HORIZON BEHAVIORAL HEALTH

FINANCIAL REPORT

June 30, 2016

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HORIZON BEHAVIORAL HEALTH

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2016

Board of Directors

Jim Sikkema, Chair

Clyde Clark Sr., Vice-Chair

James Borland, Treasurer

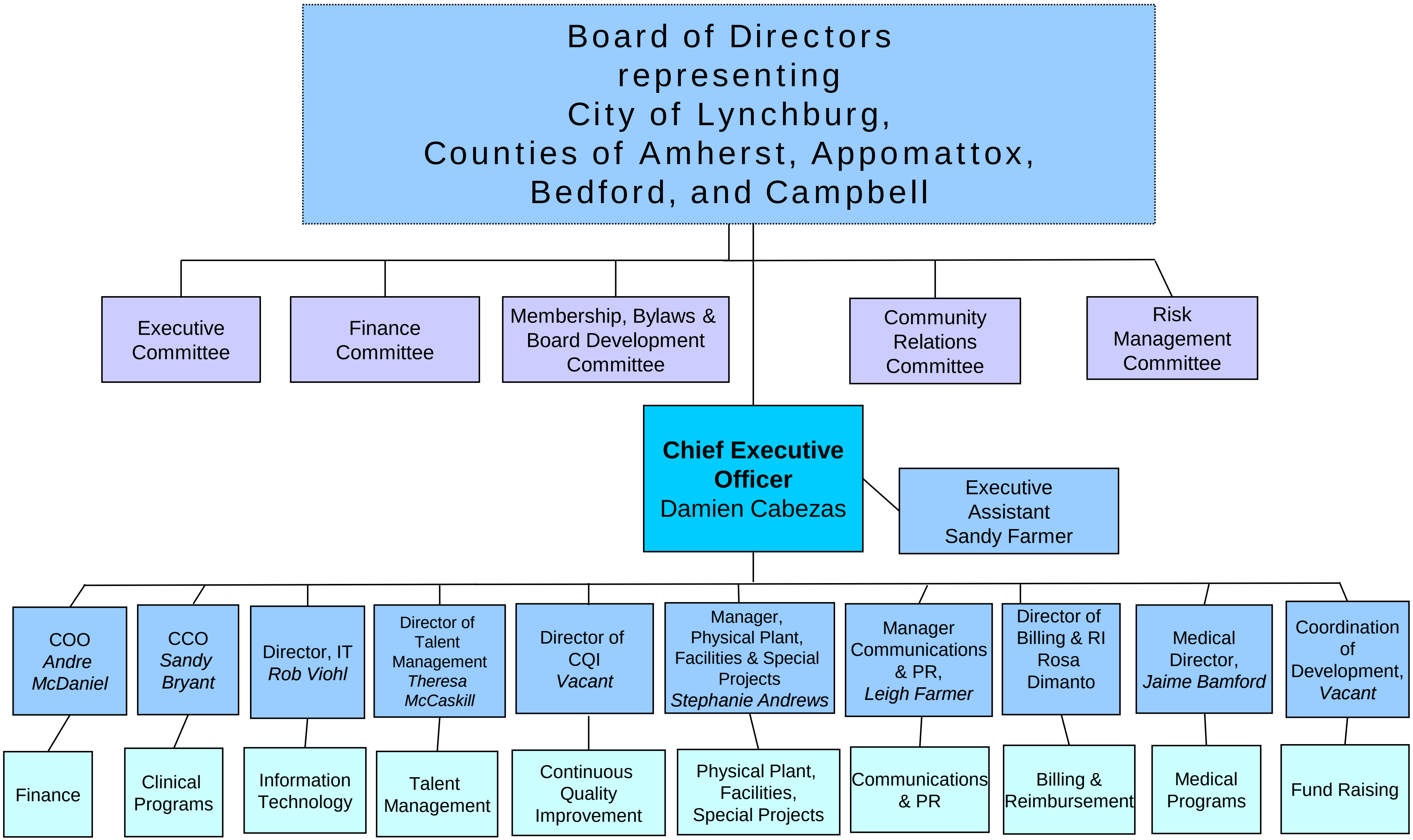
Rob Merryman, Secretary

Betty Brickhouse	William Scott
Terrie Conrad	Mary Lou Spiggle
Andy Crawford	Treney Tweedy
Dana Koenig	Gary Marple
Abe Loper	

Principal Management Team

Damien Cabezas	Chief Executive Officer
André McDaniel	Chief Operating Officer
Sandy Bryant	Chief Clinical Officer
Theresa McCaskill	Director of Talent Management
Vacant	Director of Continuous Quality Improvement
Rob Viohl	Director of Information Technology
Jaime Bamford	Medical Director
Stephanie Andrews	Manager of Physical Plants, Facilities, and Special Projects
Rosa DiManto	Director of Billing and Reimbursement
Leigh Farmer	Manager of Communications and Public Relations

Horizon Behavioral Health



FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements.

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Horizon Behavioral Health
Lynchburg, Virginia

Report on the Financial Statements

We have audited the accompanying basic financial statements of Horizon Behavioral Health (the "Board"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Horizon Behavioral Health, as of June 30, 2016, and the changes in its financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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 30, 2016 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 30, 2016

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, 2016.

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, 2016. 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, 2016. 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 2016 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 2016 (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.).

(Continued)

Financial Summary

Financial Position: A summary of Horizon's Statement of Net Position as of June 30, 2016 and 2015 is presented below:

Summary Statement of Net Position

	2016	2015
Current assets	$ 6,925,804	$ 5,757,704
Current restricted assets	1,062	27,751
Capital assets	8,683,726	9,155,709
Other non-current assets	4,756,850	4,913,305
Total assets	**$ 20,367,442**	**$ 19,854,469**
Pension contributions subsequent to measurement date	1,175,676	1,164,448
Total deferred outflows of resources	**$ 1,175,676**	**$ 1,164,448**
Current liabilities	6,729,747	4,878,591
Current liabilities payable from restricted assets	1,062	27,751
Long term liabilities	2,842,252	3,518,638
Total liabilities	**$ 9,573,061**	**$ 8,424,980**
Net difference between projected and actual investment earnings on pension plan investments	1,556,508	2,638,869
Total deferred inflows of resources	**$ 1,556,508**	**$ 2,638,869**
Net position		
Invested in capital assets	3,340,821	5,173,548
Unrestricted	7,072,728	4,781,520
Total net position	**$ 10,413,549**	**$ 9,955,068**

The financial position of Horizon is reflected by the current ratio (current assets / current liabilities) and was calculated to be 1.0 as of June 30, 2016, and was 1.2 as of June 30, 2015. 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 2016 and 2015 is presented below:

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

	2016	2015
Net client service revenue	$ 38,074,165	$ 37,577,175
Operating expenses	48,054,091	47,448,521
Operating income (loss)	(9,979,926)	(9,871,346)
Non-operating revenues - net	10,438,407	9,834,615
Change in net position	**458,481**	**(36,731)**

Operating revenue is the amount of revenue received from providing client services. The vast majority of those revenues, approximately 90% in FY2016, were received from Medicaid (please see Note 11). During fiscal year 2016, operating revenue increased by 1% due to increased revenue generated by our intermediate care facilities.

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 2016 and 2015. During fiscal year 2016, operating expenses increased by 1%. The fiscal year 2016 increase is due to expenses related to programs which Horizon assumed fiscal agent responsibility.

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 94% for fiscal year 2016 and 89% for fiscal year 2015 of the net non-operating revenue. Appropriations from local governments constituted 8% for fiscal year 2016 and 9% for fiscal year 2015. The remaining non-operating revenue consists of other income, interest income and expense. Also reflected in net non-operating revenues were impairment expenses related to an asset value write-down. Net non-operating revenue for fiscal year 2016 was 6% higher than fiscal year 2015.

There was an increase in net position by $458,481 in fiscal year 2016 and a decrease of $36,731 in fiscal year 2015.

Cash flows: A summary of Horizon's Statement of Cash Flows for 2016 and 2015 is presented below.

Condensed Statement of Cash Flows

	2016	2015
Cash flows from (to) operating activities	$(11,043,851)	$(11,268,267)
Cash flows from non-capital related financing activities	12,452,277	10,207,808
Cash flows from (to) capital related financing activities	(378,199)	(545,990)
Cash flows from investing activities	5,971	6,026
Net cash increase (decrease)	1,036,198	(1,600,423)
Cash and cash equivalents, beginning of year	1,123,913	2,724,336
Cash and cash equivalents, end of year	**2,160,111**	**1,123,913**

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

Cash flows from non-capital transactions are comprised of income received as appropriations or grants (please see Statement of Revenues, Expenses and Changes in Fund Net Position discussion above). Cash flows from capital activities are comprised of the acquisition of capital assets by Horizon in fiscal years 2016 and 2015, 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 $1,036,198 during fiscal year 2016 and a net decrease of $1,600,423 in fiscal year 2015.

Capital Assets and Debt Administration

Capital Assets

On June 30, 2016, Horizon had $8,683,726 in Net Capital Assets. This is comprised of $15,726,052 in capital assets less $7,042,326 in accumulated depreciation (please see Note 5). Of the total capital assets, buildings and improvements constitute 64%, furniture and equipment constitutes 23%, vehicles constitute 6% and land and construction in progress constitutes 7%.

Long Term Debt

Long term obligations as of June 30, 2016 were $3,688,359 (please see Note 7). This is a decrease of $293,802 due to principal payments on long term debt. Horizon implemented a $2,000,000 line of credit during fiscal year 2016. The line of credit balance as of June 30, 2016 was $877,106, which was primarily used for the down payment for a property acquisition.

Financial Highlights

Based on operating results achieved, Horizon's net position increased by $458,481 during the fiscal year.

During the fiscal year ended June 30, 2016, Horizon had total expenses of $48,622,586 compared with $47,610,737 the previous year. These figures included interest expense on mortgages and capital leases of $198,495 and $162,216 in 2016 and 2015 respectively.

During the fiscal year ended June 30, 2016, Horizon had net client service revenues of $38,074,165 compared with $37,577,175 for the previous year. This represents an increase of $496,990 or 1.3% from fiscal year 2015.

During the fiscal year ended June 30, 2016, Horizon had net revenues from local, state and federal appropriations/grants of $10,671,149 compared with $9,640,032 in fiscal year 2015, an increase of $1,031,117 or 10.7% from fiscal year 2015.

During the fiscal year ended June 30, 2016, Horizon had total revenues of $49,081,067 including all sources as compared with $47,574,006 the previous year, an increase of $1,507,061 or 3.2% increase in total revenue.

During the year ended June 30, 2016, total expenses were $458,481 lower than the aggregate of fee revenue, contract revenue, local, state and federal grant, and interest income. The previous year, expenses were $36,731 higher than operating revenues.

Total expenses were $3,236,315 lower than the budget for fiscal year ended June 30, 2016. Revenues were $3,178,545 lower than budget. The net variance from budget was favorable by $57,770.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

HORIZON BEHAVIORAL HEALTH

STATEMENT OF NET POSITION
June 30, 2016

	2016	(For Comparative Purposes Only) 2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents (Note 2)	$ 1,751,265	$ 707,269
Accounts receivable, net (Note 3)	3,883,944	4,412,857
Due from other governments (Note 4)	913,094	386,883
Prepaid expenses and other	377,501	250,695
Cash and cash equivalents, restricted for clients (Note 2)	1,062	27,751
Total current assets	6,926,866	5,785,455
Noncurrent assets		
Cash and cash equivalents, restricted for debt reserves (Note 2)	407,784	388,893
Net pension asset (Note 10)	4,349,066	4,524,412
Capital assets, net (Note 5)	8,683,726	9,155,709
Total noncurrent assets	13,440,576	14,069,014
Total assets	20,367,442	19,854,469
Deferred outflows of resources		
Pension contributions subsequent to measurement date (Note 10)	1,175,676	1,164,448
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities		
Accounts payable	659,082	637,300
Accrued payroll and related liabilities	250,896	600,728
Accrued interest	44,511	46,547
Amounts held for clients, payable from restricted assets	1,062	27,751
Due to other governments	272,089	605,882
Other current liabilities	-	39,110
Unearned revenue (Note 8)	1,808,033	356,687
Line of credit (Note 6)	877,106	-
Current portion of long-term liabilities (Note 7)	2,818,030	2,592,337
Total current liabilities	6,730,809	4,906,342
Long-term liabilities (Note 7)	2,842,252	3,518,638
Total liabilities	9,573,061	8,424,980
Deferred inflows of resources		
Net difference between projected and actual investment earnings on pension plan investments and differences between expected and actual experience (Note 10)	1,556,508	2,638,869
COMMITMENTS AND CONTINGENCIES (Notes 9 and 13)	-	-
NET POSITION		
Net investment in capital assets	3,340,821	5,173,548
Unrestricted	7,072,728	4,781,520
Total net position	$ 10,413,549	$ 9,955,068

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, 2016

	2016	(For Comparative Purposes Only) 2015
OPERATING REVENUES		
Net client service revenue (Note 11)	$ 38,074,165	$ 37,577,175
OPERATING EXPENSES		
Salaries and benefits	37,598,003	37,654,171
Staff development and recruitment	158,849	138,175
Facility	1,276,830	1,365,508
Supplies	1,698,695	1,780,207
Travel	280,718	395,008
Contractual and professional services	2,917,607	3,010,337
Leases	1,959,842	1,863,913
Insurance	366,524	235,032
Depreciation and amortization	862,955	865,082
Other	934,068	141,088
Total operating expenses	48,054,091	47,448,521
Operating loss	(9,979,926)	(9,871,346)
NONOPERATING REVENUES (EXPENSES)		
Commonwealth of Virginia grants	8,092,170	7,141,462
Federal grants	1,693,786	1,621,873
Contributions from participating local governments (Note 12)	885,193	876,697
Interest income	5,971	6,026
Interest expense	(198,495)	(162,216)
Other income	329,782	349,573
Impairment loss	(370,000)	-
Gain on sale of capital assets	-	1,200
Net nonoperating revenues	10,438,407	9,834,615
Change in net position	458,481	(36,731)
NET POSITION AT JULY 1	9,955,068	9,991,799
NET POSITION AT JUNE 30	$ 10,413,549	$ 9,955,068

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

HORIZON BEHAVIORAL HEALTH

STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	2016	(For Comparative Purposes Only) 2015
OPERATING ACTIVITIES		
Receipts from clients, private insurers, Medicaid, and others	$ 37,743,074	$ 36,497,959
Payments to suppliers	(9,698,157)	(9,246,463)
Payments to employees	(39,022,969)	(38,544,255)
Other receipts (expenses)	(65,799)	24,492
Net cash used in operating activities	(11,043,851)	(11,268,267)
NON-CAPITAL FINANCING ACTIVITIES		
Contributions from local, state, and federal governments	12,122,495	9,858,235
Other receipts	329,782	349,573
Net cash provided by non-capital financing activities	12,452,277	10,207,808
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(760,972)	(80,407)
Proceeds from the sale of capital assets	-	1,200
Net borrowings on line of credit	877,106	-
Principal paid on debt	(293,802)	(302,667)
Interest paid on debt	(200,531)	(164,116)
Net cash used in capital and related financing activities	(378,199)	(545,990)
INVESTING ACTIVITIES		
Interest received	5,971	6,026
Net cash provided by investing activities	5,971	6,026
Net increase (decrease) in cash and cash equivalents	1,036,198	(1,600,423)
CASH AND CASH EQUIVALENTS		
Beginning at July 1	1,123,913	2,724,336
Ending at June 30	$ 2,160,111	$ 1,123,913
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 1,751,265	$ 707,269
Cash and cash equivalents, restricted for clients	1,062	27,751
Cash and cash equivalents, restricted for debt reserves	407,784	388,893
	$ 2,160,111	$ 1,123,913

(Continued)

HORIZON BEHAVIORAL HEALTH

STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	2016	(For Comparative Purposes Only) 2015
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (9,979,926)	$ (9,871,346)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	862,955	865,082
Pension expense net of employer contributions	(918,243)	(845,659)
Decrease (increase) in:		
Accounts receivable, net	528,913	(993,192)
Due from other governments	(526,211)	(269,803)
Prepaid expenses and other	(126,806)	36,033
Increase (decrease) in:		
Accounts payable	21,782	(353,228)
Accrued payroll and related liabilities	(349,832)	(50,415)
Compensated absences	(156,891)	5,990
Due to other governments	(333,793)	183,779
Other current liabilities	(39,110)	19,566
Amounts held for clients, payable from restricted assets	(26,689)	4,926
Net cash used in operating activities	$ (11,043,851)	$ (11,268,267)

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

Note 1. Summary of Significant Accounting Policies

Financial reporting entity:

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

Blended component unit:

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

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

Measurement focus and basis of accounting:

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

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

Use of estimates:

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

(Continued)

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

Cash and cash equivalents:

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

Valuation of receivables:

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

Net client service revenue:

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

Financial assistance:

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

Capital assets:

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

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

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Restricted assets:

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

Unearned revenue:

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

Deferred outflows/inflows of resources:

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

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Board has only one item that qualifies for reporting in this category, which is the net difference between projected and actual earnings on pension plan investments and differences between expected and actual experience. This difference will be recognized in pension expense over a closed five year period.

Income taxes:

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

Compensated absences:

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

Note 1. Summary of Significant Accounting Policies (Continued)

Rental income:

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

Pensions:

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

Note 2. Deposits and Investments

Deposits:

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

Investments:

Statutes authorize the Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). Current Board policy is to automatically invest cash reserves on a daily basis through the use of repurchase agreements and in a money market mutual fund with the Board's bank. All investments were held in a money market fund at June 30, 2016.

Concentration of credit risk:

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

(Continued)

Note 2. Deposits and Investments (Continued)

Interest rate risk:

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

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

Deposits and investments:		
Cash on hand	$	1,450
Deposits		1,771,716
Money market mutual fund		386,945
	$	2,160,111
Statement of net position:		
Cash and cash equivalents	$	1,751,265
Cash and cash equivalents, restricted for clients		1,062
Cash and cash equivalents, restricted for debt reserves		407,784
	$	2,160,111

Note 3. Accounts Receivable

Accounts receivable consist of the following:

Virginia Department of Medical Assistance Services (Medicaid)	$	2,999,735
Direct client		1,418,349
Third-party insurers and other		790,860
		5,208,944
Allowance for uncollectible accounts		(1,325,000)
	$	3,883,944

At June 30, 2016, accounts receivable balances that were 365 or more days past the initial due date consisted of approximately $516,300 of direct client balances, $98,300 of Medicaid balances, and $27,300 of third-party insurers and others balances.

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	$	877,476
Other programs		35,618
	$	913,094

Note 5. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	$ 575,978	$ -	$ -	$ 575,978
Construction in progress	160,772	712,052	(341,188)	531,636
Capital assets, nondepreciable	736,750	712,052	(341,188)	1,107,614
Capital assets, depreciable				
Building and improvements	9,926,520	85,026	-	10,011,546
Furniture and equipment	3,314,842	305,082	-	3,619,924
Vehicles	986,968	-	-	986,968
Capital assets, depreciable	14,228,330	390,108	-	14,618,438
Less accumulated depreciation	(5,809,371)	(1,232,955)	-	(7,042,326)
Capital assets, depreciable, net	8,418,959	(842,847)	-	7,576,112
Capital assets, net	$ 9,155,709	$ (130,795)	$ (341,188)	$ 8,683,726

Due to encountering continued issues with the billing software, Accumedic, and the electronic health record (E.H.R.) system, MindLinc, over the past two fiscal years, the Board converted to a new electronic health record (Credible) on August 1, 2015. Management has determined the recoverable amount of the Accumedic software to be approximately $240,250 at June 30, 2016. A loss due to impairment of $370,000 has been recognized on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

(Continued)

Note 6. Line of Credit

On August 26, 2015, the Board obtained a $2,000,000 revolving bank line of credit with an initial interest rate of 3.25%. The line has no specified maturity date and is payable on demand. The outstanding balance at June 30, 2016 was $877,106. The line of credit is secured by accounts receivables.

Note 7. Long-Term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes payable	$ 3,982,161	$ -	$ 293,802	$ 3,688,359	$ 846,107
Compensated absences	2,128,814	-	156,891	1,971,923	1,971,923
	$ 6,110,975	$ -	$ 450,693	$ 5,660,282	$ 2,818,030

Annual debt service requirements are as follows:

Fiscal Year	Principal	Interest
2017	$ 846,107	$ 167,786
2018	686,882	134,093
2019	439,995	110,304
2020	410,375	92,402
2021	140,000	80,107
2022-2026	655,000	280,177
2027-2029	510,000	51,418
	$ 3,688,359	$ 916,287

Note 7. Long-Term Liabilities (Continued)

Details of notes payable are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance Due
VHDA Mortgage payable[1]	7.10 %	Dec. 2007	Nov. 2019	$ 318,174	$ 117,889
VML/VACo	[2]Variable	[3]June 2006	Dec. 2020	1,665,000	475,000
VML/VACo	6.55	Feb. 2008	Aug. 2028	2,145,000	1,640,000
E.H.R Loan payable	3.45	Jan. 2012	Oct. 2016	775,000	757,892
Powell-Pearson ICF Mortgage payable[4]	3.20	Feb. 2014	Apr. 2017	489,170	416,478
Timothy House Mortgage	3.25	Mar. 2013	Apr. 2018	172,800	142,529
Bethany House Mortgage	3.25	Mar. 2013	Apr. 2018	168,000	138,571
					$ 3,688,359

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

[2]This rate was 2.22% at June 2016. This rate has no cap or floor and is determined by VML/VACO based on market changes in interest rates.

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

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

Note 8. Unearned Revenues

Unearned revenues consist of the following:

State grants	$ 1,802,941
Federal grants	5,092
	$ 1,808,033

Note 9. Lease Commitments

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

Fiscal Year	
2017	$ 1,573,386
2018	1,239,762
2019	1,057,149
2020	1,010,604
2021	656,109
2022-2026	937,999
2027-2029	139,859
	$ 6,614,868

Rental expense for 2016 totaled $1,959,842, excluding $237,869 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 VRS Retirement Plan upon employment. This plan is an agent multiple-employer plan 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. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at *http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf*.

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 is as follows:

Plan 1 – Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Hybrid Opt-In Election –** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.
- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **Creditable Service –** Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
- **Vesting –** Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit –** The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.
- **Average Final Compensation –** A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Service Retirement Multiplier –** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age –** Age 65 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility –** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service, for hazardous duty employees.
- **Earliest Reduced Retirement Eligibility –** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
- **Disability Coverage** for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Plan 2 – Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

- **Hybrid Opt-In Election –** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service –** Same as Plan 1.
- **Vesting –** Same as Plan 1.
- **Calculating the Benefit –** See definition under Plan 1.
- **Average Final Compensation –** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier –** Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age –** Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility –** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility –** Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
- **Disability Coverage –** Same as Plan 1 except that the retirement multiplier is 1.65%.

Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

(Continued)

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Eligible Members –** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members –** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees and those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
- **Retirement Contributions –** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
- **Creditable Service –**
    - **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service and is generally subject to the same terms as in Plans 1 and 2.
    - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **Vesting –**
    - **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Vesting – (Continued)**
  - **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
- **Calculating the Benefit –**
  - **Defined Benefit Component:** See definition under Plan 1.
  - **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
  - **Defined Benefit Component:** Same as Plan 2, however, not applicable for hazardous duty employees.
  - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
  - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Earliest Unreduced Retirement Eligibility –**
  - **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement**
  - **Defined Benefit Component:** Same as Plan 2.
- **Disability Coverage –** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service –** As with Plans 1 and 2, members may choose to purchase prior service credits subject to the Plan provisions.

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	129
Inactive members:	
Vested inactive members	121
Non-vested inactive members	386
Inactive members active elsewhere in VRS	148
Total inactive members	655
Active members	642
Total covered employees	1,426

Note 10. Defined Benefit Pension Plan (Continued)

Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 4.57% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $1,175,676 and $1,164,448 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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, 2014, 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, 2015.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

Note 10. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

Mortality rates: General employees – 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 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, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

Public Safety Employees – Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; adjustment to rates of service retirement for females (Non 10 Largest); decrease in rates of male disability (Largest 10, only); decrease in male and female rates of disability (Non 10 Largest) increase in rates of withdrawal, and reduce rates of salary increase by 0.25% per year.

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:

Note 10. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

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

Discount Rate

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

Note 10. Defined Benefit Pension Plan (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2014	$ 39,506,117	$ 44,030,529	$ (4,524,412)
Changes for the year:			
Service cost	2,504,039	-	2,504,039
Interest	2,717,081	-	2,717,081
Differences between expected and actual experience	(565,689)	-	(565,689)
Contributions – employer	-	1,166,912	(1,166,912)
Contributions – employee	-	1,286,158	(1,286,158)
Net investment income	-	2,054,083	(2,054,083)
Benefit payments, including refunds of employee contributions	(1,381,362)	(1,381,362)	-
Administrative expenses	-	(26,630)	26,630
Other changes	-	(438)	438
Net changes	3,274,069	3,098,723	175,346
Balances at June 30, 2015	$ 42,780,186	$ 47,129,252	$ (4,349,066)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability	$ 2,743,874	$ (4,349,066)	$ (10,031,351)

Note 10. Defined Benefit Pension Plan (Continued)

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of $259,897. At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 429,049
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,127,459
Employer contributions subsequent to the measurement date	1,175,676	-
Total	$ 1,175,676	$ 1,556,508

The $1,175,676 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2017	$ (583,434)
2018	(583,434)
2019	(583,435)
2020	193,795
2021	-
Thereafter	-

Payables to the Pension Plan

At June 30, 2016, there were no amounts payable to the Virginia Retirement System.

Note 11. Net Client Service Revenue

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

Medicaid	$	34,437,522
Direct client fees		1,012,921
Third-party and other		2,623,722
	$	38,074,165

Note 12. Contributions from Participating Local Governments

Contributions from participating local governments were as follows:

County of Amherst	$	95,153
County of Appomattox		41,000
County of Bedford		114,547
County of Campbell		177,170
City of Lynchburg		457,323
	$	885,193

Note 13. 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.

Note 14. Risk Management

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

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

Note 15. Subsequent Event

At June 30, 2016, the Board had a contract to purchase a building and had placed a deposit of $500,000 towards the purchase. On August 1, 2016, the purchase of the building closed for $6,100,000. The Board issued new debt for the total purchase price of the building. After settlement of fees and closing costs, the remaining balance of the deposit was returned to the Board. Existing leases of this building have been assigned to the Board.

(Continued)

Note 16. New Accounting Standards

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

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement will be effective for the year ending June 30, 2017.

(Continued)

Note 16. New Accounting Standards (Continued)

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2017, except for certain provisions regarding assumptions for plans with a measurement date that differs from the employer's reporting date – those provisions are effective for the year ending June 30, 2018.

REQUIRED
SUPPLEMENTARY INFORMATION

HORIZON BEHAVIORAL HEALTH

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2016

	Plan Year Ended June 30: 2015	2014
Total Pension Liability		
Service cost	$ 2,504,039	$ 2,370,183
Interest on total pension liability	2,717,081	2,469,215
Difference between expected and actual experience	(565,689)	-
Benefit payments, including refunds of employee contributions	(1,381,362)	(1,215,558)
Net change in total pension liability	3,274,069	3,623,840
Total pension liability – beginning	39,506,117	35,882,277
Total pension liability – ending	42,780,186	39,506,117
Plan Fiduciary Net Position		
Contributions – employer	1,166,912	1,166,497
Contributions – employee	1,286,158	1,265,264
Net investment income	2,054,083	5,924,501
Benefit payments, including refunds of employee contributions	(1,381,362)	(1,215,558)
Administrative expenses	(26,630)	(30,598)
Other	(438)	312
Net change in plan fiduciary net position	3,098,723	7,110,418
Plan fiduciary net position – beginning	44,030,529	36,920,111
Plan fiduciary net position – ending	47,129,252	44,030,529
Net pension asset – ending	$ (4,349,066)	$ (4,524,412)
Plan fiduciary net position as a percentage of total pension liability	110%	111%
Covered employee payroll	$ 26,463,462	$ 26,048,966
Net pension liability as a percentage of covered employee payroll	-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 2014 information was presented in the entity's fiscal year 2015 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.

HORIZON BEHAVIORAL HEALTH

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2016

Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2016	$ 1,175,676	$ 1,175,676	$ -	$ 27,409,338	4.29 %
2015	1,164,448	1,164,448	-	26,463,462	4.40

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, only two years of data is available. Additional years will be included as they become available.

HORIZON BEHAVIORAL HEALTH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

OTHER SUPPLEMENTARY INFORMATION

HORIZON BEHAVIORAL HEALTH

COMBINING STATEMENT OF NET POSITION
June 30, 2016

	Horizon Behavioral Health	Horizon Opportunities Inc.	Inter-Company Eliminations	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets				
Cash and cash equivalents	$ 1,690,251	$ 61,014	$ -	$ 1,751,265
Accounts receivable, net	3,883,944	118,522	(118,522)	3,883,944
Due from other governments	913,094	-	-	913,094
Prepaid expenses and other	2,176,287	-	(1,798,786)	377,501
Cash and cash equivalents, restricted for clients	1,062	-	-	1,062
Total current assets	8,664,638	179,536	(1,917,308)	6,926,866
Noncurrent assets				
Cash and cash equivalents, restricted for debt reserves	407,784	-	-	407,784
Net pension asset	4,349,066	-	-	4,349,066
Capital assets, net	5,530,653	3,153,073	-	8,683,726
Total noncurrent assets	10,287,503	3,153,073	-	13,440,576
Total assets	18,952,141	3,332,609	(1,917,308)	20,367,442
Deferred outflows of resources				
Pension contributions subsequent to measurement date	1,175,676	-	-	1,175,676
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Current liabilities				
Accounts payable	777,604	521,346	(639,868)	659,082
Accrued payroll and related liabilities	250,896	-	-	250,896
Accrued interest	44,511	-	-	44,511
Amounts held for clients, payable from restricted assets	1,062	-	-	1,062
Due to other governments	272,089	-	-	272,089
Unearned revenue	1,808,033	-	-	1,808,033
Line of credit	877,106	-	-	877,106
Current portion of long-term liabilities	2,381,580	533,921	(97,471)	2,818,030
Total current liabilities	6,412,881	1,055,267	(737,339)	6,730,809
Long-term liabilities	2,581,125	1,441,096	(1,179,969)	2,842,252
Total liabilities	8,994,006	2,496,363	(1,917,308)	9,573,061
Deferred inflows of resources				
Net difference between projected and actual investment earnings on pension plan investments and differences between expected and actual experience	1,556,508	-	-	1,556,508
NET POSITION				
Net investment in capital assets	2,162,765	1,178,056	-	3,340,821
Unrestricted	7,414,538	(341,810)	-	7,072,728
Total net position	$ 9,577,303	$ 836,246	$ -	$ 10,413,549

HORIZON BEHAVIORAL HEALTH

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2016

	Horizon Behavioral Health	Horizon Opportunities Inc.	Inter-Company Eliminations	Total
OPERATING REVENUES				
Net client service revenue	$ 38,074,165	$ -	$ -	$ 38,074,165
OPERATING EXPENSES				
Salaries and benefits	37,598,003	-	-	37,598,003
Staff development and recruitment	158,849	-	-	158,849
Facility	1,276,830	-	-	1,276,830
Supplies	1,694,277	4,418	-	1,698,695
Travel	279,368	1,350	-	280,718
Contractual and professional services	2,903,833	13,774	-	2,917,607
Leases	2,197,647	64	(237,869)	1,959,842
Insurance	366,524	-	-	366,524
Depreciation and amortization	714,593	148,362	-	862,955
Other	907,528	26,540	-	934,068
Total operating expenses	48,097,452	194,508	(237,869)	48,054,091
Operating loss	(10,023,287)	(194,508)	237,869	(9,979,926)
NONOPERATING REVENUES (EXPENSES)				
Commonwealth of Virginia grants	8,092,170	-	-	8,092,170
Federal grants	1,693,786	-	-	1,693,786
Contributions from participating local governments	885,193	-	-	885,193
Interest income	30,091	-	(24,120)	5,971
Interest expense	(174,752)	(47,863)	24,120	(198,495)
Other income	282,732	284,919	(237,869)	329,782
Impairment loss	(370,000)	-	-	(370,000)
Net nonoperating revenues	10,439,220	237,056	(237,869)	10,438,407
Change in net position	415,933	42,548	-	458,481
NET POSITION, at July 1	9,161,370	793,698	-	9,955,068
NET POSITION, at June 30	$ 9,577,303	$ 836,246	$ -	$ 10,413,549

HORIZON BEHAVIORAL HEALTH

COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	Horizon Behavioral Health	Horizon Opportunities Inc.	Inter-Company Eliminations	Total
OPERATING ACTIVITIES				
Receipts from clients, private insurers, Medicaid, and others	$ 37,743,074	$ -	$ -	$ 37,743,074
Payments to suppliers	(9,823,792)	(52,973)	178,608	(9,698,157)
Payments to employees	(39,022,969)	-	-	(39,022,969)
Other receipts	(65,799)	-	-	(65,799)
Net cash used in operating activities	(11,169,486)	(52,973)	178,608	(11,043,851)
NON-CAPITAL FINANCING ACTIVITIES				
Contributions from local, state, and federal governments	12,122,495	-	-	12,122,495
Other receipts	282,732	225,658	(178,608)	329,782
Net cash provided by non-capital financing activities	12,405,227	225,658	(178,608)	12,452,277
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(260,972)	(500,000)	-	(760,972)
Receipts from other notes receivable	45,976	-	(45,976)	-
Issuance of other notes receivable	(500,000)	-	500,000	
Net borrowings on line of credit	877,106	500,000	(500,000)	877,106
Principal paid on debt	(242,774)	(97,004)	45,976	(293,802)
Interest paid on debt	(176,788)	(47,863)	24,120	(200,531)
Net cash used in capital and related financing activities	(257,452)	(144,867)	24,120	(378,199)
INVESTING ACTIVITIES				
Interest received	30,091	-	(24,120)	5,971
Net cash provided by investing activities	30,091	-	(24,120)	5,971
Net increase in cash and cash equivalents	1,008,380	27,818	-	1,036,198
CASH AND CASH EQUIVALENTS				
Beginning at July 1	1,090,717	33,196	-	1,123,913
Ending at June 30	$ 2,099,097	$ 61,014	$ -	$ 2,160,111
RECONCILIATION TO STATEMENT OF NET POSITION				
Cash and cash equivalents	$ 1,690,251	$ 61,014	$ -	$ 1,751,265
Cash and cash equivalents, restricted for clients	1,062	-	-	1,062
Cash and cash equivalents, restricted for debt reserves	407,784	-	-	407,784
	$ 2,099,097	$ 61,014	$ -	$ 2,160,111

(Continued)

HORIZON BEHAVIORAL HEALTH

COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	Horizon Behavioral Health	Horizon Opportunities Inc.	Inter-Company Eliminations	Total
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES				
Operating loss	$ (10,023,287)	$ (194,508)	$ 237,869	$ (9,979,926)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization	714,593	148,362	-	862,955
Pension expense net of employer contributions	(918,243)	-	-	(918,243)
Decrease (increase) in:				
Accounts receivable, net	528,913	-	-	528,913
Due from other governments	(526,211)	-	-	(526,211)
Prepaid expenses and other	(126,806)	-	-	(126,806)
Increase (decrease) in:				
Accounts payable	87,870	(6,827)	(59,261)	21,782
Accrued payroll and related liabilities	(349,832)	-	-	(349,832)
Compensated absences	(156,891)	-	-	(156,891)
Due to other governments	(333,793)	-	-	(333,793)
Other current liabilities	(39,110)	-	-	(39,110)
Amounts held for clients, payable from restricted assets	(26,689)	-	-	(26,689)
Net cash used in operating activities	$ (11,169,486)	$ (52,973)	$ 178,608	$ (11,043,851)

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COMPLIANCE SECTION

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

To the Board of Directors
Horizon Behavioral Health
Lynchburg, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Horizon Behavioral Health (the "Board"), as of and for the year ended June 30, 2016, 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 30, 2016.

Internal Control over Financial Reporting

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

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. **We identified certain deficiencies that we considered to be a material weakness identified as Item 2016-001 in the accompanying schedule of findings and questioned costs. We also identified certain deficiencies that we considered to be a significant deficiency, identified as Item 2016-002.**

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed 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 2016-003.**

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 30, 2016

BROWNEDWARDS
certified public accountants

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, 2016. 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.

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Report on Compliance for the Major Federal Program (Continued)

Opinion on Each Major Federal Program

In our opinion, Horizon Behavioral Health, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Horizon Behavioral Health is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on 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 30, 2016

HORIZON BEHAVIORAL HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Award Date	Federal Catalog Number	Pass-Through Entity Identifying Number	Expenditures
Department of Health and Human Services				
Pass-Through Payments:				
Virginia Department of Behavioral Health and Developmental Services				
Block Grants for Community Mental Health Services	10/08/2015	93.958	4450600	$ 177,408
Block Grants for the Prevention and Treatment of Substance Abuse	10/08/2015	93.959	4450700	1,466,197
Total Department of Health and Human Services				1,643,605
Department of Justice				
Pass-Through Payments:				
Virginia Department of Social Services:				
Crime Victim Assistance	06/23/2015	16.575		50,181
Total expenditures of federal awards				$ 1,693,786

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

HORIZON BEHAVIORAL HEALTH

SUMMARY OF COMPLIANCE MATTERS
June 30, 2016

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, 2016

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One material weakness and one significant deficiency** 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

2016-001: Reconciliation of Cash Accounts (Material Weakness)

Condition:

Bank reconciliations were not completed timely for fiscal year 2016. There were no operating account reconciliations completed for the year at the time of preliminary audit fieldwork. Half of the operating account reconciliations were completed by the start of the final audit fieldwork, with the remainder completed subsequent to the fieldwork timeframe. Performing timely monthly bank reconciliations reduces the risk that errors will go undetected and/or uncorrected. It is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind.

Recommendation:

We recommend all bank accounts be reconciled each month prior to preparation of the monthly financial statements. We recommend management continue to take steps, even outside the accounting system, to ensure that bank reconciliations are completed timely going forward.

Management's Response:

Responsibility for performing the monthly bank account reconciliations will be transitioned from financial planning and analysis to general accounting and backups will be identified to perform the reconciliations in the event of staff absences.

(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2016 -002: Accounts Receivable (Significant Deficiency)

Condition:

The Board encountered several issues with the prior electronic health record and billing systems in recent years, resulting in the decision to implement a new system. That system went live on August 1, 2015. While we did note improved billings and collections operations during fiscal year 2016, management continued to have reporting issues and challenges with obtaining complete information from the new system on a timely basis. Such delays can make it difficult to make effective operational decisions, as key facts and amounts may be unknown.

Recommendation:

We recommend that management continue to look for ways to ensure timely and complete reporting from the new system to ensure that both management and the Board have the necessary accurate and timely information to aid in operational decisions.

Management's Response:

Horizon has begun to work with Credible to create the accounts receivable aging report(s). Credible has not yet been able to develop one all-inclusive aging report that Horizon is able to run. If they are not successful, we will work with Credible to develop the multiple reports needed to accurately report our accounts receivable aging.

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

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

2016-003: Late Filing of End of Year Performance Contract Report with Virginia Department of Behavioral Health and Developmental Services

Condition:

The Board filed its end of year performance contract report with the DBHDS on September 19, 2016. This report was due by August 31, 2016.

Recommendation:

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

Management's Response:

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