



**HORIZON BEHAVIORAL HEALTH**

**FINANCIAL REPORT**

**June 30, 2019**



**HORIZON BEHAVIORAL HEALTH**

**FINANCIAL REPORT**

**June 30, 2019**



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## INTRODUCTORY SECTION

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**HORIZON BEHAVIORAL HEALTH**  
**DIRECTORY OF PRINCIPAL OFFICIALS**  
**June 30, 2019**

**BOARD OF DIRECTORS**

Rob Merryman, Chair

Mary Lou Spiggle, Vice-Chair

Gary Marple, Treasurer

Dr. William Scott, Secretary

Betty Brickhouse

John Rice

Andy Crawford

Jim Sikkema

Susan Hogg

Treney Tweedy

Abe Loper

Betty Wise

**PRINCIPAL MANAGEMENT TEAM**

Damien Cabezas..... Chief Executive Officer

André McDaniel..... Chief Operating Officer

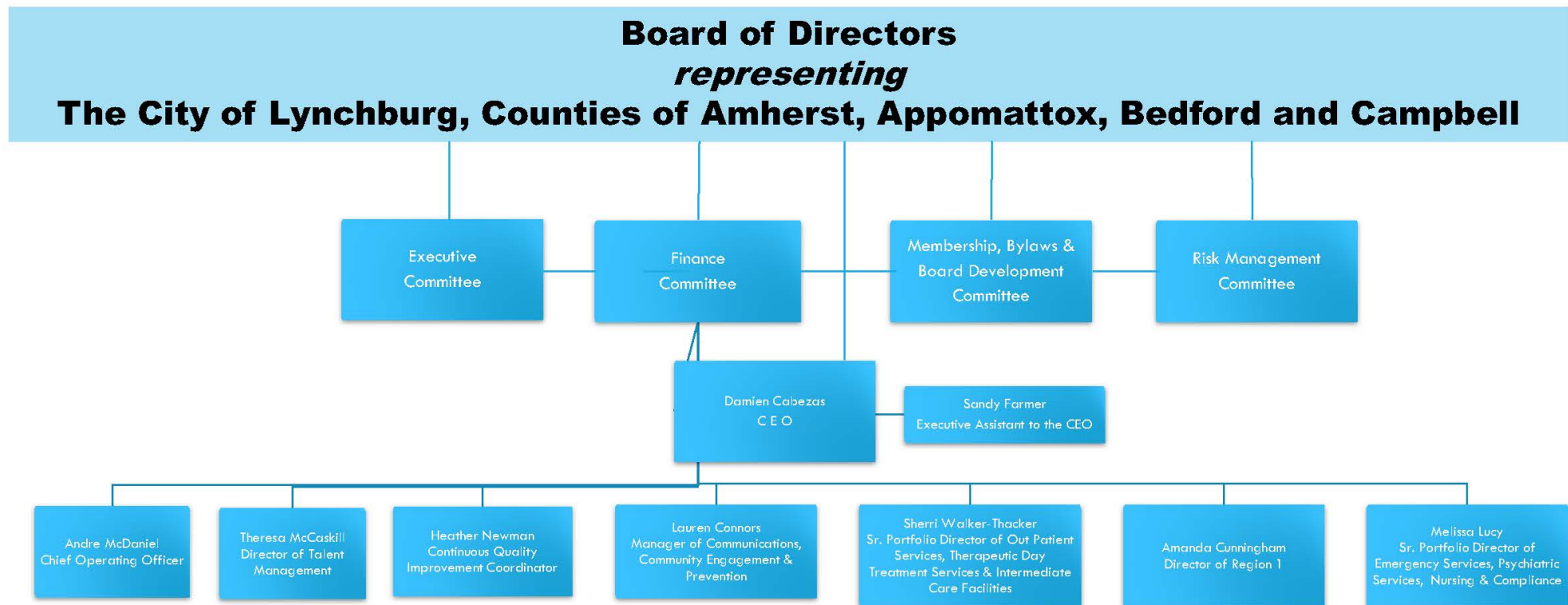
Theresa McCaskill ..... Director of Talent Management

Heather Newman ..... Continuous Quality Improvement Coordinator

Sherri Walker-Thacker ..... Sr. Portfolio Director of Out Patient Services

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





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## **FINANCIAL SECTION**

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**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, 2019, 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, 2019, 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.

## **Report on Summarized Comparative Information**

We have previously audited the Board's 2018 financial statements, on which, in our report dated November 28, 2018, we expressed an unmodified opinion. The 2018 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.

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.

**Other Matters (Continued)***Other Information (Continued)*

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 25, 2019 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 solely 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.

A handwritten signature in black ink that reads "Brown, Edwards & Company, L.L.P." in a cursive script.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia  
November 25, 2019

**Horizon Behavioral Health  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2019**

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, 2019.

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, 2019. 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, 2019. 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 2019 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 2019 (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, 2019 and 2018 is presented below:

| <b>Summary Statement of Net Position</b>  |                      |                      |
|---|----------------------|----------------------|
|   | 2019                 | 2018                 |
| Current assets                            | \$ 7,725,863         | \$ 7,372,292         |
| Capital assets                            | 13,287,558           | 13,059,648           |
| Other non-current assets                  | 11,690,608           | 9,948,903            |
| Total assets                              | <b>\$ 32,704,029</b> | <b>\$ 30,380,843</b> |
| Pension-related deferred outflows         | 430,120              | 728,846              |
| Postemployment benefits deferred outflows | 261,018              | 146,457              |
| Total deferred outflows of resources      | <b>\$ 691,138</b>    | <b>\$ 875,303</b>    |
| Current liabilities                       | 7,159,287            | 6,772,499            |
| Long term liabilities                     | 10,012,142           | 10,656,215           |
| Total liabilities                         | <b>\$ 17,171,429</b> | <b>\$ 17,428,714</b> |
| Pension-related deferred inflows          | 3,158,155            | 3,612,608            |
| Postemployment benefits deferred inflows  | 291,000              | 307,000              |
| Total deferred inflows of resources       | <b>\$ 3,449,155</b>  | <b>\$ 3,919,608</b>  |
| Net position                              |                      |                      |
| Net investment in capital assets          | 3,822,754            | 2,853,738            |
| Unrestricted                              | 8,951,829            | 7,054,086            |
| Total net position                        | <b>\$ 12,774,583</b> | <b>\$ 9,907,824</b>  |

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, 2019, and was 1.1 as of June 30, 2018. 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 2019 and 2018 is presented below:

| <b>Summary Statement of Revenues, Expenses and Changes in Fund Net Position</b> |                     |                     |
|---|---------------------|---------------------|
|   | 2019                | 2018                |
| Net client service revenue  | \$ 32,684,002       | \$ 37,377,065       |
| Operating expenses  | 44,443,011          | 48,421,629          |
| Operating loss  | (11,759,009)        | (11,044,564)        |
| Non-operating revenues - net  | 14,625,768          | 13,536,660          |
| Change in net position  | <b>\$ 2,866,758</b> | <b>\$ 2,492,096</b> |

Operating revenue is the amount of revenue received from providing client services. The vast majority of those revenues, approximately 87% in fiscal year 2019, were received from Medicaid (please see Note 12). During fiscal year 2019, operating revenue decreased by 13% due primarily to decreased revenue for school based services.



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 2019 and 2018. During fiscal year 2019, operating expenses decreased by 8%. The decrease during fiscal year 2019 was due primarily to lower staffing expenses, and 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.

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 2019 and 2018 of the net non-operating revenue. Appropriations from local governments constituted 7% for fiscal years 2019 and 2018. The remaining non-operating revenue consists of other income, interest income and expense. Net non-operating revenue for fiscal year 2019 was 8% higher than fiscal year 2018.

There was an increase in net position by \$2,866,759 in fiscal year 2019 and an increase of \$2,492,096 in fiscal year 2018.

**Cash flows:** A summary of Horizon's Statement of Cash Flows for 2019 and 2018 is presented below.

| <b>Condensed Statement of Cash Flows</b>                 |                     |                     |
|--|---------------------|---------------------|
|  | 2019                | 2018                |
| Cash flows to operating activities                       | \$(12,354,385)      | \$(12,567,604)      |
| Cash flows from non-capital related financing activities | 15,256,288          | 14,790,378          |
| Cash flows to capital related financing activities       | (2,686,661)         | (1,497,622)         |
| Cash flows from investing activities                     | 11,365              | 5,066               |
| Net cash increase (decrease)                             | 226,607             | 730,218             |
| Cash and cash equivalents, beginning of year             | 2,680,265           | 1,950,047           |
| Cash and cash equivalents, end of year                   | <b>\$ 2,906,872</b> | <b>\$ 2,680,265</b> |

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 2019 and 2018, principal payments on mortgages and loans payable (please see Notes 5, 6 and 7). Cash flows from investing activities are comprised of interest income.

There was a net increase in cash and cash equivalents of \$226,607 during fiscal year 2019 and a net increase of \$730,218 in fiscal year 2018.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

On June 30, 2019, Horizon had \$13,287,558 in Net Capital Assets. This is comprised of \$21,995,070 in capital assets less \$8,707,512 in accumulated depreciation (please see Note 5). Of the total capital assets, buildings and improvements constitute 72%, furniture and equipment constitutes 13%, vehicles constitute 5% and land and construction in progress constitutes 10%.

(Continued)

### **Long Term Debt**

Long term notes payable as of June 30, 2019 were \$8,395,498 (please see Note 7). This is a net decrease of \$634,215. Horizon's line of credit balance as of June 30, 2019 was \$338,588 which was \$600,235 lower than the balance as of June 30, 2018.

### **Financial Highlights**

Based on operating results achieved, Horizon's net position increased by \$2,866,759 during the fiscal year.

During the fiscal year ended June 30, 2019, Horizon had total expenses of \$44,880,435 compared with \$48,867,400 the previous year. These figures included interest expense on mortgages and capital leases of \$437,424 and \$445,771 in 2019 and 2018 respectively.

During the fiscal year ended June 30, 2019, Horizon had net client service revenues of \$32,684,002 compared with \$37,377,065 for the previous year. This represents a decrease of \$4,693,063 or 12.6% from fiscal year 2018.

During the fiscal year ended June 30, 2019, Horizon had net revenues from local, state and federal appropriations/grants of \$14,698,666 compared with \$13,513,620 in fiscal year 2018, an increase of \$1,185,046 or 8.8% from fiscal year 2018.

During the fiscal year ended June 30, 2019, Horizon had total revenues of \$47,747,194 including all sources as compared with \$51,359,496 the previous year, a decrease of \$3,612,302 or 7% decrease in total revenue.

During the year ended June 30, 2019, total expenses were \$4,156,808 lower than the aggregate of fee revenue, contract revenue, local, state and federal grant, and interest income. The previous year, expenses were \$2,492,096 lower than operating revenues.

Total expenses were \$5,852,425 lower than the budget for fiscal year ended June 30, 2019. Revenues were \$6,147,885 lower than budget. The net variance from budget was unfavorable by \$295,460.

### **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 Operating Officer, Horizon Behavioral Health, 2241 Langhorne Road, Lynchburg, Virginia 24501.

# **BASIC FINANCIAL STATEMENTS**

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# HORIZON BEHAVIORAL HEALTH

## STATEMENT OF NET POSITION

June 30, 2019

|   | <b>2019</b>       | <b>(For Comparative<br/>Purposes Only)<br/>2018</b> |
|---|-------------------|---|
| <b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>  |                   |   |
| <b>CURRENT ASSETS</b>   |                   |   |
| Cash and cash equivalents (Note 2)  | \$ 1,955,220      | \$ 1,449,725  |
| Accounts receivable, net (Note 3)   | 3,035,479         | 3,337,361   |
| Due from other governments (Note 4)   | 2,392,802         | 2,307,405   |
| Prepaid expenses and other  | 342,362           | 277,801   |
| Total current assets  | <u>7,725,863</u>  | <u>7,372,292</u>                                    |
| <b>NONCURRENT ASSETS</b>  |                   |   |
| Cash and cash equivalents, restricted for debt reserves, ICF, and regional funds (Note 2) | 951,652           | 1,230,540   |
| Net pension asset (Note 10)   | 10,738,956        | 8,718,363   |
| Capital assets, net (Note 5)  | 13,287,558        | 13,059,648  |
| Total noncurrent assets   | <u>24,978,166</u> | <u>23,008,551</u>                                   |
| Total assets  | <u>32,704,029</u> | <u>30,380,843</u>                                   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>   |                   |   |
| Deferred outflows related to pensions (Note 10)   | 430,120           | 728,846   |
| Deferred outflows related to other postemployment benefits (Note 11)                      | 261,018           | 146,457   |
| Total deferred outflows of resources  | <u>691,138</u>    | <u>875,303</u>                                      |
| <b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>                                      |                   |   |
| <b>CURRENT LIABILITIES</b>  |                   |   |
| Accounts payable  | 705,637           | 448,260   |
| Accrued payroll and related liabilities   | 1,202,260         | 700,363   |
| Accrued interest  | 26,028            | 39,761  |
| Due to other governments  | 210,024           | -   |
| Unearned revenue (Note 8)   | 1,911,209         | 1,711,627   |
| Regional funds – Community Development  | 500,000           | 500,000   |
| Line of credit (Note 6)   | 338,588           | 938,823   |
| Current portion of long-term liabilities (Note 7)   | 2,265,541         | 2,433,665   |
| Total current liabilities   | <u>7,159,287</u>  | <u>6,772,499</u>                                    |

(Continued)

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

# **HORIZON BEHAVIORAL HEALTH**

## **STATEMENT OF NET POSITION**

**June 30, 2019**

|  | <b>2019</b>   | <b>(For Comparative<br/>Purposes Only)<br/>2018</b> |
|--|---------------|---|
|  |               |   |
| <b>LIABILITIES AND DEFERRED INFLOWS OF<br/>RESOURCES (Continued)</b> |               |   |
| <b>LONG-TERM LIABILITIES</b>   |               |   |
| Net other postemployment benefit liability (Note 11)                 | \$ 2,226,000  | \$ 2,247,000  |
| Due in more than one year (Note 7)                                   | 7,786,142     | 8,409,215   |
|  |               |   |
| Total long-term liabilities  | 10,012,142    | 10,656,215  |
|  |               |   |
| Total liabilities  | 17,171,429    | 17,428,714  |
|  |               |   |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                 |               |   |
| Deferred inflows related to pensions (Note 10)                       | 3,158,155     | 3,612,608   |
| Deferred inflows related to other postemployment benefits (Note 11)  | 291,000       | 307,000   |
|  |               |   |
| Total deferred inflows of resources                                  | 3,449,155     | 3,919,608   |
|  |               |   |
| <b>COMMITMENTS AND CONTINGENCIES (Notes 9 and 14)</b>                | -             | -   |
|  |               |   |
| <b>NET POSITION</b>  |               |   |
| Net investment in capital assets                                     | 3,822,754     | 2,853,738   |
| Unrestricted   | 8,951,829     | 7,054,086   |
|  |               |   |
| Total net position   | \$ 12,774,583 | \$ 9,907,824  |

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, 2019

|  | <b>2019</b>   | <b>(For Comparative<br/>Purposes Only)<br/>2018</b> |
|--|---------------|---|
| <b>OPERATING REVENUES</b>                                    |               |   |
| Net client service revenue (Note 12)                         | \$ 32,684,002 | \$ 37,377,065                                       |
| <b>OPERATING EXPENSES</b>                                    |               |   |
| Salaries and benefits  | 32,310,071    | 36,627,384  |
| Staff development and recruitment                            | 303,317       | 288,722   |
| Facility   | 2,019,478     | 1,908,039   |
| Supplies   | 1,429,975     | 1,769,744   |
| Travel   | 243,348       | 233,695   |
| Contractual and professional services                        | 4,679,342     | 4,009,851   |
| Leases   | 1,218,374     | 1,350,636   |
| Insurance  | 435,543       | 442,350   |
| Depreciation and amortization                                | 768,265       | 829,425   |
| Other  | 1,035,298     | 961,783   |
| Total operating expenses                                     | 44,443,011    | 48,421,629  |
| Operating loss   | (11,759,009)  | (11,044,564)  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                      |               |   |
| Commonwealth of Virginia grants                              | 11,297,104    | 10,527,299  |
| Federal grants   | 2,369,677     | 2,088,565   |
| Contributions from participating local governments (Note 13) | 1,031,885     | 897,756   |
| Interest income  | 11,365        | 5,066   |
| Interest expense   | (437,424)     | (445,771)   |
| Other income   | 355,320       | 462,245   |
| Gain (loss) on sale of capital assets                        | (2,159)       | 1,500   |
| Net nonoperating revenues                                    | 14,625,768    | 13,536,660  |
| Change in net position                                       | 2,866,759     | 2,492,096   |
| NET POSITION AT JULY 1                                       | 9,907,824     | 7,415,728   |
| NET POSITION AT JUNE 30                                      | \$ 12,774,583 | \$ 9,907,824  |

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

# HORIZON BEHAVIORAL HEALTH

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

|  | <b>2019</b>         | <b>(For Comparative<br/>Purposes Only)<br/>2018</b> |
|--|---------------------|---|
| <b>OPERATING ACTIVITIES</b>                                      |                     |   |
| Receipts from clients, private insurers, Medicaid, and others    | \$ 33,110,511       | \$ 36,870,638                                       |
| Payments to suppliers  | (11,171,859)        | (11,326,354)  |
| Payments to and for employees                                    | (34,293,037)        | (38,110,462)  |
| Other receipts (expenses)  | -                   | (1,426)   |
|  | <u>(12,354,385)</u> | <u>(12,567,604)</u>                                 |
| <b>Net cash used in operating activities</b>                     |                     |   |
| <b>NON-CAPITAL FINANCING ACTIVITIES</b>                          |                     |   |
| Contributions from local, state, and federal governments         | 14,898,248          | 14,328,133  |
| Other receipts   | 358,040             | 462,245   |
|  | <u>15,256,288</u>   | <u>14,790,378</u>                                   |
| <b>Net cash provided by non-capital financing activities</b>     |                     |   |
| <b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>                  |                     |   |
| Acquisition and construction of capital assets                   | (1,001,054)         | (401,687)   |
| Proceeds from the sale of capital assets                         | -                   | 1,500   |
| Receipts from other notes receivables                            | -                   | (2,500)   |
| Proceeds from the issuance of debt                               | -                   | 314,901   |
| Net borrowings on line of credit                                 | (600,235)           | (399,500)   |
| Principal paid on debt   | (634,215)           | (541,436)   |
| Interest paid on debt  | (451,157)           | (468,900)   |
|  | <u>(2,686,661)</u>  | <u>(1,497,622)</u>                                  |
| <b>Net cash used in capital and related financing activities</b> |                     |   |
| <b>INVESTING ACTIVITIES</b>                                      |                     |   |
| Interest received  | 11,365              | 5,066   |
|  | <u>11,365</u>       | <u>5,066</u>  |
| <b>Net cash provided by investing activities</b>                 |                     |   |
| <b>Net increase in cash and cash equivalents</b>                 | 226,607             | 730,218   |
| <b>CASH AND CASH EQUIVALENTS</b>                                 |                     |   |
| Beginning at July 1  | 2,680,265           | 1,950,047   |
| Ending at June 30  | <u>\$ 2,906,872</u> | <u>\$ 2,680,265</u>                                 |

(Continued)

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

# HORIZON BEHAVIORAL HEALTH

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

|  | <b>2019</b>                   | <b>(For Comparative<br/>Purposes Only)<br/>2018</b> |
|--|-------------------------------|---|
| <b>RECONCILIATION TO STATEMENT OF NET POSITION</b>                                   |                               |   |
| Cash and cash equivalents  | \$ 1,955,220                  | \$ 1,449,725  |
| Cash and cash equivalents, restricted for debt reserves,<br>ICF, and regional funds  | <u>951,652</u>                | <u>1,230,540</u>                                    |
|  | <u><u>\$ 2,906,872</u></u>    | <u><u>\$ 2,680,265</u></u>                          |
| <b>RECONCILIATION OF OPERATING LOSS TO NET<br/>CASH USED IN OPERATING ACTIVITIES</b> |                               |   |
| Operating loss   | \$ (11,759,009)               | \$ (11,044,564)                                     |
| Adjustments to reconcile operating loss to<br>net cash used in operating activities: |                               |   |
| Depreciation and amortization  | 768,265                       | 829,425   |
| Pension expense net of employer contributions  | (2,176,320)                   | (1,542,251)   |
| Other postemployment benefit expense net of<br>employer contributions                | (151,561)                     | (128,269)   |
| Decrease (increase) in:  |                               |   |
| Accounts receivable, net   | 301,882                       | 352,554   |
| Due from other governments   | (85,397)                      | (648,253)   |
| Prepaid expenses and other   | (64,561)                      | 81,344  |
| Increase (decrease) in:  |                               |   |
| Accounts payable   | 257,377                       | (442,878)   |
| Accrued payroll and related liabilities  | 501,897                       | 360,730   |
| Compensated absences   | (156,982)                     | (173,288)   |
| Due to other governments   | 210,024                       | (210,728)   |
| Amounts held for clients, payable from restricted assets                             | <u>-</u>                      | <u>(1,426)</u>                                      |
| Net cash used in operating activities  | <u><u>\$ (12,354,385)</u></u> | <u><u>\$ (12,567,604)</u></u>                       |

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



**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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, 2019**

**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, 2019**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Restricted assets

The Board segregates funds held for debt service reserves, the construction of an intermediate care facility (ICF), and regional funds for community development.

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 other postemployment benefits (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 service 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, 2019**

**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, 91% of 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, 2019**

**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, 2019.

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   | \$ 1,125            |
| Deposits   | 2,660,890           |
| Money market mutual fund                                 | 244,857             |
|  | <u>\$ 2,906,872</u> |
| Statement of net position:                               |                     |
| Cash and cash equivalents                                | \$ 1,955,220        |
| Cash and cash equivalents, restricted for ICF            | 206,795             |
| Cash and cash equivalents, restricted for regional funds | 500,000             |
| Cash and cash equivalents, restricted for debt reserves  | 244,857             |
|  | <u>\$ 2,906,872</u> |

**Note 3. Accounts Receivable**

Accounts receivable consist of the following:

|   |                     |
|---|---------------------|
| Virginia Department of Medical Assistance Services (Medicaid) | \$ 1,972,252        |
| Direct client   | 2,041,356           |
| Third-party insurers and other                                | 448,471             |
|   | <u>4,462,079</u>    |
| Allowance for uncollectible accounts                          | <u>(1,426,600)</u>  |
|   | <u>\$ 3,035,479</u> |

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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  | \$ 2,132,686               |
| Other programs | <u>260,116</u>             |
|                | <u><u>\$ 2,392,802</u></u> |

**Note 5. Capital Assets**

Capital asset activity for the year was as follows:

|                                     | <u>Beginning<br/>Balance</u> | <u>Increases</u>         | <u>Decreases</u>           | <u>Ending<br/>Balance</u>   |
|-------------------------------------|------------------------------|--------------------------|----------------------------|-----------------------------|
| Capital assets, nondepreciable      |                              |                          |                            |                             |
| Land                                | \$ 1,267,178                 | \$ 76,700                | \$ -                       | \$ 1,343,878                |
| Construction in progress            | <u>412,482</u>               | <u>890,828</u>           | <u>(300,577)</u>           | <u>1,002,733</u>            |
| Capital assets,<br>nondepreciable   | <u>1,679,660</u>             | <u>967,528</u>           | <u>(300,577)</u>           | <u>2,346,611</u>            |
| Capital assets, depreciable         |                              |                          |                            |                             |
| Building and improvements           | 15,463,205                   | 269,338                  | (14,284)                   | 15,718,259                  |
| Furniture and equipment             | 2,795,327                    | 30,635                   | -                          | 2,825,962                   |
| Vehicles                            | <u>1,083,801</u>             | <u>76,518</u>            | <u>(56,081)</u>            | <u>1,104,238</u>            |
| Capital assets,<br>depreciable      | 19,342,333                   | 376,491                  | (70,365)                   | 19,648,459                  |
| Less accumulated depreciation       | <u>(7,962,345)</u>           | <u>(768,265)</u>         | <u>23,098</u>              | <u>(8,707,512)</u>          |
| Capital assets,<br>depreciable, net | <u>11,379,988</u>            | <u>(391,774)</u>         | <u>(47,267)</u>            | <u>10,940,947</u>           |
| Capital assets, net                 | <u><u>\$ 13,059,648</u></u>  | <u><u>\$ 575,754</u></u> | <u><u>\$ (347,844)</u></u> | <u><u>\$ 13,287,558</u></u> |

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 6. Line of Credit**

The Board has a \$1,500,000 revolving bank line of credit which bears interest at a variable rate (5.50% at June 30, 2019). The line has no specified maturity date and is payable on demand. The outstanding balance at June 30, 2019 was \$338,588. The line of credit is secured by real property.

**Note 7. Long-Term Liabilities**

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

|                         | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u>    | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|-------------------------|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Notes payable           | \$ 9,029,713                 | \$ -             | \$ (634,215)        | \$ 8,395,498              | \$ 609,356                     |
| Compensated<br>absences | <u>1,813,167</u>             | <u>-</u>         | <u>(156,982)</u>    | <u>1,656,185</u>          | <u>1,656,185</u>               |
|                         | <u>\$ 10,842,880</u>         | <u>\$ -</u>      | <u>\$ (791,197)</u> | <u>\$ 10,051,683</u>      | <u>\$ 2,265,541</u>            |

Annual debt service requirements are as follows:

| <u>Fiscal Year</u> | <u>Principal</u>    | <u>Interest</u>     |
|--------------------|---------------------|---------------------|
| 2020               | \$ 609,356          | \$ 363,981          |
| 2021               | 637,551             | 334,123             |
| 2022               | 627,884             | 298,283             |
| 2023               | 714,017             | 263,716             |
| 2024               | 442,311             | 239,487             |
| 2025-2029          | 2,493,447           | 862,278             |
| 2030-2034          | 1,924,156           | 380,844             |
| 2035-2038          | <u>946,776</u>      | <u>42,822</u>       |
|                    | <u>\$ 8,395,498</u> | <u>\$ 2,785,534</u> |

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 7. Long-Term Liabilities (Continued)**

Details of notes payable are as follows:

|  | <u>Interest<br/>Rates</u> | <u>Date<br/>Issued</u> | <u>Final<br/>Maturity<br/>Date</u> | <u>Amount of<br/>Original<br/>Issue</u> | <u>Balance<br/>Due</u> |
|--|---------------------------|------------------------|------------------------------------|---|------------------------|
| VML/VACo                               | 6.50%                     | Feb. 2008              | Aug. 2028                          | \$ 2,145,000                            | \$ 1,370,000           |
| E.H.R Loan payable                     | 5.20                      | June 2017              | June 2022                          | 757,965                                 | 509,184                |
| Mortgage payable                       | 5.35                      | June 2018              | June 2038                          | 280,000                                 | 271,967                |
| Powell-Pearson ICF<br>mortgage payable | 5.00                      | Sept. 2017             | Sept. 2022                         | 386,347                                 | 353,630                |
| Vehicle Notes payable                  | 4.59                      | June 2018              | June 2024                          | 30,400                                  | 25,884                 |
| Timothy House Mortgage                 | 3.25                      | Mar. 2013              | Mar. 2028                          | 172,800                                 | 114,327                |
| Bethany House Mortgage                 | 3.25                      | Mar. 2013              | Mar. 2028                          | 168,000                                 | 113,636                |
| Langhorne Mortgage                     | <sup>(1)</sup> 3.89       | July 2016              | July 2036                          | 6,100,000                               | 5,479,561              |
| Mortgage                               | 3.89                      | July 2016              | July 2021                          | 357,000                                 | 157,309                |
|  |                           |                        |                                    |   | <u>\$ 8,395,498</u>    |

(1) The rate of 3.89% at June 2019 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   | \$ 1,765,017        |
| Local grants   | 1,737               |
| Federal grants | <u>144,455</u>      |
|                | <u>\$ 1,911,209</u> |

(Continued)



**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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:

| <u>Fiscal Year</u> |                     |
|--------------------|---------------------|
| 2020               | \$ 662,785          |
| 2021               | 558,545             |
| 2022               | 473,037             |
| 2023               | 436,065             |
| 2024               | 419,699             |
| 2025-2029          | 1,755,018           |
| 2030               | <u>260,048</u>      |
|                    | <u>\$ 4,565,197</u> |

Rental expense for 2019 totaled \$1,326,189, excluding \$696,990 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 available at

- <https://www.varetire.org/members/benefits/defined-benefit/plan1.asp>,
- <https://www.varetire.org/members/benefits/defined-benefit/plan2.asp>,
- <https://www.varetirement.org/hybrid.html>.

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 10. Defined Benefit Pension Plan**

**Employees Covered by Benefit Terms**

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

|  | <b><u>Number</u></b> |
|--|----------------------|
| Inactive members or their beneficiaries currently receiving benefits | 163                  |
| Inactive members:  |                      |
| Vested inactive members  | 182                  |
| Non-vested inactive members  | 397                  |
| Inactive members active elsewhere in VRS                             | 172                  |
| Total inactive members   | 751                  |
| Active members   | 670                  |
| Total covered employees  | 1,584                |

**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.

The political subdivision's contractually required contribution rate for the year ended June 30, 2019 was 2.23% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 \$430,120 and \$728,846 for the years ended June 30, 2019 and June 30, 2018, respectively.

**Net Pension Liability**

The net pension liability is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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, 2017, 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, 2018.

|  |   |
|--|---|
| 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 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

Mortality rates: 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, 2017 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, 2019**

**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 %                            |   | 4.80 %  |
|                               | Inflation                           |   | 2.50 %  |
|                               | *Expected arithmetic nominal return |   | 7.30 %  |

- \* 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 2.50%.

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in the fiscal year 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015, actuarial valuations, whichever is greater. From July 1, 2018 on, participating employers are assumed to continue 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**

|  | <b>Increase (Decrease)</b>                     |  |  |
|--|--|--|--|
|  | <b>Total<br/>Pension<br/>Liability<br/>(a)</b> | <b>Plan<br/>Fiduciary<br/>Net Position<br/>(b)</b> | <b>Net Pension<br/>Liability<br/>(Asset)<br/>(a) – (b)</b> |
| Balances at June 30, 2017  | \$ 46,758,478                                  | \$ 55,476,841                                      | \$ (8,718,363)   |
| Changes for the year:  |  |  |  |
| Service cost   | 2,316,788                                      | -  | 2,316,788  |
| Interest   | 3,209,593                                      | -  | 3,209,593  |
| Benefit changes  | -  | -  | -  |
| Differences between expected<br>and actual experience            | (1,462,637)                                    | -  | (1,462,637)  |
| Assumption changes   | -  | -  | -  |
| Contributions – employer   | -  | 728,595  | (728,595)  |
| Contributions – employee   | -  | 1,277,533  | (1,277,533)  |
| Net investment income  | -  | 4,116,573  | (4,116,573)  |
| Benefit payments, including refunds<br>of employee contributions | (1,814,310)                                    | (1,814,310)  | -  |
| Refunds of employee contributions                                | -  | -  | -  |
| Administrative expenses  | -  | (34,656)   | 34,656   |
| Other changes  | -  | (3,708)  | 3,708  |
| Net changes  | 2,249,434                                      | 4,270,027  | (2,020,593)  |
| Balances at June 30, 2018  | \$ 49,007,912                                  | \$ 59,746,868                                      | \$ (10,738,956)  |

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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:

|   | <b>1.00%<br/>Decrease<br/>(6.00%)</b> | <b>Current<br/>Discount<br/>Rate (7.00%)</b> | <b>1.00%<br/>Increase<br/>(8.00%)</b> |
|---|---------------------------------------|--|---------------------------------------|
| Political subdivision's net pension liability | \$ (2,988,017)                        | \$ (10,738,956)                              | \$ (16,975,147)                       |

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

For the year ended June 30, 2019, the political subdivision recognized pension expense (benefit) of \$(1,746,451). At June 30, 2019, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|--|---|--|
| Differences between expected and actual experience                               | \$ -  | \$ 2,164,697                                 |
| Change in assumptions  | -   | 459,672                                      |
| Net difference between projected and actual earnings on pension plan investments | -   | 533,786                                      |
| Employer contributions subsequent to the measurement date                        | 430,120                                       | -  |
| Total  | <u>\$ 430,120</u>                             | <u>\$ 3,158,155</u>                          |

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 10. Defined Benefit Pension Plan (Continued)**

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

The \$430,120 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <b>Year Ending<br/>June 30,</b> | <b>Reduction<br/>to Pension<br/>Expense</b> |
|---------------------------------|---|
| 2020                            | \$ (1,367,683)                              |
| 2021                            | (1,013,743)                                 |
| 2022                            | (731,166)                                   |
| 2023                            | (45,563)                                    |
| 2024                            | -   |
| Thereafter                      | -   |

**Pension Plan Data**

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-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, 2019, approximately \$112,460 was payable to the Virginia Retirement System for the legally required contributions related to June 2019 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, 2019**

**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>

**Contributions**

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2017. 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, 2019 Contribution | \$152,018   |
| June 30, 2018 Contribution | \$146,457   |

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

The net OPEB liabilities were measured as of June 30, 2018 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 were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers.

(Continued)



**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**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

|  |              |
|--|--------------|
| June 30, 2019 proportionate share of liability | \$ 2,226,000 |
| June 30, 2018 proportion                       | 0.14659%     |
| June 30, 2017 proportion                       | 0.14929%     |
| June 30, 2019 expense                          | \$ (1,000)   |

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, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

|  | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|--|---|--|
| Differences between expected and actual experience                               | \$ 109,000                                    | \$ 40,000                                    |
| Change in assumptions  | -   | 93,000                                       |
| Net difference between projected and actual earnings<br>on OPEB plan investments | -   | 72,000                                       |
| Changes in proportion  | -   | 86,000                                       |
| Employer contributions subsequent to the<br>measurement date                     | 152,018                                       | -  |
| Total  | <u>\$ 261,018</u>                             | <u>\$ 291,000</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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Group Life Insurance Program

| <b>Year Ending<br/>June 30,</b> | <b>Increase<br/>(Reduction)<br/>to OPEB<br/>Expense</b> |
|---------------------------------|---|
| 2020                            | \$ (50,000)   |
| 2021                            | (50,000)  |
| 2022                            | (50,000)  |
| 2023                            | (29,000)  |
| 2024                            | (7,000)   |
| Thereafter                      | 4,000   |

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

**Actuarial Assumptions and Other Inputs**

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2017, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018:

|  |              |
|--|--------------|
| Inflation  | 2.50%        |
| Salary increases, including inflation:                           |              |
| • Locality – general employees                                   | 3.5 – 5.35%  |
| • Locality – hazardous duty employees                            | 3.5 – 4.75%  |
| • Teachers   | 3.5 – 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%   |

- \* 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 percent above. However, since the difference was minimal, and a more conservative 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 the percent noted above to simplify preparation of OPEB liabilities.

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.

**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, 2018, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

|   | <b>Group Life<br/>Insurance<br/>Program</b> |
|---|---|
| Total OPEB Liability  | \$ 3,113,508                                |
| Plan fiduciary net position   | 1,594,773                                   |
| Employers' net OPEB liability (asset)                               | 1,518,735                                   |
| Plan fiduciary net position as a percentage of total OPEB liability | 51.22%                                      |

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

**Net OPEB Liabilities (Continued)**

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 and Health Insurance Credit Programs**

The long-term expected rate of return on VRS 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 OPEB 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 %                 |   | 4.80 %  |
| Inflation                           |                          |   | 2.50 %  |
| *Expected arithmetic nominal return |                          |   | 7.30 %  |

- \* 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 2.50%.

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

**Discount Rate**

The discount rate used to measure the GLI and HIC OPEB liabilities was 7.00%. The discount rate used to measure the LODA OPEB liability was 3.89%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' 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 OPEB liability.

**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:

|                        | <b>1.00%<br/>Decrease<br/>(6.00%)</b> | <b>Current<br/>Discount Rate<br/>(7.00%)</b> | <b>1.00%<br/>Increase<br/>(8.00%)</b> |
|------------------------|---------------------------------------|--|---------------------------------------|
| GLI Net OPEB liability | \$ 2,909,000                          | \$ 2,226,000                                 | \$ 1,671,000                          |

**OPEB Plan Fiduciary Net Position**

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-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, 2019, the following amounts were payable to the Virginia Retirement System for the legally required contributions related to June 2019 payroll.

- Group Life Insurance – \$29,567

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 12. Net Client Service Revenue**

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

|                       |                      |
|-----------------------|----------------------|
| Medicaid              | \$ 28,532,613        |
| Direct client fees    | 697,753              |
| Third-party and other | <u>3,453,636</u>     |
|                       | <u>\$ 32,684,002</u> |

**Note 13. Contributions from Participating Local Governments**

Contributions from participating local governments were as follows:

|                      |                     |
|----------------------|---------------------|
| County of Amherst    | \$ 136,500          |
| County of Appomattox | 41,000              |
| County of Bedford    | 116,000             |
| County of Campbell   | 182,485             |
| City of Lynchburg    | <u>555,900</u>      |
|                      | <u>\$ 1,031,885</u> |

**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, 2019.

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, 2019.

**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.

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 16. New Accounting Standards**

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

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. 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 that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 16. New Accounting Standards (Continued)**

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.

The GASB issued **Statement No. 91, *Conduit Debt Obligations*** in May 2019. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

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

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**REQUIRED  
SUPPLEMENTARY INFORMATION**

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# HORIZON BEHAVIORAL HEALTH

## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS June 30, 2019

|  | Plan Year Ended June 30, |                       |                       |                       |                       |
|--|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 2018                     | 2017                  | 2016                  | 2015                  | 2014                  |
| <b>Total Pension Liability</b>   |                          |                       |                       |                       |                       |
| Service cost   | \$ 2,316,788             | \$ 2,478,052          | \$ 2,505,241          | \$ 2,504,039          | \$ 2,370,183          |
| Interest on total pension liability                                    | 3,209,593                | 3,118,283             | 2,944,753             | 2,717,081             | 2,469,215             |
| Changes in assumptions   | -                        | (1,037,874)           | -                     | -                     | -                     |
| Difference between expected and actual experience                      | (1,462,637)              | (1,543,952)           | (1,455,756)           | (565,689)             | -                     |
| Benefit payments, including refunds of employee contributions          | (1,814,310)              | (1,605,870)           | (1,424,585)           | (1,381,362)           | (1,215,558)           |
| Net change in total pension liability                                  | 2,249,434                | 1,408,639             | 2,569,653             | 3,274,069             | 3,623,840             |
| <b>Total pension liability – beginning</b>                             | <b>46,758,478</b>        | <b>45,349,839</b>     | <b>42,780,186</b>     | <b>39,506,117</b>     | <b>35,882,277</b>     |
| <b>Total pension liability – ending</b>                                | <b>49,007,912</b>        | <b>46,758,478</b>     | <b>45,349,839</b>     | <b>42,780,186</b>     | <b>39,506,117</b>     |
| <b>Plan Fiduciary Net Position</b>                                     |                          |                       |                       |                       |                       |
| Contributions – employer   | 728,595                  | 752,156               | 1,177,237             | 1,166,912             | 1,166,497             |
| Contributions – employee   | 1,277,533                | 1,278,865             | 1,336,204             | 1,286,158             | 1,265,264             |
| Net investment income  | 4,116,573                | 6,034,147             | 867,280               | 2,054,083             | 5,924,501             |
| Benefit payments, including refunds of employee contributions          | (1,814,310)              | (1,605,870)           | (1,424,585)           | (1,381,362)           | (1,215,558)           |
| Administrative expenses  | (34,656)                 | (33,714)              | (28,351)              | (26,630)              | (30,598)              |
| Other  | (3,708)                  | (5,422)               | (358)                 | (438)                 | 312                   |
| Net change in plan fiduciary net position                              | 4,270,027                | 6,420,162             | 1,927,427             | 3,098,723             | 7,110,418             |
| <b>Plan fiduciary net position – beginning</b>                         | <b>55,476,841</b>        | <b>49,056,679</b>     | <b>47,129,252</b>     | <b>44,030,529</b>     | <b>36,920,111</b>     |
| <b>Plan fiduciary net position – ending</b>                            | <b>59,746,868</b>        | <b>55,476,841</b>     | <b>49,056,679</b>     | <b>47,129,252</b>     | <b>44,030,529</b>     |
| <b>Net pension asset – ending</b>                                      | <b>\$ (10,738,956)</b>   | <b>\$ (8,718,363)</b> | <b>\$ (3,706,840)</b> | <b>\$ (4,349,066)</b> | <b>\$ (4,524,412)</b> |
| Plan fiduciary net position as a percentage of total pension liability | 122%                     | 119%                  | 108%                  | 110%                  | 111%                  |
| Covered employee payroll   | \$ 27,722,455            | \$ 27,374,716         | \$ 27,409,338         | \$ 26,463,462         | \$ 26,048,966         |
| Net pension liability as a percentage of covered employee payroll      | -39%                     | -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, 2019**

| <b>Year Ended<br/>June 30,</b> | <b>Actuarially<br/>Determined<br/>Contribution</b> | <b>Contributions<br/>in Relation to<br/>Actuarially<br/>Determined<br/>Contribution</b> | <b>Contribution<br/>Deficiency<br/>(Excess)</b> | <b>Covered<br/>Employee<br/>Payroll</b> | <b>Contributions<br/>as a Percentage<br/>of Covered<br/>Payroll</b> |
|--------------------------------|--|---|---|---|---|
| 2019                           | \$ 430,120   | \$ 430,120  | \$ -  | \$ 25,251,856                           | 1.70 %  |
| 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, 2019

| <b>Entity Fiscal<br/>Year Ended<br/>June 30,</b>                             | <b>Employer's<br/>Proportion of<br/>the Net OPEB<br/>Liability (Asset)</b> | <b>Employer's<br/>Share of the<br/>Net OPEB<br/>Liability<br/>(Asset)</b> | <b>Employer's<br/>Covered<br/>Payroll</b> | <b>Employer's<br/>Proportionate<br/>Share of the Net<br/>OPEB Liability<br/>(Asset) as a<br/>Percentage of<br/>its Covered<br/>Payroll</b> | <b>Plan Fiduciary<br/>Net Position as<br/>a Percentage of<br/>the Total OPEB<br/>Liability</b> |
|--|--|---|---|--|--|
| <b>Virginia Retirement System – Group Life Insurance – General Employees</b> |  |   |   |  |  |
| 2019   | 14.66 %  | \$ 2,226,000  | \$ 27,722,455                             | 8.03 %   | 51.22 %  |
| 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, 2019

| <b>Entity Fiscal<br/>Year Ended<br/>June 30,</b>                             | <b>Contractually<br/>Required<br/>Contribution</b> | <b>Contributions<br/>in Relation to<br/>Contractually<br/>Required<br/>Contribution</b> | <b>Contribution<br/>Deficiency<br/>(Excess)</b> | <b>Employer's<br/>Covered<br/>Payroll</b> | <b>Contributions<br/>as a Percentage<br/>of Covered<br/>Payroll</b> |
|--|--|---|---|---|---|
| <b>Virginia Retirement System – Group Life Insurance – General Employees</b> |  |   |   |   |   |
| 2019   | \$ 152,018   | \$ 152,018  | \$ -  | \$ 25,251,856                             | 0.60 %  |
| 2018   | 146,457  | 146,457   | -   | 27,722,455                                | 0.53  |

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.

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, 2019**

#### **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.

##### 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 ended 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, 2019**

#### **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
- Applicable to: Pension, GLI OPEB, and HIC 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 disability rates
- Applicable to: Pension, GLI OPEB, and LODA OPEB

Teacher cost-sharing pool

- Update mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

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# **OTHER SUPPLEMENTARY INFORMATION**

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# HORIZON BEHAVIORAL HEALTH

## COMBINING STATEMENT OF NET POSITION

June 30, 2019

|   | Horizon<br>Behavioral<br>Health | Horizon<br>Opportunities<br>Inc. | Inter-<br>Company<br>Eliminations | Total        |
|---|---------------------------------|----------------------------------|-----------------------------------|--------------|
| <b>ASSETS AND DEFERRED</b>  |                                 |                                  |                                   |              |
| <b>OUTFLOWS OF RESOURCES</b>  |                                 |                                  |                                   |              |
| <b>CURRENT ASSETS</b>   |                                 |                                  |                                   |              |
| Cash and cash equivalents   | \$ 1,806,444                    | \$ 148,776                       | \$ -                              | \$ 1,955,220 |
| Accounts receivable, net  | 3,035,479                       | -                                | -                                 | 3,035,479    |
| Due from other governments  | 2,392,802                       | -                                | -                                 | 2,392,802    |
| Prepaid expenses and other  | 1,411,668                       | 2,500                            | (1,071,806)                       | 342,362      |
| Total current assets  | 8,646,393                       | 151,276                          | (1,071,806)                       | 7,725,863    |
| <b>NONCURRENT ASSETS</b>  |                                 |                                  |                                   |              |
| Cash and cash equivalents, restricted for<br>debt reserves, ICF, and regional funds | 951,652                         | -                                | -                                 | 951,652      |
| Net pension asset   | 10,738,956                      | -                                | -                                 | 10,738,956   |
| Capital assets, net   | 5,315,109                       | 7,972,449                        | -                                 | 13,287,558   |
| Total noncurrent assets   | 17,005,717                      | 7,972,449                        | -                                 | 24,978,166   |
| Total assets  | 25,652,110                      | 8,123,725                        | (1,071,806)                       | 32,704,029   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>   |                                 |                                  |                                   |              |
| Deferred outflows related to pensions   | 430,120                         | -                                | -                                 | 430,120      |
| Deferred outflows related to other<br>postemployment benefits                       | 261,018                         | -                                | -                                 | 261,018      |
| Total deferred outflows of resources  | 691,138                         | -                                | -                                 | 691,138      |
| <b>LIABILITIES AND DEFERRED</b>   |                                 |                                  |                                   |              |
| <b>INFLOWS OF RESOURCES</b>   |                                 |                                  |                                   |              |
| <b>CURRENT LIABILITIES</b>  |                                 |                                  |                                   |              |
| Accounts payable  | 708,137                         | -                                | (2,500)                           | 705,637      |
| Accrued payroll and related liabilities   | 1,202,260                       | -                                | -                                 | 1,202,260    |
| Accrued interest  | 26,028                          | -                                | -                                 | 26,028       |
| Due to other governments  | 210,024                         | -                                | -                                 | 210,024      |
| Unearned revenue  | 1,911,209                       | -                                | -                                 | 1,911,209    |
| Regional funds - Community Development  | 500,000                         | -                                | -                                 | 500,000      |
| Line of credit  | 338,588                         | -                                | -                                 | 338,588      |
| Current portion of long-term liabilities  | 1,986,465                       | 820,665                          | (541,589)                         | 2,265,541    |
| Total current liabilities   | 6,882,711                       | 820,665                          | (544,089)                         | 7,159,287    |
| <b>LONG-TERM LIABILITIES</b>  |                                 |                                  |                                   |              |
| Net other postemployment benefit liability  | 2,226,000                       | -                                | -                                 | 2,226,000    |
| Due in more than one year   | 1,732,097                       | 6,581,762                        | (527,717)                         | 7,786,142    |
| Total long-term liabilities   | 3,958,097                       | 6,581,762                        | (527,717)                         | 10,012,142   |
| Total liabilities   | 10,840,808                      | 7,402,427                        | (1,071,806)                       | 17,171,429   |

(Continued)

# HORIZON BEHAVIORAL HEALTH

## COMBINING STATEMENT OF NET POSITION

June 30, 2019

|  | <u>Horizon<br/>Behavioral<br/>Health</u> | <u>Horizon<br/>Opportunities<br/>Inc.</u> | <u>Inter-<br/>Company<br/>Eliminations</u> | <u>Total</u>         |
|--|--|---|--|----------------------|
| <b>LIABILITIES AND DEFERRED</b>                              |  |   |  |                      |
| <b>INFLOWS OF RESOURCES (Continued)</b>                      |  |   |  |                      |
| DEFERRED INFLOWS OF RESOURCES                                |  |   |  |                      |
| Deferred inflows related to pensions                         | \$ 3,158,155                             | \$ -                                      | \$ -                                       | \$ 3,158,155         |
| Deferred inflows related to other<br>postemployment benefits | <u>291,000</u>                           | <u>-</u>                                  | <u>-</u>                                   | <u>291,000</u>       |
| Total deferred inflows of resources                          | <u>3,449,155</u>                         | <u>-</u>                                  | <u>-</u>                                   | <u>3,449,155</u>     |
| <b>NET POSITION</b>  |  |   |  |                      |
| Net investment in capital assets                             | 3,252,732                                | 570,022                                   | -  | 3,822,754            |
| Unrestricted   | <u>8,800,553</u>                         | <u>151,276</u>                            | <u>-</u>                                   | <u>8,951,829</u>     |
| Total net position   | <u>\$ 12,053,285</u>                     | <u>\$ 721,298</u>                         | <u>\$ -</u>                                | <u>\$ 12,774,583</u> |

# HORIZON BEHAVIORAL HEALTH

## COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION Year Ended June 30, 2019

|   | <u>Horizon<br/>Behavioral<br/>Health</u> | <u>Horizon<br/>Opportunities<br/>Inc.</u> | <u>Inter-<br/>Company<br/>Eliminations</u> | <u>Total</u>         |
|---|--|---|--|----------------------|
| OPERATING REVENUES                                    |  |   |  |                      |
| Net client service revenue                            | \$ 32,684,002                            | \$ -                                      | \$ -                                       | \$ 32,684,002        |
| OPERATING EXPENSES                                    |  |   |  |                      |
| Salaries and benefits                                 | 32,310,071                               | -   | -  | 32,310,071           |
| Staff development and recruitment                     | 303,317                                  | -   | -  | 303,317              |
| Facility  | 2,014,493                                | 4,985                                     |  | 2,019,478            |
| Supplies  | 1,429,896                                | 79  | -  | 1,429,975            |
| Travel  | 243,348                                  | -   | -  | 243,348              |
| Contractual and professional services                 | 4,632,038                                | 47,304                                    | -  | 4,679,342            |
| Leases  | 1,915,364                                | -   | (696,990)                                  | 1,218,374            |
| Insurance   | 435,543                                  | -   | -  | 435,543              |
| Depreciation and amortization                         | 398,708                                  | 369,557                                   | -  | 768,265              |
| Other   | 941,386                                  | 93,912                                    |  | 1,035,298            |
| Total operating expenses                              | 44,624,164                               | 515,837                                   | (696,990)                                  | 44,443,011           |
| Operating loss  | (11,940,162)                             | (515,837)                                 | 696,990                                    | (11,759,009)         |
| NONOPERATING REVENUES (EXPENSES)                      |  |   |  |                      |
| Commonwealth of Virginia grants                       | 11,297,104                               | -   | -  | 11,297,104           |
| Federal grants  | 2,369,677                                | -   | -  | 2,369,677            |
| Contributions from participating<br>local governments | 1,031,885                                | -   | -  | 1,031,885            |
| Interest income                                       | 47,009                                   | -   | (35,644)                                   | 11,365               |
| Interest expense                                      | (174,793)                                | (298,275)                                 | 35,644                                     | (437,424)            |
| Other income  | 254,353                                  | 797,957                                   | (696,990)                                  | 355,320              |
| Loss on sale of capital assets                        | (2,159)                                  | -   | -  | (2,159)              |
| Net nonoperating revenues                             | 14,823,076                               | 499,682                                   | (696,990)                                  | 14,625,768           |
| Change in net position                                | 2,882,914                                | (16,155)                                  | -  | 2,866,759            |
| NET POSITION, at July 1                               | 9,170,371                                | 737,453                                   | -  | 9,907,824            |
| NET POSITION, at June 30                              | <u>\$ 12,053,285</u>                     | <u>\$ 721,298</u>                         | <u>\$ -</u>                                | <u>\$ 12,774,583</u> |

# HORIZON BEHAVIORAL HEALTH

## COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

|  | Horizon<br>Behavioral<br>Health | Horizon<br>Opportunities<br>Inc. | Inter-<br>Company<br>Eliminations | Total         |
|--|---------------------------------|----------------------------------|-----------------------------------|---------------|
| <b>OPERATING ACTIVITIES</b>                                      |                                 |                                  |                                   |               |
| Receipts from clients, private insurers,<br>Medicaid, and others | \$ 33,110,511                   | \$ -                             | \$ -                              | \$ 33,110,511 |
| Payments to suppliers  | (11,722,569)                    | (146,280)                        | 696,990                           | (11,171,859)  |
| Payments to and for employees                                    | (34,293,037)                    | -                                | -                                 | (34,293,037)  |
| Net cash used in operating activities                            | (12,905,095)                    | (146,280)                        | 696,990                           | (12,354,385)  |
| <b>NON-CAPITAL FINANCING ACTIVITIES</b>                          |                                 |                                  |                                   |               |
| Contributions from local, state, and<br>federal governments      | 14,898,248                      | -                                | -                                 | 14,898,248    |
| Other receipts   | 252,194                         | 802,836                          | (696,990)                         | 358,040       |
| Net cash provided by non-capital<br>financing activities         | 15,150,442                      | 802,836                          | (696,990)                         | 15,256,288    |
| <b>CAPITAL AND RELATED FINANCING<br/>ACTIVITIES</b>              |                                 |                                  |                                   |               |
| Acquisition and construction of capital assets                   | (1,001,054)                     | -                                | -                                 | (1,001,054)   |
| Receipts from other notes receivable                             | 81,891                          | 25,000                           | (106,891)                         | -             |
| Net borrowings on line of credit                                 | (600,235)                       | -                                | -                                 | (600,235)     |
| Principal paid on debt   | (392,537)                       | (348,569)                        | 106,891                           | (634,215)     |
| Interest paid on debt  | (188,526)                       | (298,275)                        | 35,644                            | (451,157)     |
| Net cash used in capital and related<br>financing activities     | (2,100,461)                     | (621,844)                        | 35,644                            | (2,686,661)   |
| <b>INVESTING ACTIVITIES</b>                                      |                                 |                                  |                                   |               |
| Interest received  | 47,009                          | -                                | (35,644)                          | 11,365        |
| Net cash provided by investing<br>activities                     | 47,009                          | -                                | (35,644)                          | 11,365        |
| Net increase in cash and<br>cash equivalents                     | 191,895                         | 34,712                           | -                                 | 226,607       |
| <b>CASH AND CASH EQUIVALENTS</b>                                 |                                 |                                  |                                   |               |
| Beginning at July 1  | 2,566,201                       | 114,064                          | -                                 | 2,680,265     |
| Ending at June 30  | \$ 2,758,096                    | \$ 148,776                       | \$ -                              | \$ 2,906,872  |

(Continued)

**HORIZON BEHAVIORAL HEALTH**

**COMBINING STATEMENT OF CASH FLOWS**

**Year Ended June 30, 2019**

|  | <u>Horizon<br/>Behavioral<br/>Health</u> | <u>Horizon<br/>Opportunities<br/>Inc.</u> | <u>Inter-<br/>Company<br/>Eliminations</u> | <u>Total</u>                  |
|--|--|---|--|-------------------------------|
| <b>RECONCILIATION TO STATEMENT OF<br/>NET POSITION</b>                               |  |   |  |                               |
| Cash and cash equivalents  | \$ 1,806,444                             | \$ 148,776                                | \$ -                                       | \$ 1,955,220                  |
| Cash and cash equivalents, restricted for<br>debt reserves, ICF, and regional funds  | <u>951,652</u>                           | <u>-</u>                                  | <u>-</u>                                   | <u>951,652</u>                |
|  | <u><u>\$ 2,758,096</u></u>               | <u><u>\$ 148,776</u></u>                  | <u><u>\$ -</u></u>                         | <u><u>\$ 2,906,872</u></u>    |
| <b>RECONCILIATION OF OPERATING LOSS TO NET<br/>CASH USED IN OPERATING ACTIVITIES</b> |  |   |  |                               |
| Operating loss   | \$ (11,940,162)                          | \$ (515,837)                              | \$ 696,990                                 | \$ (11,759,009)               |
| Adjustments to reconcile operating loss to<br>net cash used in operating activities: |  |   |  |                               |
| Depreciation and amortization  | 398,708                                  | 369,557                                   |  | 768,265                       |
| Pension expense net of employer<br>contributions                                     | (2,176,320)                              | -   | -  | (2,176,320)                   |
| Other postemployment benefit expense net of<br>employer contributions                | (151,561)                                | -   | -  | (151,561)                     |
| Decrease (increase) in:  |  |   |  |                               |
| Accounts receivable, net   | 301,882                                  | -   |  | 301,882                       |
| Due from other governments   | (85,397)                                 | -   | -  | (85,397)                      |
| Prepaid expenses and other   | (64,561)                                 | -   | -  | (64,561)                      |
| Increase (decrease) in:  |  |   |  |                               |
| Accounts payable   | 257,377                                  | -   | -  | 257,377                       |
| Accrued payroll and related liabilities  | 501,897                                  | -   | -  | 501,897                       |
| Compensated absences   | (156,982)                                | -   | -  | (156,982)                     |
| Due to other governments   | <u>210,024</u>                           | <u>-</u>                                  | <u>-</u>                                   | <u>210,024</u>                |
| Net cash used in operating activities  | <u><u>\$ (12,905,095)</u></u>            | <u><u>\$ (146,280)</u></u>                | <u><u>\$ 696,990</u></u>                   | <u><u>\$ (12,354,385)</u></u> |

## **COMPLIANCE SECTION**

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**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, 2019, 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 25, 2019.

**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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Item 2019-001.**

## 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 25, 2019



**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, 2019. 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, 2019.

### 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 25, 2019

# HORIZON BEHAVIORAL HEALTH

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2019

| <u>Federal Granting Agency/ Recipient State Agency/<br/>Grant Program/Grant Number</u> | <u>Award<br/>Date</u> | <u>Federal<br/>Catalog<br/>Number</u> | <u>Pass-Through<br/>Entity<br/>Identifying<br/>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   | \$ 698,559          |
| Pass-Through Payments:   |                       |                                       |   |                     |
| Virginia Department of Behavioral Health and<br>Developmental Services                 |                       |                                       |   |                     |
| Block Grants for Community Mental Health<br>Services                                   | 7/10/2017             | 93.958                                | 4450600   | 185,729             |
| Block Grants for the Prevention and Treatment<br>of Substance Abuse                    | 8/16/2017             | 93.959                                | 4450700   | 1,367,576           |
| Virginia Opioid Prevention   | 3/16/2018             |                                       |   |                     |
|  | 5/16/2018             | 93.788                                | N/A   | <u>83,753</u>       |
| Total Department of Health and Human<br>Services                                       |                       |                                       |   | <u>2,335,617</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>\$ 2,369,677</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, 2019, Horizon Behavioral Health had no outstanding loan balances requiring continuing disclosure.

**HORIZON BEHAVIORAL HEALTH**  
**SUMMARY OF COMPLIANCE MATTERS**  
**June 30, 2019**

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, 2019

#### 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

##### **2019-001: Late Filing of End of Year Performance Contract Report with Virginia Department of Behavioral Health and Developmental Services (DBHDS)**

###### *Condition:*

The Board filed its end of year performance contract report with the DBHDS on September 20, 2019. This report was due August 31, 2019.

###### *Recommendation:*

We recommend that management ensures the timely filing of this report each year no later than August 31<sup>st</sup>.

###### *Management's Response:*

Horizon will ensure that all reporting to DBHDS for the Performance Contract is submitted by the due dates.