (Continued)

<u>Plan Description</u> (Continued)

Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** **<u>Defined Benefit Component</u>:** **VRS:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **<u>Defined Contribution Component</u>:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component</u>:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **<u>Defined Contribution Component</u>:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%. **Eligibility:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)
Eligibility: (Continued) For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.		
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.	**Exceptions to COLA Effective Dates:** Same as Plan 1.	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued) **Exceptions to COLA Effective Dates:** (Continued) • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

<table>
<tr>
<td>Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</td>
<td>Purchase of Prior Service

Same as Plan 1.</td>
<td>Purchase of Prior Service

<u>Defined Benefit Component</u>:

Same as Plan 1, with the following exceptions:

• Hybrid Retirement Plan members are ineligible for ported service.
• The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation.
• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

<u>Defined Contribution Component</u>:

Not applicable.</td>
</tr>
</table>

Note 9. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	111
Inactive members:	
Vested inactive members	121
Non-vested inactive members	373
Inactive members active elsewhere in VRS	148
Total inactive members	642
Active members	575
Total covered employees	1,328

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The political subdivision's contractually required contribution rate for the year ended June 30, 2015 was 4.57% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $1,164,448 and $1,166,497 for the years ended June 30, 2015 and June 30, 2014, respectively.

Note 9. Defined Benefit Pension Plan (Continued)

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Note 9. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

Largest 10 – Non-LEOS: (Continued)

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Note 9. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50 %	6.28 %	1.04 %
Emerging Market Equity	6.00 %	10.00 %	0.60 %
Fixed Income	15.00 %	0.09 %	0.01 %
Emerging Debt	3.00 %	3.51 %	0.11 %
Rate Sensitive Credit	4.50 %	3.51 %	0.16 %
Non Rate Sensitive Credit	4.50 %	5.00 %	0.23 %
Convertibles	3.00 %	4.81 %	0.14 %
Public Real Estate	2.25 %	6.12 %	0.14 %
Private Real Estate	12.75 %	7.10 %	0.91 %
Private Equity	12.00 %	10.41 %	1.25 %
Cash	1.00 %	(1.50)%	(0.02)%
Total	100.00 %		5.83 %
	Inflation		2.50 %
	* Expected arithmetic nominal return		8.33 %

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Note 9. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) – (b)
Balances at June 30, 2013	$ 35,882,277	$ 36,920,111	$ (1,037,834)
Changes for the year:			
Service cost	2,370,183	-	2,370,183
Interest	2,469,215	-	2,469,215
Differences between expected and actual experience	-	-	-
Contributions – employer	-	1,166,497	(1,166,497)
Contributions – employee	-	1,265,264	(1,265,264)
Net investment income	-	5,924,501	(5,924,501)
Benefit payments, including refunds of employee contributions	(1,215,558)	(1,215,558)	-
Administrative expenses	-	(30,598)	30,598
Other changes	-	312	(312)
Net changes	3,623,840	7,110,418	(3,486,578)
Balances at June 30, 2014	$ 39,506,117	$ 44,030,529	$ (4,524,412)

Note 9. Defined Benefit Pension Plan (Continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability (asset)	$ 2,124,015	$ (4,524,412)	$ (9,832,300)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the political subdivision recognized pension expense of $318,788. At June 30, 2015, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 2,638,869
Employer contributions subsequent to the measurement date	1,164,448	-
Total	$ 1,164,448	$ 2,638,869

Note 9. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The $1,164,448 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2016	$ (659,717)
2017	(659,717)
2018	(659,717)
2019	(659,718)

Payables to the Pension Plan

At June 30, 2015, there were no amounts payable to the Virginia Retirement System.

Note 10. Net Client Service Revenue

Net client revenue arose from the following sources, including adjustments and write-offs:

Medicaid	$ 35,320,239
Direct client fees	422,698
Third-party and other	1,834,238
	$ 37,577,175

Note 11. Contributions from Participating Local Governments

Contributions from participating local governments were as follows:

County of Amherst	$ 95,153
County of Appomattox	41,000
County of Bedford	111,211
County of Campbell	172,010
City of Lynchburg	457,323
	$ 876,697

Note 12. Commitments and Contingencies

Certain state and federal grants and programs are subject to audit to determine compliance with their requirements. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Note 13. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; the health of and injuries to employees, and natural disasters. The Board participates in the Virginia Association of Counties Group Self-Insurance Risk Pool for various liability coverages which have up to $4,000,000 in coverage limits. The Board participates in the Virginia Municipal League Risk Pool for workers compensation coverage.

There are no surety bonds for directors. The Board assumes risks related to co-insurance, policy deductibles, and claims which exceed insurance coverage. There have been no settlements that have exceeded the insurance coverage in the last three years and there has been no reduction in the amount of insurance coverage from the prior year.

Note 14. Adoption of New Standard and Prior Period Restatement

In the current year the Board adopted GASB Statement No. 68*, Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71.* This standard replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The new Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

The following is a summary of the restatements to net position resulting from the adoption of GASB Statement No. 68:

July 1, 2014, as previously reported	$ 7,787,467
Recognition of pension related asset and deferred outflows in accordance with GASB No. 68	2,204,332
Net position July 1, 2014	$ 9,991,799

(Continued)

Note 15. Subsequent Event

On August 26, 2015, the Board obtained a $2,000,000 revolving bank line of credit with an initial interest rate of 3.25%. The line of credit is secured by accounts receivables.

Note 16. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ending June 30, 2016.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ending June 30, 2016 and should be applied retroactively. Earlier application is permitted.

REQUIRED
SUPPLEMENTARY INFORMATION

HORIZON BEHAVIORAL HEALTH

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2015

Total Pension Liability	
Service cost	$ 2,370,183
Interest on total pension liability	2,469,215
Benefit payments, including refunds of employee contributions	(1,215,558)
Net change in total pension liability	3,623,840
Total pension liability – beginning	35,882,277
Total pension liability – ending	39,506,117
Plan Fiduciary Net Position	
Contributions – employer	1,166,497
Contributions – employee	1,265,264
Net investment income	5,924,501
Benefit payments, including refunds of employee contributions	(1,215,558)
Administrative expenses	(30,598)
Other	312
Net change in plan fiduciary net position	7,110,418
Plan fiduciary net position – beginning	36,920,111
Plan fiduciary net position – ending	44,030,529
Net pension liability (asset) – ending	$ (4,524,412)
Plan fiduciary net position as a percentage of total pension liability	111%
Covered employee payroll	$ 26,463,462
Net pension liability as a percentage of covered employee payroll	-17%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

HORIZON BEHAVIORAL HEALTH

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2015

Year Ended June 30,	Actuarially Determined Contribution (1)	in Relation to Actuarially Determined Contribution (2)	Contribution Deficiency (Excess) (3)	Covered Employee Payroll (4)	Contributions as a percentage of Covered Payroll (5)
2015	$ 1,164,448	$ 1,164,448	$ -	$ 26,463,462	4.40%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

HORIZON BEHAVIORAL HEALTH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

Note 1. Changes of Benefit Terms

There have been no significant changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012 (fiscal year 2014 for the teacher cost sharing pool). The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Teacher cost-sharing pool:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

OTHER SUPPLEMENTARY INFORMATION

HORIZON BEHAVIORAL HEALTH

COMBINING STATEMENT OF NET POSITION
June 30, 2015

	Horizon Behavioral Health	Horizon Opportunities Inc.	Inter-Company Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets				
Cash and cash equivalents	$ 674,073	$ 33,196	$ -	$ 707,269
Accounts receivable, net	4,412,857	59,261	(59,261)	4,412,857
Due from other governments	386,883	-	-	386,883
Prepaid expenses and other	1,595,457	-	(1,344,762)	250,695
Cash and cash equivalents, restricted for clients	27,751	-	-	27,751
Total current assets	7,097,021	92,457	(1,404,023)	5,785,455
Noncurrent assets				
Cash and cash equivalents, restricted for debt reserves	388,893	-	-	388,893
Net pension asset	4,524,412	-	-	4,524,412
Capital assets, net	6,354,274	2,801,435	-	9,155,709
Total noncurrent assets	11,267,579	2,801,435	-	14,069,014
Total assets	18,364,600	2,893,892	(1,404,023)	19,854,469
Deferred outflows of resources				
Pension contributions subsequent to measurement date	1,164,448	-	-	1,164,448
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Current liabilities				
Accounts payable	689,734	528,173	(580,607)	637,300
Accrued payroll and related liabilities	600,728	-	-	600,728
Accrued interest	46,547	-	-	46,547
Amounts held for clients, payable from restricted assets	27,751	-	-	27,751
Due to other governments	605,882	-	-	605,882
Other current liabilities	39,110	-	-	39,110
Current portion of long-term liabilities	2,541,262	147,051	(95,976)	2,592,337
Total current liabilities	4,551,014	675,224	(676,583)	4,549,655
Long-term liabilities	2,821,108	1,424,970	(727,440)	3,518,638
Total liabilities	7,372,122	2,100,194	(1,404,023)	8,068,293
Deferred inflows of resources				
Net difference between projected and actual investment earnings on pension plan investments	2,638,869	-	-	2,638,869
Unearned revenue	356,687	-	-	356,687
Total deferred inflows of resources	2,995,556	-	-	2,995,556
NET POSITION				
Net investment in capital assets	3,120,718	2,052,830	-	5,173,548
Unrestricted	6,040,652	(1,259,132)	-	4,781,520
Total net position	$ 9,161,370	$ 793,698	$ -	$ 9,955,068

HORIZON BEHAVIORAL HEALTH

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2015

	Horizon Behavioral Health	Horizon Opportunities Inc.	Inter-Company Eliminations	Total
OPERATING REVENUES				
Net client service revenue	$ 37,577,175	$ -	$ -	$ 37,577,175
OPERATING EXPENSES				
Salaries and benefits	37,654,171	-	-	37,654,171
Staff development and recruitment	138,175	-	-	138,175
Facility	1,365,508	-	-	1,365,508
Supplies	1,774,874	5,333	-	1,780,207
Travel	395,008	-	-	395,008
Contractual and professional services	2,984,972	25,365	-	3,010,337
Leases	2,101,782	-	(237,869)	1,863,913
Insurance	235,032	-	-	235,032
Depreciation and amortization	716,996	148,086	-	865,082
Other	117,682	23,406	-	141,088
Total operating expenses	47,484,200	202,190	(237,869)	47,448,521
Operating loss	(9,907,025)	(202,190)	237,869	(9,871,346)
NONOPERATING REVENUES (EXPENSES)				
Commonwealth of Virginia grants	7,141,462	-	-	7,141,462
Federal grants	1,621,873	-	-	1,621,873
Contributions from participating local governments	876,697	-	-	876,697
Interest income	31,594	-	(25,568)	6,026
Interest expense	(136,905)	(50,879)	25,568	(162,216)
Other income	323,783	263,659	(237,869)	349,573
Gain on sale of capital assets	1,200	-	-	1,200
Net nonoperating revenues	9,859,704	212,780	(237,869)	9,834,615
Change in net position	(47,321)	10,590	-	(36,731)
NET POSITION, at July 1, as restated	9,208,691	783,108	-	9,991,799
NET POSITION, at June 30	$ 9,161,370	$ 793,698	$ -	$ 9,955,068

HORIZON BEHAVIORAL HEALTH

COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	Horizon Behavioral Health	Horizon Opportunities Inc.	Inter-Company Eliminations	Total
OPERATING ACTIVITIES				
Receipts from clients, private insurers, Medicaid, and others	$ 36,497,959	$ -	$ -	$ 36,497,959
Payments to suppliers	(9,332,559)	(47,985)	134,081	(9,246,463)
Payments to employees	(38,544,255)	-	-	(38,544,255)
Other receipts	24,492	-	-	24,492
Net cash used in operating activities	(11,354,363)	(47,985)	134,081	(11,268,267)
NON-CAPITAL FINANCING ACTIVITIES				
Contributions from local, state, and federal governments	9,858,235	-	-	9,858,235
Other receipts	323,783	204,398	(178,608)	349,573
Net cash provided by non-capital financing activities	10,182,018	204,398	(178,608)	10,207,808
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(74,884)	(5,523)	-	(80,407)
Proceeds from the sale of capital assets	1,200	-	-	1,200
Proceeds from issuance of long-term debt	-	-	-	-
Principal paid on debt	(253,205)	(93,989)	44,527	(302,667)
Interest paid on debt	(138,805)	(50,879)	25,568	(164,116)
Net cash used in capital and related financing activities	(465,694)	(150,391)	70,095	(545,990)
INVESTING ACTIVITIES				
Interest received	31,594	-	(25,568)	6,026
Net cash provided by investing activities	31,594	-	(25,568)	6,026
Net increase (decrease) in cash and cash equivalents	(1,606,445)	6,022	-	(1,600,423)
CASH AND CASH EQUIVALENTS				
Beginning at July 1	2,697,162	27,174	-	2,724,336
Ending at June 30	$ 1,090,717	$ 33,196	$ -	$ 1,123,913
RECONCILIATION TO STATEMENT OF NET POSITION				
Cash and cash equivalents	$ 674,073	$ 33,196	$ -	$ 707,269
Cash and cash equivalents, restricted for clients	27,751	-	-	27,751
Cash and cash equivalents, restricted for debt reserves	388,893	-	-	388,893
	$ 1,090,717	$ 33,196	$ -	$ 1,123,913

(Continued)

HORIZON BEHAVIORAL HEALTH

COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	Horizon Behavioral Health	Horizon Opportunities Inc.	Inter-Company Eliminations	Total
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES				
Operating loss	$ (9,907,025)	$ (202,190)	$ 237,869	$ (9,871,346)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization	716,996	148,086	-	865,082
Pension expense net of employer contributions	(845,659)	-	-	(845,659)
Decrease (increase) in:				
Accounts receivable, net	(993,192)	-	-	(993,192)
Due from other governments	(269,803)	-	-	(269,803)
Prepaid expenses and other	75,037	-	(39,004)	36,033
Increase (decrease) in:				
Accounts payable	(294,563)	6,119	(64,784)	(353,228)
Accrued payroll and related liabilities	(50,415)	-	-	(50,415)
Compensated absences	5,990	-	-	5,990
Due to other governments	183,779	-	-	183,779
Other current liabilities	19,566	-	-	19,566
Amounts held for clients, payable from restricted assets	4,926	-	-	4,926
Net cash used in operating activities	$ (11,354,363)	$ (47,985)	$ 134,081	$ (11,268,267)

COMPLIANCE SECTION

BROWN EDWARDS
certified public accountants

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

To the Board of Directors
Horizon Behavioral Health
Lynchburg, Virginia

We have audited, 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 the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Horizon Behavioral Health (the "Board"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 7, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. **We consider Item 14-01 described in the accompanying schedule of findings and questioned costs to be a material weakness.**

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Compliance and Other Matters

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

Horizon Behavioral Health's Response to Finding

The Board's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 7, 2015

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Horizon Behavioral Health
Lynchburg, Virginia

Report on Compliance for the Major Federal Program

We have audited Horizon Behavioral Health's (the "Board") compliance with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on the Board's major federal program for the year ended June 30, 2015. The Board's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on Each Major Federal Program

In our opinion, Horizon Behavioral Health, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

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Report on Internal Control Over Compliance

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

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

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

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 7, 2015

HORIZON BEHAVIORAL HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	**Award Date**	**Federal Catalog Number**	**Expenditures**
Department of Health and Human Services			
Pass-Through Payments:			
Virginia Department of Behavioral Health and Developmental Services			
Block Grants for Community Mental Health Services	07/09/2014	93.958	$ 177,516
Block Grants for the Prevention and Treatment of Substance Abuse	07/09/2014	93.959	1,444,357
Total Department of Health and Human Services			1,621,873
Total expenditures of federal awards			$ 1,621,873

Note: The schedule is presented on the accrual basis of accounting.

HORIZON BEHAVIORAL HEALTH

SUMMARY OF COMPLIANCE MATTERS
June 30, 2015

As more fully described in the Independent Auditor's 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,* we performed tests of the Board's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia
Cash and Investment Laws
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

HORIZON BEHAVIORAL HEALTH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One material weakness** relating to the audit of the financial statements is reported in the Independent Auditor's 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as major was:

   Block Grants for the Prevention and Treatment of Substance Abuse   CFDA #   93.959

8. The threshold for distinguishing Type A and B programs was **$300,000**.
9. The Board was **not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

14-01: Accounts Receivable (Material Weakness)

Condition:

The Board has encountered several issues with the new electronic health record and billing systems during the prior and current fiscal years. There were also issues in information flowing from the health record system to the billing system, preventing billings from being captured and submitted timely in some cases. Missed billings are searched for and captured monthly by billing staff, but there is no certainty as to whether all billings have been captured. Management has made the decision to switch to a different system that will incorporate both the billing and health record components into one system; however this will not be completed until early fiscal year 2016.

Recommendation:

We recommend that management continue to look for ways to ensure timely and complete billings until the Board can implement the new software system.

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

14-01: Accounts Receivable (Material Weakness) (Continued)

Management's Response:

During the implementation of the electronic health record and billing systems, management was aware that not all services were able to be billed as timely as they were being provided. Management implemented a process to weekly sweep to identify and bill all services that had not previously been billed since the system "Go-Live" date. That process remains in effect today to ensure that all services are billed. Additionally, management made a decision in June 2014 to transition to another electronic health record system (Credible) and went "live" on August 1, 2015.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None.