



HORIZON BEHAVIORAL HEALTH

FINANCIAL REPORT

June 30, 2018

HORIZON BEHAVIORAL HEALTH

FINANCIAL REPORT

June 30, 2018

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INTRODUCTORY SECTION

HORIZON BEHAVIORAL HEALTH
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2018

BOARD OF DIRECTORS

Clyde Clark Sr., Chair

Rob Merryman, Vice-Chair

Gary Marple, Treasurer

Dr. Williams Scott, Secretary

Betty Brickhouse

John Rice

Andy Crawford

Jim Sikkema

Susan Hogg

Mary Lou Spiggle

Dana Koenig

Treney Tweedy

Abe Loper

Betty Wise

PRINCIPAL MANAGEMENT TEAM

Damien Cabezas..... Chief Executive Officer

André McDaniel..... Chief Operating Officer

Theresa McCaskill Director of Talent Management

Emmanuel Buabeng Director of Reimbursement and Continuous Quality Improvement

Rob Viohl Director of Information Technology

Lauren Connors..... Manager of Communications and Grants Management

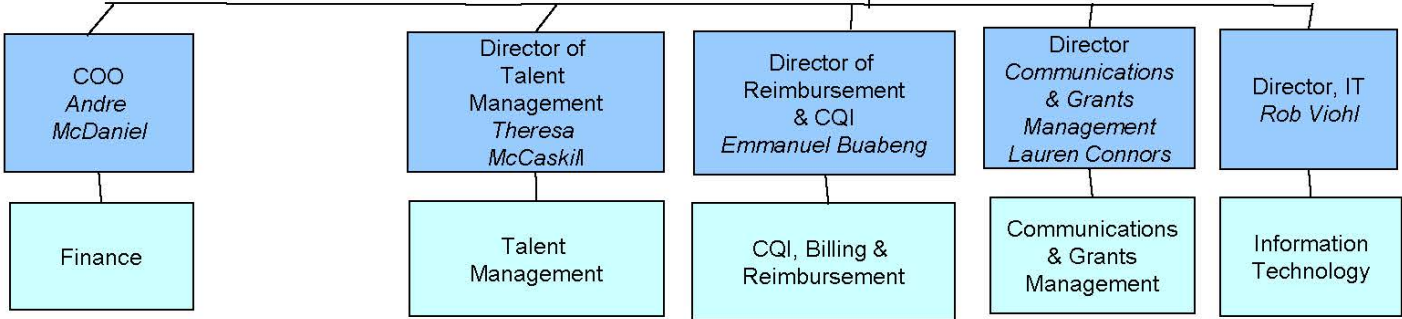
Horizon Behavioral Health

**Board of Directors
representing
City of Lynchburg,
Counties of Amherst, Appomattox,
Bedford, and Campbell**



**Chief Executive Officer
Damien Cabezas**

Executive Assistant
Sandy Farmer



FINANCIAL SECTION

**The Financial Section contains
the Basic Financial Statements.**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Horizon Behavioral Health
Lynchburg, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Horizon Behavioral Health (the "Board"), as of and for the year ended June 30, 2018, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board, as of June 30, 2018, and the respective changes in financial position and cash flows thereof 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 16 to the financial statements, in 2018 the Board adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Board's 2017 financial statements, on which, in our report dated November 22, 2017, we expressed an unmodified opinion. The 2017 financial information is provided for comparative purposes only.

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 financial statements that collectively comprise 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 November 28, 2018 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, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 28, 2018

**Horizon Behavioral Health
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018**

The following Management's Discussion and Analysis (MD&A) of Horizon Behavioral Health's (Horizon) financial performance provides an overview of the Horizon financial activities for the fiscal year ended June 30, 2018.

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 required pension schedules. 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, 2018. 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, 2018. 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 2018 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 2018 (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.).

Financial Summary

Financial Position: A summary of Horizon's Statement of Net Position as of June 30, 2018 and 2017 is presented below:

Summary Statement of Net Position		
	2018	2017
Current assets	\$ 7,372,292	\$ 7,394,843
Current restricted assets	-	1,426
Capital assets	13,059,648	13,487,386
Other non-current assets	9,948,903	3,968,830
Total assets	\$ 30,380,843	\$ 24,852,485
Pension-related deferred outflows	728,846	1,991,948
Postemployment benefits deferred outflows	146,457	-
Total deferred outflows of resources	\$ 875,303	\$ 1,991,948
Current liabilities	6,772,499	7,437,598
Current liabilities payable from restricted assets	-	1,426
Long term liabilities	10,656,215	8,047,431
Total liabilities	\$ 17,428,714	\$ 15,486,455
Pension-related deferred inflows	3,612,608	1,406,438
Postemployment benefits deferred inflows	307,000	-
Total deferred inflows of resources	\$ 3,919,608	\$ 1,406,438
Net position		
Net investment in capital assets	1,914,915	1,662,306
Unrestricted	7,992,909	8,289,234
Total net position	\$ 9,907,824	\$ 9,951,540

The financial position of Horizon is reflected by the current ratio (current assets / current liabilities) and was calculated to be 1.1 as of June 30, 2018, and was 1.0 as of June 30, 2017. The current ratio is an indicator of the organization's ability to cover current obligations and being able to cover current obligations 1.0 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 2018 and 2017 is presented below:

Summary Statement of Revenues, Expenses and Changes in Fund Net Position		
	2018	2017
Net client service revenue	\$ 37,377,065	\$ 36,353,349
Operating expenses	48,421,629	49,508,994
Operating loss	(11,044,564)	(13,155,645)
Non-operating revenues - net	13,536,660	12,693,636
Change in net position	\$ 2,492,095	\$ (462,009)

Operating revenue is the amount of revenue received from providing client services. The vast majority of those revenues, approximately 89% in fiscal year 2018, were received from Medicaid (please see Note 12). During fiscal year 2018, operating revenue increased by 3% due primarily to increased revenue for substance use disorder services.

(Continued)

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 2018 and 2017. During fiscal year 2018, operating expenses decreased by 2%. The decrease during fiscal year 2018 was due primarily to accounting adjustments required as a result of Horizon's adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The overall effect of this new standard is to reflect the Horizon's long-term other postretirement benefit ("OPEB") obligations directly in the financial statements. Under previous accounting guidance, these amounts were recorded incrementally over time, but were not recognized in their entirety. Instead, the total liability which has now been recorded, was only disclosed. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that Horizon record a net OPEB liability directly on the statement of net position. Beginning net position has been restated as discussed in Note 16, and this has had a significant impact on the 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.

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 93% for fiscal years 2018 and 2017 of the net non-operating revenue. Appropriations from local governments constituted 7% for fiscal years 2018 and 2017. The remaining non-operating revenue consists of other income, interest income, and expense. Net non-operating revenue for fiscal year 2018 was 7% higher than fiscal year 2017.

There was an increase in net position by \$2,492,096 in fiscal year 2018 and a decrease of \$462,009 in fiscal year 2017.

Cash flows: A summary of Horizon's Statement of Cash Flows for 2018 and 2017 is presented below.

Condensed Statement of Cash Flows

	2018	2017
Cash flows to operating activities	\$(12,567,604)	\$(12,954,438)
Cash flows from non-capital related financing activities	14,790,378	12,957,695
Cash flows to capital related financing activities	(1,497,622)	(248,962)
Cash flows from investing activities	5,066	35,641
Net cash increase (decrease)	730,218	(210,064)
Cash and cash equivalents, beginning of year	1,950,047	2,160,111
Cash and cash equivalents, end of year	\$ 2,680,265	\$ 1,950,047

Cash flows from operating activities reconcile the operating loss recorded on the Statement of Revenues, Expenses, and Changes in Fund Net Position to cash 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 2018 and 2017, principal payments on mortgages and loans payable (please see Notes 5, 6 and 7). Cash flows from investing activities are comprised of interest income.

(Continued)

There was a net increase in cash and cash equivalents of \$730,218 during fiscal year 2018 and a net decrease of \$210,064 in fiscal year 2017.

Capital Assets and Debt Administration

Capital Assets

On June 30, 2018, Horizon had \$13,059,648 in Net Capital Assets. This is comprised of \$21,021,993 in capital assets less \$7,962,345 in accumulated depreciation (please see Note 5). Of the total capital assets, buildings and improvements constitute 74%, furniture and equipment constitutes 13%, vehicles constitute 5% and land and construction in progress constitutes 8%.

Long Term Debt

Long term notes payable as of June 30, 2018 were \$9,029,713 (please see Note 7). This is a net decrease of \$226,535. Horizon's line of credit balance as of June 30, 2018 was \$938,823 which was \$399,000 lower than the balance as of June 30, 2017.

Financial Highlights

Based on operating results achieved and the accounting change due to the implementation of GASB No. 75, Horizon's net position increased by \$2,492,096 during the fiscal year.

During the fiscal year ended June 30, 2018, Horizon had total expenses of \$48,867,400 compared with \$50,226,916 the previous year. These figures included interest expense on mortgages and capital leases of \$445,771 and \$471,673 in 2018 and 2017 respectively.

During the fiscal year ended June 30, 2018, Horizon had net client service revenues of \$37,377,065 compared with \$36,353,349 for the previous year. This represents an increase of \$1,023,716 or 2.8% from fiscal year 2017.

During the fiscal year ended June 30, 2018, Horizon had net revenues from local, state, and federal appropriations/grants of \$13,513,620 compared with \$12,662,309 in fiscal year 2017, an increase of \$851,311 or 6.7% from fiscal year 2017.

During the fiscal year ended June 30, 2018, Horizon had total revenues of \$51,359,496 including all sources as compared with \$49,764,907 the previous year, an increase of \$1,594,589 or 3.2% increase in total revenue.

During the year ended June 30, 2018, total expenses were \$2,492,096 lower than the aggregate of fee revenue, contract revenue, local, state and federal grant, and interest income. The previous year, expenses were \$462,009 higher than operating revenues.

Total expenses were \$1,768,101 lower than the budget for fiscal year ended June 30, 2018. Revenues were \$869,429 lower than budget. The net variance from budget was favorable by \$898,672.

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, 2018

	2018	(For Comparative Purposes Only) 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 1,449,725	\$ 1,686,631
Accounts receivable, net (Note 3)	3,337,361	3,689,915
Due from other governments (Note 4)	2,307,405	1,659,152
Prepaid expenses and other	277,801	359,145
Cash and cash equivalents, restricted for clients (Note 2)	-	1,426
	<hr/>	<hr/>
Total current assets	7,372,292	7,396,269
NONCURRENT ASSETS		
Cash and cash equivalents, restricted for debt reserves, ICF, Regional funds (Note 2)	1,230,540	261,990
Net pension asset (Note 10)	8,718,363	3,706,840
Capital assets, net (Note 5)	13,059,648	13,487,386
	<hr/>	<hr/>
Total noncurrent assets	23,008,551	17,456,216
	<hr/>	<hr/>
Total assets	30,380,843	24,852,485
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions (Note 10)	728,846	1,991,948
Deferred outflows related to other postemployment benefits (Note 11)	146,457	-
	<hr/>	<hr/>
Total deferred outflows of resources	875,303	1,991,948
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES		
Accounts payable	448,260	893,638
Accrued payroll and related liabilities	700,363	339,633
Accrued interest	39,761	62,890
Amounts held for clients, payable from restricted assets	-	1,426
Due to other governments	-	210,728
Unearned revenue (Note 8)	1,711,627	1,397,114
Regional funds -Community Development	500,000	-
Line of credit (Note 6)	938,823	1,338,323
Current portion of long-term liabilities (Note 7)	2,433,665	3,195,272
	<hr/>	<hr/>
Total current liabilities	6,772,499	7,439,024
	<hr/>	<hr/>

(Continued)

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

HORIZON BEHAVIORAL HEALTH

STATEMENT OF NET POSITION

June 30, 2018

	2018	(For Comparative Purposes Only) 2017
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES (Continued)		
LONG-TERM LIABILITIES		
Net other postemployment benefit liability (Note 11)	\$ 2,247,000	\$ -
Due in more than one year (Note 7)	8,409,215	8,047,431
Total long-term liabilities	10,656,215	8,047,431
Total liabilities	17,428,714	15,486,455
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 10)	3,612,608	1,406,438
Deferred inflows related to other postemployment benefits (Note 11)	307,000	-
Total deferred inflows of resources	3,919,608	1,406,438
COMMITMENTS AND CONTINGENCIES (Notes 9 and 14)	-	-
NET POSITION		
Net investment in capital assets	1,914,915	1,662,306
Unrestricted	7,992,909	8,289,234
Total net position	\$ 9,907,824	\$ 9,951,540

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, 2018

	2018	(For Comparative Purposes Only) 2017
	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Net client service revenue (Note 12)	\$ 37,377,065	\$ 36,353,349
OPERATING EXPENSES		
Salaries and benefits	36,627,384	38,193,039
Staff development and recruitment	288,722	313,852
Facility	1,908,039	1,705,128
Supplies	1,769,744	1,889,240
Travel	233,695	230,597
Contractual and professional services	4,009,851	3,782,299
Leases	1,350,636	1,282,533
Insurance	442,350	436,102
Depreciation and amortization	829,425	794,860
Other	961,783	881,344
	<u>48,421,629</u>	<u>49,508,994</u>
Total operating expenses	48,421,629	49,508,994
Operating loss	<u>(11,044,564)</u>	<u>(13,155,645)</u>
NONOPERATING REVENUES (EXPENSES)		
Commonwealth of Virginia grants	10,527,299	10,117,719
Federal grants	2,088,565	1,649,774
Contributions from participating local governments (Note 13)	897,756	894,816
Interest income	5,066	35,641
Interest expense	(445,771)	(471,673)
Other income	462,245	706,304
Impairment loss	-	(246,249)
Gain on sale of capital assets	1,500	7,304
	<u>13,536,660</u>	<u>12,693,636</u>
Net nonoperating revenues	13,536,660	12,693,636
Change in net position	2,492,096	(462,009)
NET POSITION AT JULY 1, as restated (Note 16)	<u>7,415,728</u>	<u>10,413,549</u>
NET POSITION AT JUNE 30	<u>\$ 9,907,824</u>	<u>\$ 9,951,540</u>

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

HORIZON BEHAVIORAL HEALTH

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

	2018	(For Comparative Purposes Only) 2017
OPERATING ACTIVITIES		
Receipts from clients, private insurers, Medicaid, and others	\$ 36,870,638	\$ 35,739,959
Payments to suppliers	(11,326,354)	(10,280,875)
Payments to and for employees	(38,110,462)	(38,413,886)
Other receipts (expenses)	(1,426)	364
Net cash used in operating activities	(12,567,604)	(12,954,438)
NON-CAPITAL FINANCING ACTIVITIES		
Contributions from local, state, and federal governments	14,328,133	12,251,390
Other receipts	462,245	706,305
Net cash provided by non-capital financing activities	14,790,378	12,957,695
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(401,687)	(6,050,650)
Proceeds from the sale of capital assets	1,500	213,185
Receipts from other notes receivables	(2,500)	-
Proceeds from the issuance of debt	314,901	6,457,000
Net borrowings on line of credit	(399,500)	461,217
Principal paid on debt	(541,436)	(876,420)
Interest paid on debt	(468,900)	(453,294)
Net cash used in capital and related financing activities	(1,497,622)	(248,962)
INVESTING ACTIVITIES		
Interest received	5,066	35,641
Net cash provided by investing activities	5,066	35,641
Net increase (decrease) in cash and cash equivalents	730,218	(210,064)
CASH AND CASH EQUIVALENTS		
Beginning at July 1	1,950,047	2,160,111
Ending at June 30	\$ 2,680,265	\$ 1,950,047

(Continued)

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

HORIZON BEHAVIORAL HEALTH

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

	2018	(For Comparative Purposes Only) 2017
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 1,449,725	\$ 1,686,631
Cash and cash equivalents, restricted for clients	-	1,426
Cash and cash equivalents, restricted for debt reserves	1,230,540	261,990
	\$ 2,680,265	\$ 1,950,047
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (11,044,564)	\$ (13,155,645)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	829,425	794,860
Pension expense net of employer contributions	(1,542,251)	(324,116)
Other postemployment benefit expense net of employer contributions	(128,269)	-
Decrease (increase) in:		
Accounts receivable, net	352,554	194,029
Due from other governments	(648,253)	(746,058)
Prepaid expenses and other	81,344	527,010
Increase (decrease) in:		
Accounts payable	(442,878)	(286,790)
Accrued payroll and related liabilities	360,730	88,737
Compensated absences	(173,288)	14,532
Due to other governments	(210,728)	(61,361)
Other current liabilities	-	-
Amounts held for clients, payable from restricted assets	(1,426)	364
Net cash used in operating activities	\$ (12,567,604)	\$ (12,954,438)

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

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, which includes the blended component unit previously described, 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.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

Use of estimates (Continued)

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 for the Board are delays in collections from third parties, the need to rebill multiple third-party payors, rate adjustments and settlements with third-party payors, and the financial assistance provided to clients based on their ability to pay.

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 payors, and others for services rendered. Revenue under third-party payor 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
Vehicles	5 years

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

Restricted assets

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

Unearned revenue

Unearned revenue consists of amounts which have been received, but for which revenue recognition criteria have not been met. Unearned revenue is comprised of state and federal funds with purpose and, also typically, time restrictions. Revenue are recorded 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 that presents net position reports a separate section for deferred outflows of resources. These items represent a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement that presents financial position reports a separate section for deferred inflows of resources. These items represent 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 the following items that qualify for reporting as deferred inflows or outflows:

- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the remaining service life of employees subject to the plan and may be reported as a deferred inflow or outflow as appropriate.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over the closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Changes in proportionate share between measurement dates on the OPEB liability. This difference will be recognized in OPEB expense over the remaining services life of the employees subject to the plan, and is reflected as a deferred inflow or outflow as appropriate.

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.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 and Other Postemployment Benefits (OPEB)

For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the Board's Plans and the additions to/deductions from the Board's 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.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 2. Deposits and Investments (Continued)

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, 2018.

Concentration of credit risk

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

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	\$ 1,225
Deposits	2,418,845
Money market mutual fund	260,195
	\$ 2,680,265
Statement of net position:	
Cash and cash equivalents	\$ 1,449,725
Cash and cash equivalents, restricted for ICF	445,280
Cash and cash equivalents, restricted for regional funds	500,000
Cash and cash equivalents, restricted for debt reserves	285,260
	\$ 2,680,265

Note 3. Accounts Receivable

Accounts receivable consist of the following:

Virginia Department of Medical Assistance Services (Medicaid)	\$ 2,260,228
Direct client	1,291,715
Third-party insurers and other	525,418
	4,077,361
Allowance for uncollectible accounts	(740,000)
	\$ 3,337,361

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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	\$ 2,246,656
Other programs	60,749
	\$ 2,307,405

Note 5. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 1,267,178	\$ -	\$ -	\$ 1,267,178
Construction in progress	263,646	372,929	(224,093)	412,482
	1,530,824	372,929	(224,093)	1,679,660
Capital assets, depreciable				
Building and improvements	15,246,755	216,450	-	15,463,205
Furniture and equipment	2,795,327	-	-	2,795,327
Vehicles	1,061,583	36,401	(14,183)	1,083,801
	19,103,665	252,851	(14,183)	19,342,333
Less accumulated depreciation	(7,147,103)	(829,425)	14,183	(7,962,345)
	11,956,562	(576,574)	-	11,379,988
Capital assets, depreciable, net	11,956,562	(576,574)	-	11,379,988
Capital assets, net	\$ 13,487,386	\$ (203,645)	\$ (224,093)	\$ 13,059,648

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 6. Line of Credit

On August 26, 2015, the Board obtained a \$2,000,000 revolving bank line of credit with an initial interest rate of 3.25% (5.00% at June 30, 2018). On July 28, 2016, the credit limit on the line was reduced to \$1,500,000 in conjunction with the issuance of other additional debt. The line has no specified maturity date and is payable on demand. The outstanding balance at June 30, 2018 was \$938,823. The line of credit is secured by real property.

The Board also had a \$219,000 bank line of credit originally obtained to assist with renovations. The only use of the line was the origination fee, which was paid in fiscal year 2018. The line was closed as of December 5, 2017.

Note 7. Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	\$ 9,256,248	\$ 314,901	\$ (541,436)	\$ 9,029,713	\$ 620,498
Compensated absences	1,986,455	-	(173,288)	1,813,167	1,813,167
	<u>\$ 11,242,703</u>	<u>\$ 314,901</u>	<u>\$ (714,724)</u>	<u>\$ 10,842,880</u>	<u>\$ 2,433,665</u>

Annual debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 620,498	\$ 393,997
2020	625,655	364,274
2021	634,550	334,123
2022	627,884	298,283
2023	714,017	263,716
2024-2028	2,413,571	977,103
2029-2033	2,031,128	459,721
2034-2038	1,362,410	88,607
	<u>\$ 9,029,713</u>	<u>\$ 3,179,824</u>

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 7. Long-Term Liabilities (Continued)

Details of notes payable are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Due</u>
VHDA Mortgage payable ⁽¹⁾	7.10%	Dec. 2007	Nov. 2019	\$ 318,174	\$ 50,515
VML/VACo	6.50	Feb. 2008	Aug. 2028	2,145,000	1,465,000
E.H.R Loan payable	5.20	June 2017	June 2022	757,965	651,127
Mortgage payable	5.35	June 2018	June 2038	280,000	280,000
Powell-Pearson ICF Mortgage payable	5.00	Sept. 2017	Sept. 2022	386,347	373,569
Vehicle Notes payable	4.59	June 2018	June 2024	34,901	34,901
Timothy House Mortgage	3.25	Mar. 2013	Mar. 2028	172,800	123,759
Bethany House Mortgage	3.25	Mar. 2013	Mar. 2028	168,000	122,840
Langhorne Mortgage	⁽²⁾ 3.89	July 2016	July 2036	6,100,000	5,699,632
Mortgage	3.89	July 2016	July 2021	357,000	<u>228,370</u>
					<u>\$ 9,029,713</u>

⁽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⁾The rate of 3.89% at June 2018 is fixed for the first sixty months, and is then subject to adjustment thereon each five years.

Note 8. Unearned Revenues

Unearned revenues consist of the following:

State grants	\$ 1,641,785
Federal grants	<u>69,842</u>
	<u>\$ 1,711,627</u>

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 9. 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, excluding intercompany amounts, under non-cancellable operating leases are as follows:

Fiscal Year	
2019	\$ 1,087,096
2020	775,508
2021	677,212
2022	652,983
2023	449,655
2024-2028	1,996,699
2029-2030	550,678
	\$ 6,189,831

Rental expense for 2018 totaled \$1,350,636, excluding \$677,328 of intercompany amounts.

Note 10. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of Horizon Behavioral Health, (the “Political Subdivision”) are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent 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 as 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.

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 as follows:

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 and have not taken a refund.

- **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.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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.
- **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.
- **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.
- **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.
- **Average Final Compensation** – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – 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%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. 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.
- **Normal Retirement Age** – Age 65 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service for hazardous duty employees.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Age 50 with at least five years of creditable service for hazardous duty employees.
- **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. 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.
 - 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.
- **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. Members also may be eligible to purchase periods of leave without pay.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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.

- **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.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – 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, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** – Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **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.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service** – Same as Plan 1.

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. 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.

- **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.
- **Retirement Contributions** – 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.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Creditable Service –**
 - **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.
- **Vesting –**
 - **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. 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 –**
 - **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.
- **Average Final Compensation** – Same as Plan 2 for the defined benefit component of the plan.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Service Retirement Multiplier** – 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. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age** –
 - **Defined Benefit Component** – Same as Plan 2, however, not applicable for hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility** –
 - **Defined Benefit Component** – Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility** –
 - **Defined Benefit Component** – Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **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 2.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1 and 2.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **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 an 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.
- **Purchase of Prior Service** –
 - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
 - Hybrid Retirement Plan members are ineligible for ported service.
 - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	153
Inactive members:	
Vested inactive members	163
Non-vested inactive members	397
Inactive members active elsewhere in VRS	150
Total inactive members	710
Active members	668
Total covered employees	1,531

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

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, 2018 was 3.19% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$728,846 and \$697,515 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees with hazardous duty benefits – Salary increases, including inflation	3.50 – 4.75%
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 rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% 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 7.0% to simplify preparation of pension liabilities.

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjustment to rates of retirement by increasing rate at 50 and lowering rate at older ages; adjusted rates of withdrawal and disability to better fit experience; changes to line of duty rates, and no changes to salary scale.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. 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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		<u>4.80 %</u>
	Inflation		<u>2.50 %</u>
	*Expected arithmetic nominal return		<u>7.30 %</u>

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. 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, 2016, 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, 2019 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 Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2016	\$ 45,349,839	\$ 49,056,679	\$ (3,706,840)
Changes for the year:			
Service cost	2,478,052	-	2,478,052
Interest	3,118,283	-	3,118,283
Benefit changes	-	-	-
Differences between expected and actual experience	(1,543,952)	-	(1,543,952)
Assumption changes	(1,037,874)	-	(1,037,874)
Contributions – employer	-	752,156	(752,156)
Contributions – employee	-	1,278,865	(1,278,865)
Net investment income	-	6,034,147	(6,034,147)
Benefit payments, including refunds of employee contributions	(1,605,870)	(1,605,870)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(33,714)	33,714
Other changes	-	(5,422)	5,422
Net changes	1,408,639	6,420,162	(5,011,523)
Balances at June 30, 2017	\$ 46,758,478	\$ 55,476,841	\$ (8,718,363)

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability 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)	\$ (1,258,641)	\$ (8,718,363)	\$ (14,709,715)

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

For the year ended June 30, 2018, the political subdivision recognized pension expense (benefit) of \$(758,764). At June 30, 2018, 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
Differences between expected and actual experience	\$ -	\$ 2,041,953
Change in assumptions	-	748,773
Net difference between projected and actual earnings on pension plan investments	-	821,882
Employer contributions subsequent to the measurement date	728,846	-
Total	\$ 728,846	\$ 3,612,608

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 10. Defined Benefit Pension Plan (Continued)

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

The \$728,846 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, 2019. 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
2019	\$ (1,667,892)
2020	(890,662)
2021	(536,722)
2022	(517,332)
2023	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2018, approximately \$189,693 was payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Board also participates in various cost-sharing and agent multi-employer other postemployment benefit plans, described as follows.

Plan Descriptions

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Plan Descriptions (Continued)

Group Life Insurance Program (Continued)

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at <https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp>

The GLI is administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. This plan is considered a multiple employer, cost sharing plan.

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2015. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	<i>Code of Virginia 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.</i>
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2018 Contribution	\$146,457
June 30, 2017 Contribution	\$143,188

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

The net OPEB liabilities were measured as of June 30, 2017 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities, except for LODA, were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. LODA proportion was determined based on pay-as-you-go employer contributions instead of actuarially determined contributions.

Group Life Insurance Program

June 30, 2018 proportionate share of liability	\$ 2,247,000
June 30, 2017 proportion	0.14929%
June 30, 2016 proportion	0.15314%
June 30, 2018 expense	\$ 15,000

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 49,000
Change in assumptions	-	116,000
Net difference between projected and actual earnings on OPEB plan investments	-	85,000
Changes in proportionate share	-	57,000
Employer contributions subsequent to the measurement date	146,457	-
Total	<u>\$ 146,457</u>	<u>\$ 307,000</u>

The deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Liabilities, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB (Continued)

Group Life Insurance Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	\$ (62,000)
2020	(62,000)
2021	(62,000)
2022	(62,000)
2023	(40,000)
Thereafter	(19,000)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2016, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

Inflation	2.50%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
• Locality – hazardous duty employees	3.50 – 4.75%
• Teachers	3.50 – 5.95%
Healthcare cost trend rates:	
• Under age 65	7.75 – 5.00%
• Ages 65 and older	5.75 – 5.00%
Investment rate of return, net of expenses, including inflation	GLI: 7.00%;

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 10.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Net OPEB Liabilities

The net OPEB liabilities represent each program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	<u>Group Life Insurance Program</u>
Total OPEB Liability	\$ 2,942,426
Plan fiduciary net position	1,437,586
Employers’ net OPEB liability (asset)	1,504,840
Plan fiduciary net position as a percentage of total OPEB liability	48.86%

The total liability is calculated by the VRS actuary and each plan’s fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

Group Life Insurance Program

The long-term expected rate of return on VRS investments was determined as described in Note 10.

Discount Rate

The discount rate used to measure the GLI OPEB liabilities was 7.00% based on the assumptions that the OPEB plans’ fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees.

HORIZON BEHAVIORAL HEALTH

**NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liabilities of the Board, as well as what the Board’s net OPEB liabilities 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 discount rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability	\$ 2,906,000	\$ 2,247,000	\$ 1,712,000

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the OPEB Plan

At June 30, 2018, \$11,819 was payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

Note 12. Net Client Service Revenue

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

Medicaid	\$ 33,173,780
Direct client fees	763,115
Third-party and other	3,440,170
	\$ 37,377,065

Note 13. Contributions from Participating Local Governments

Contributions from participating local governments were as follows:

County of Amherst	\$ 100,948
County of Appomattox	41,000
County of Bedford	116,000
County of Campbell	182,485
City of Lynchburg	457,323
	\$ 897,756

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 14. 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, future disallowances of current grant program expenditures, if any, would be immaterial.

The Board is also occasionally the subject of litigation in the course of conducting its business. The Board has recorded no provision for adverse outcomes of such matters as of June 30, 2018.

A complaint has been filed against several defendants regarding an event in 2016, in which a client was seriously injured. Horizon Behavioral Health originally was not named; a court claim filed in January 2018 has added the Board as a defendant, however, no claim has been served to the Board as of the date of this financial report. Management intends to launch a vigorous defense if litigation were to proceed and has recorded no provision for this incident as of June 30, 2018.

Note 15. 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 16. Adoption of New Standard and Prior Period Restatement

In the current year the Board adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment 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 plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 16. Adoption of New Standard and Prior Period Restatement (Continued)

The following is a summary of the restatements to net position, as applicable, resulting from the adoption of GASB Statement No. 75:

Net position July 1, 2017, as previously reported	\$ 9,951,540
Recognition of other postemployment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75	<u>(2,535,812)</u>
Net position July 1, 2017, as restated	<u><u>\$ 7,415,728</u></u>

Note 17. New Accounting Standards

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

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

(Continued)

HORIZON BEHAVIORAL HEALTH
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Note 17. New Accounting Standards (Continued)

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

The GASB issued **Statement No. 90**, *Majority Equity Interests*, an amendment of *GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies the reporting for a majority equity interest in a legally separate organization.

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management has not determined the effects these new GASB Statements may have on future financial statements.

**REQUIRED
SUPPLEMENTARY INFORMATION**

HORIZON BEHAVIORAL HEALTH

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS June 30, 2018

	Plan Year Ended June 30:			
	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 2,478,052	\$ 2,505,241	\$ 2,504,039	\$ 2,370,183
Interest on total pension liability	3,118,283	2,944,753	2,717,081	2,469,215
Changes in assumptions	(1,037,874)	-	-	-
Difference between expected and actual experience	(1,543,952)	(1,455,756)	(565,689)	-
Benefit payments, including refunds of employee contributions	(1,605,870)	(1,424,585)	(1,381,362)	(1,215,558)
Net change in total pension liability	1,408,639	2,569,653	3,274,069	3,623,840
Total pension liability – beginning	45,349,839	42,780,186	39,506,117	35,882,277
Total pension liability – ending	46,758,478	45,349,839	42,780,186	39,506,117
Plan Fiduciary Net Position				
Contributions – employer	752,156	1,177,237	1,166,912	1,166,497
Contributions – employee	1,278,865	1,336,204	1,286,158	1,265,264
Net investment income	6,034,147	867,280	2,054,083	5,924,501
Benefit payments, including refunds of employee contributions	(1,605,870)	(1,424,585)	(1,381,362)	(1,215,558)
Administrative expenses	(33,714)	(28,351)	(26,630)	(30,598)
Other	(5,422)	(358)	(438)	312
Net change in plan fiduciary net position	6,420,162	1,927,427	3,098,723	7,110,418
Plan fiduciary net position – beginning	49,056,679	47,129,252	44,030,529	36,920,111
Plan fiduciary net position – ending	55,476,841	49,056,679	47,129,252	44,030,529
Net pension asset – ending	\$ (8,718,363)	\$ (3,706,840)	\$ (4,349,066)	\$ (4,524,412)
Plan fiduciary net position as a percentage of total pension liability	119%	108%	110%	111%
Covered employee payroll	\$ 27,374,716	\$ 27,409,338	\$ 26,463,462	\$ 26,048,966
Net pension liability as a percentage of covered employee payroll	-32%	-14%	-16%	-17%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – i.e., plan year 2015 information was presented in the entity's fiscal year 2016 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The Notes to Required Supplementary Information are an integral part of this statement.

HORIZON BEHAVIORAL HEALTH
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2018

Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2018	\$ 728,846	\$ 728,846	\$ -	\$ 27,722,455	2.63 %
2017	697,515	697,515	-	27,374,716	2.55
2016	1,175,676	1,175,676	-	27,409,338	4.29
2015	1,164,448	1,164,448	-	26,463,462	4.40

This schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

HORIZON BEHAVIORAL HEALTH

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY – VRS GLI
June 30, 2018**

Entity Fiscal Year Ended June 30,	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System – Group Life Insurance – General Employees					
2018	14.93 %	\$ 2,247,000	\$ 27,374,716	8.21 %	48.86 %

This schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

HORIZON BEHAVIORAL HEALTH

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS – VRS GLI
June 30, 2018**

Entity Fiscal Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System – Group Life Insurance – General Employees					
2018	\$ 146,457	\$ 146,457	\$ -	\$ 27,722,455	0.53 %

This schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year – i.e. the covered payroll on which required contributions were based for the same year.

HORIZON BEHAVIORAL HEALTH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2018

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

Largest 10 – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates
- Applicable to: Pension, GLI OPEB, and LODA OPEB

(Continued)

HORIZON BEHAVIORAL HEALTH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2018

Note 2. Changes of Assumptions (Continued)

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 15%
- Applicable to: Pension and GLI OPEB

All Others (Non 10 Largest) – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%
- Applicable to: Pension, GLI OPEB, and LODA OPEB

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**OTHER
SUPPLEMENTARY INFORMATION**

HORIZON BEHAVIORAL HEALTH

COMBINING STATEMENT OF NET POSITION

June 30, 2018

	Horizon Behavioral Health	Horizon Opportunities Inc.	Inter- Company Eliminations	Total
ASSETS AND DEFERRED				
OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,335,661	\$ 114,064	\$ -	\$ 1,449,725
Accounts receivable, net	3,337,361	-	-	3,337,361
Due from other governments	2,307,405	-	-	2,307,405
Prepaid expenses and other	1,428,998	27,500	(1,178,697)	277,801
Total current assets	<u>8,409,425</u>	<u>141,564</u>	<u>(1,178,697)</u>	<u>7,372,292</u>
NONCURRENT ASSETS				
Cash and cash equivalents, restricted for debt reserves, ICF, Regional funds	1,230,540	-	-	1,230,540
Net pension asset	8,718,363	-	-	8,718,363
Capital assets, net	4,712,763	8,346,885	-	13,059,648
Total noncurrent assets	<u>14,661,666</u>	<u>8,346,885</u>	<u>-</u>	<u>23,008,551</u>
Total assets	<u>23,071,091</u>	<u>8,488,449</u>	<u>(1,178,697)</u>	<u>30,380,843</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	728,846	-	-	728,846
Deferred outflows related to other postemployment benefits	146,457	-	-	146,457
Total deferred outflows of resources	<u>875,303</u>	<u>-</u>	<u>-</u>	<u>875,303</u>
LIABILITIES AND DEFERRED				
INFLOWS OF RESOURCES				
CURRENT LIABILITIES				
Accounts payable	450,760	-	(2,500)	448,260
Accrued payroll and related liabilities	700,363	-	-	700,363
Accrued interest	39,761	-	-	39,761
Unearned revenue	1,711,627	-	-	1,711,627
Regional funds A1 Community Development	500,000	-	-	500,000
Line of credit	938,823	-	-	938,823
Current portion of long-term liabilities	2,189,971	839,917	(596,223)	2,433,665
Total current liabilities	<u>6,531,305</u>	<u>839,917</u>	<u>(598,723)</u>	<u>6,772,499</u>
LONG-TERM LIABILITIES				
Net other postemployment benefit liability	2,247,000	-	-	2,247,000
Due in more than one year	2,078,110	6,911,079	(579,974)	8,409,215
Total long-term liabilities	<u>4,325,110</u>	<u>6,911,079</u>	<u>(579,974)</u>	<u>10,656,215</u>
Total liabilities	<u>10,856,415</u>	<u>7,750,996</u>	<u>(1,178,697)</u>	<u>17,428,714</u>

(Continued)

HORIZON BEHAVIORAL HEALTH

COMBINING STATEMENT OF NET POSITION June 30, 2018

	<u>Horizon Behavioral Health</u>	<u>Horizon Opportunities Inc.</u>	<u>Inter- Company Eliminations</u>	<u>Total</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES (Continued)				
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	3,612,608	-	-	3,612,608
Deferred inflows related to other postemployment benefits	<u>307,000</u>	<u>-</u>	<u>-</u>	<u>307,000</u>
Total deferred inflows of resources	<u>3,919,608</u>	<u>-</u>	<u>-</u>	<u>3,919,608</u>
NET POSITION				
Net investment in capital assets	1,319,026	595,889	-	1,914,915
Unrestricted	<u>7,851,345</u>	<u>141,564</u>	<u>-</u>	<u>7,992,909</u>
Total net position	<u>\$ 9,170,371</u>	<u>\$ 737,453</u>	<u>\$ -</u>	<u>\$ 9,907,824</u>

HORIZON BEHAVIORAL HEALTH

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION Year Ended June 30, 2018

	<u>Horizon Behavioral Health</u>	<u>Horizon Opportunities Inc.</u>	<u>Inter- Company Eliminations</u>	<u>Total</u>
OPERATING REVENUES				
Net client service revenue	\$ 37,377,065	\$ -	\$ -	\$ 37,377,065
OPERATING EXPENSES				
Salaries and benefits	36,627,384	-	-	36,627,384
Staff development and recruitment	288,722	-	-	288,722
Facility	1,904,375	3,664	-	1,908,039
Supplies	1,769,585	159	-	1,769,744
Travel	232,095	1,600	-	233,695
Contractual and professional services	3,895,448	114,403	-	4,009,851
Leases	2,027,964	-	(677,328)	1,350,636
Insurance	442,350	-	-	442,350
Depreciation and amortization	465,967	363,458	-	829,425
Other	869,200	92,583	-	961,783
Total operating expenses	48,523,090	575,867	(677,328)	48,421,629
Operating loss	(11,146,025)	(575,867)	677,328	(11,044,564)
NONOPERATING REVENUES (EXPENSES)				
Commonwealth of Virginia grants	10,527,299	-	-	10,527,299
Federal grants	2,088,565	-	-	2,088,565
Contributions from participating local governments	897,756	-	-	897,756
Interest income	43,290	-	(38,224)	5,066
Interest expense	(192,098)	(291,897)	38,224	(445,771)
Other income	336,783	802,790	(677,328)	462,245
Gain on sale of capital assets	1,500	-	-	1,500
Net nonoperating revenues	13,703,095	510,893	(677,328)	13,536,660
Change in net position	2,557,070	(64,974)	-	2,492,096
NET POSITION, at July 1, as restated	6,613,301	802,427	-	7,415,728
NET POSITION, at June 30	<u>\$ 9,170,371</u>	<u>\$ 737,453</u>	<u>\$ -</u>	<u>\$ 9,907,824</u>

HORIZON BEHAVIORAL HEALTH
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	Horizon Behavioral Health	Horizon Opportunities Inc.	Inter- Company Eliminations	Total
OPERATING ACTIVITIES				
Receipts from clients, private insurers, Medicaid, and others	\$ 36,870,638	\$ -		\$ 36,870,638
Payments to suppliers	(11,791,273)	(212,409)	677,328	(11,326,354)
Payments to and for employees	(38,110,462)	-	-	(38,110,462)
Other receipts	(1,426)	-	-	(1,426)
Net cash used in operating activities	<u>(13,032,523)</u>	<u>(212,409)</u>	<u>677,328</u>	<u>(12,567,604)</u>
NON-CAPITAL FINANCING ACTIVITIES				
Contributions from local, state, and federal governments	14,328,133	-	-	14,328,133
Other receipts	336,783	802,790	(677,328)	462,245
Net cash provided by non-capital financing activities	<u>14,664,916</u>	<u>802,790</u>	<u>(677,328)</u>	<u>14,790,378</u>
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(116,808)	(284,879)	-	(401,687)
Receipts from other notes receivable	79,312	(27,500)	(54,312)	(2,500)
Issuance of other notes receivable	-	-	-	-
Proceeds from the sale of capital assets	1,500	-	-	1,500
Proceeds from the issuance of debt	64,901	280,000	(30,000)	314,901
Net borrowings on line of credit	(399,500)	-	-	(399,500)
Principal paid on debt	(304,878)	(320,870)	84,312	(541,436)
Interest paid on debt	(215,227)	(291,897)	38,224	(468,900)
Net cash used in capital and related financing activities	<u>(890,700)</u>	<u>(645,146)</u>	<u>38,224</u>	<u>(1,497,622)</u>
INVESTING ACTIVITIES				
Interest received	43,290	-	(38,224)	5,066
Net cash provided by investing activities	<u>43,290</u>	<u>-</u>	<u>(38,224)</u>	<u>5,066</u>
Net increase (decrease) in cash and cash equivalents	784,983	(54,765)	-	730,218
CASH AND CASH EQUIVALENTS				
Beginning at July 1	1,781,218	168,829	-	1,950,047
Ending at June 30	<u>\$ 2,566,201</u>	<u>\$ 114,064</u>	<u>\$ -</u>	<u>\$ 2,680,265</u>

(Continued)

HORIZON BEHAVIORAL HEALTH
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	Horizon Behavioral Health	Horizon Opportunities Inc.	Inter- Company Eliminations	Total
RECONCILIATION TO STATEMENT OF NET POSITION				
Cash and cash equivalents	\$ 1,335,661	\$ 114,064	\$ -	\$ 1,449,725
Cash and cash equivalents, restricted for debt reserves	1,230,540	-	-	1,230,540
	<u>\$ 2,566,201</u>	<u>\$ 114,064</u>	<u>\$ -</u>	<u>\$ 2,680,265</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES				
Operating loss	\$ (11,146,025)	\$ (575,867)	\$ 677,328	\$ (11,044,564)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization	465,967	363,458		829,425
Pension expense net of employer contributions	(1,542,251)	-	-	(1,542,251)
Other postemployment benefit expense net of employer contributions	(128,269)	-	-	(128,269)
Decrease (increase) in:				
Accounts receivable, net	352,554	-		352,554
Due from other governments	(648,253)	-	-	(648,253)
Prepaid expenses and other	81,344	-	-	81,344
Increase (decrease) in:				
Accounts payable	(442,878)	-	-	(442,878)
Accrued payroll and related liabilities	360,730	-	-	360,730
Compensated absences	(173,288)	-	-	(173,288)
Due to other governments	(210,728)	-	-	(210,728)
Amounts held for clients, payable from restricted assets	(1,426)	-	-	(1,426)
Net cash used in operating activities	<u>\$ (13,032,523)</u>	<u>\$ (212,409)</u>	<u>\$ 677,328</u>	<u>\$ (12,567,604)</u>

COMPLIANCE SECTION

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, 2018, and the related notes to the financial statements, which collectively comprise the Board’s basic financial statements, and have issued our report thereon dated November 28, 2018.

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 opinion 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.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 that are required to be reported under *Government Auditing Standards*.**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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
November 28, 2018

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

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 Compliance Supplement* that could have a direct and material effect on the Board’s major federal program for the year ended June 30, 2018. 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 federal statutes, regulations, the terms, and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

Report on Compliance for the Major Federal Program (Continued)

Opinion on Each Major Federal Program

In our opinion, the Board, 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, 2018.

Report on Internal Control Over Compliance

Management of the Board 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 28, 2018

HORIZON BEHAVIORAL HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2018

<u>Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number</u>	<u>Award Date</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<u>Department of Health and Human Services</u>				
Direct Payments:				
Substance Abuse and Mental Health Grants	9/28/2017	93.243	N/A	\$ 451,400
Pass-Through Payments:				
Virginia Department of Behavioral Health and Developmental Services				
Block Grants for Community Mental Health Services	7/10/2017	93.958	4450600	169,443
Block Grants for the Prevention and Treatment of Substance Abuse	8/16/2017	93.959	4450700	<u>1,366,911</u>
Virginia Opioid Prevention	3/16/2018 5/16/2018	93.788	N/A	<u>66,751</u>
Total Department of Health and Human Services				<u>2,054,505</u>
<u>Department of Justice</u>				
Pass-Through Payments:				
Virginia Department of Social Services: Crime Victim Assistance	6/14/2016	16.575		<u>34,060</u>
Total expenditures of federal awards				<u>\$ 2,088,565</u>

Notes to Schedule of Expenditures of Federal Awards:

This schedule is prepared on the accrual basis of accounting.

Horizon Behavioral Health did not elect to use the 10% de minimis indirect cost rate.

At June 30, 2018, Horizon Behavioral Health had no outstanding loan balances requiring continuing disclosure.

HORIZON BEHAVIORAL HEALTH

SUMMARY OF COMPLIANCE MATTERS

June 30, 2018

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, 2018

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements are 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 the Uniform Guidance.
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 **\$750,000**.
9. The Board was **not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

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

None.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

None.