RBHA RICHMOND BEHAVIORAL HEALTH AUTHORITY

A COMPONENT UNIT OF THE CITY OF RICHMOND, VIRGINIA

FINANCIAL STATEMENTS

June 30, 2015

BROWN EDWARDS
certified public accountants

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INTRODUCTORY SECTION

RICHMOND BEHAVIORAL HEALTH AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2015

Board of Directors

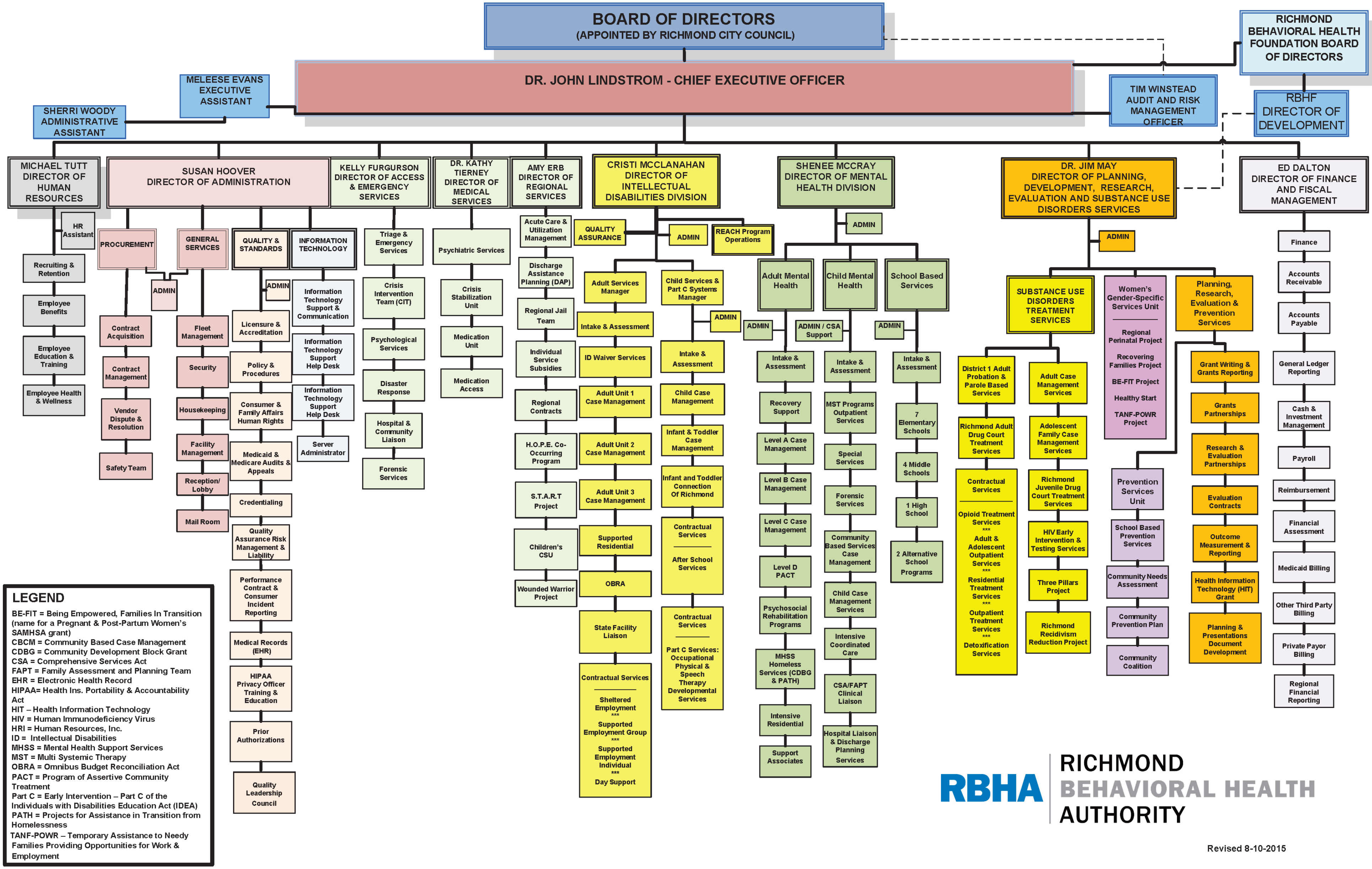
Cynthia Newbille, Ph.D., Chair

Henry Bulifant, IV, Vice Chair

Wayne Blanks	Napoleon Peoples, Ph.D.
Alma Moore	Blayre Gottwald
Steven Danish, Ph.D.	Marcellus Plummer, Jr.
Jodi Mincemoyer	William Sharkey
Noëlle Shaw-Bell	Michelle Whithurst-Cook, M.D.
Claire Cottrell	Cheryl Ivey Green, Ph.D.
Denise Dickerson	

Principal Management Team

John P. Lindstrom, Ph.D.	Chief Executive Officer
Shenee McCray	Director of Mental Health Services
Kelly Furgurson	Director of Assessment, Emergency & Medical Services
James C. May, Ph.D.	Director of Planning, Development, Research, Evaluation and Substance Use Disorders Services
Michael Tutt	Director of Human Resources
Ed Dalton, CPA	Director of Finance and Fiscal Management
Cristen McClanahan, LCSW	Director of Intellectual Disabilities
Susan Hoover, LCSW	Director of Quality & Standards
Steve Buffenstein	Director of Information Technology
Timothy Winstead	Audit and Risk Management Officer
Amy Erb	Director of Regional Programs


BOARD OF DIRECTORS
(APPOINTED BY RICHMOND CITY COUNCIL)
RICHMOND BEHAVIORAL HEALTH FOUNDATION BOARD OF DIRECTORS
DR. JOHN LINDSTROM - CHIEF EXECUTIVE OFFICER
MELEESE EVANS EXECUTIVE ASSISTANT
SHERRI WOODY ADMINISTRATIVE ASSISTANT
TIM WINSTEAD AUDIT AND RISK MANAGEMENT OFFICER
RBHF DIRECTOR OF DEVELOPMENT
MICHAEL TUTT DIRECTOR OF HUMAN RESOURCES
HR Assistant
Recruiting & Retention
Employee Benefits
Employee Education & Training
Employee Health & Wellness
SUSAN HOOVER DIRECTOR OF ADMINISTRATION
PROCUREMENT
ADMIN
Contract Acquisition
Contract Management
Vendor Dispute & Resolution
Safety Team
GENERAL SERVICES
Fleet Management
Security
Housekeeping
Facility Management
Reception/ Lobby
Mail Room
QUALITY & STANDARDS
ADMIN
Licensure & Accreditation
Policy & Procedures
Consumer & Family Affairs Human Rights
Medicaid & Medicare Audits & Appeals
Credentialing
Quality Assurance Risk Management & Liability
Performance Contract & Consumer Incident Reporting
Medical Records (EHR)
HIPAA Privacy Officer Training & Education
Prior Authorizations
Quality Leadership Council
INFORMATION TECHNOLOGY
Information Technology Support & Communication
Information Technology Support Help Desk
Information Technology Support Help Desk
Server Administrator
KELLY FURGURSON DIRECTOR OF ACCESS & EMERGENCY SERVICES
Triage & Emergency Services
Crisis Intervention Team (CIT)
Psychological Services
Disaster Response
Hospital & Community Liaison
Forensic Services
DR. KATHY TIERNEY DIRECTOR OF MEDICAL SERVICES
Psychiatric Services
Crisis Stabilization Unit
Medication Unit
Medication Access
AMY ERB DIRECTOR OF REGIONAL SERVICES
Acute Care & Utilization Management
Discharge Assistance Planning (DAP)
Regional Jail Team
Individual Service Subsidies
Regional Contracts
H.O.P.E. Co-Occurring Program
S.T.A.R.T Project
Children's CSU
Wounded Warrior Project
CRISTI MCCLANAHAN DIRECTOR OF INTELLECTUAL DISABILITIES DIVISION
QUALITY ASSURANCE
ADMIN
REACH Program Operations
Adult Services Manager
Intake & Assessment
ID Waiver Services
Adult Unit 1 Case Management
Adult Unit 2 Case Management
Adult Unit 3 Case Management
Supported Residential
OBRA
State Facility Liaison
Contractual Services
Sheltered Employment
***
Supported Employment Group
***
Supported Employment Individual
***
Day Support
Child Services & Part C Systems Manager
ADMIN
Intake & Assessment
Child Case Management
Infant & Toddler Case Management
Infant and Toddler Connection Of Richmond
Contractual Services
After School Services
Contractual Services
Part C Services: Occupational Physical & Speech Therapy Developmental Services
SHENEE MCCRAY DIRECTOR OF MENTAL HEALTH DIVISION
ADMIN
Adult Mental Health
ADMIN
Intake & Assessment
Recovery Support
Level A Case Management
Level B Case Management
Level C Case Management
Level D PACT
Psychosocial Rehabilitation Programs
MHSS Homeless Services (CDBG & PATH)
Intensive Residential
Support Associates
Child Mental Health
ADMIN / CSA Support
Intake & Assessment
MST Programs Outpatient Services
Special Services
Forensic Services
Community Based Services Case Management
Child Case Management Services
Intensive Coordinated Care
CSA/FAPT Clinical Liaison
Hospital Liaison & Discharge Planning Services
School Based Services
ADMIN
Intake & Assessment
7 Elementary Schools
4 Middle Schools
1 High School
2 Alternative School Programs
DR. JIM MAY DIRECTOR OF PLANNING, DEVELOPMENT, RESEARCH, EVALUATION AND SUBSTANCE USE DISORDERS SERVICES
ADMIN
SUBSTANCE USE DISORDERS TREATMENT SERVICES
District 1 Adult Probation & Parole Based Services
Richmond Adult Drug Court Treatment Services
Contractual Services
Opioid Treatment Services
***
Adult & Adolescent Outpatient Services
***
Residential Treatment Services
***
Outpatient Treatment Services
***
Detoxification Services
Adult Case Management Services
Adolescent Family Case Management Services
Richmond Juvenile Drug Court Treatment Services
HIV Early Intervention & Testing Services
Three Pillars Project
Richmond Recidivism Reduction Project
Women's Gender-Specific Services Unit
Regional Perinatal Project
Recovering Families Project
BE-FIT Project
Healthy Start
TANF-POWR Project
Prevention Services Unit
School Based Prevention Services
Community Needs Assessment
Community Prevention Plan
Community Coalition
Planning, Research, Evaluation & Prevention Services
Grant Writing & Grants Reporting
Grants Partnerships
Research & Evaluation Partnerships
Evaluation Contracts
Outcome Measurement & Reporting
Health Information Technology (HIT) Grant
Planning & Presentations Document Development
ED DALTON DIRECTOR OF FINANCE AND FISCAL MANAGEMENT
Finance
Accounts Receivable
Accounts Payable
General Ledger Reporting
Cash & Investment Management
Payroll
Reimbursement
Financial Assessment
Medicaid Billing
Other Third Party Billing
Private Payor Billing
Regional Financial Reporting
LEGEND
BE-FIT = Being Empowered, Families In Transition (name for a Pregnant & Post-Partum Women's SAMHSA grant)
CBCM = Community Based Case Management
CDBG = Community Development Block Grant
CSA = Comprehensive Services Act
FAPT = Family Assessment and Planning Team
EHR = Electronic Health Record
HIPAA= Health Ins. Portability & Accountability Act
HIT – Health Information Technology
HIV = Human Immunodeficiency Virus
HRI = Human Resources, Inc.
ID = Intellectual Disabilities
MHSS = Mental Health Support Services
MST = Multi Systemic Therapy
OBRA = Omnibus Budget Reconciliation Act
PACT = Program of Assertive Community Treatment
Part C = Early Intervention – Part C of the Individuals with Disabilities Education Act (IDEA)
PATH = Projects for Assistance in Transition from Homelessness
TANF-POWR – Temporary Assistance to Needy Families Providing Opportunities for Work & Employment
RBHA
RICHMOND
BEHAVIORAL HEALTH
AUTHORITY
Revised 8-10-2015

FINANCIAL SECTION

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Richmond Behavioral Health Authority
Richmond, Virginia

We have audited the accompanying basic financial statements of Richmond Behavioral Health Authority (the "Authority"), a component unit of the City of Richmond, Virginia, as of and for the year ended June 30, 2015, and the related notes to the 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 qualified audit opinion.

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Basis for Qualified Opinion

The Authority has recorded a net pension liability and certain deferred outflows and inflows based on its proportionate share of a cost-sharing pool pension plan. We were not able to obtain adequate evidence on these balances or the allocation to the Authority.

Qualified Opinion

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

Change in Accounting Principle

As described in Note 15 to the financial statements, the Authority adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*.

Report on Summarized Comparative Information

We have previously audited the Authority's 2014 financial statements, on which, in our report dated December 1, 2014, we expressed an unmodified opinion. The 2014 financial information is provided for comparative purposes only. For the year ended June 30, 2015, beginning net position has been restated to reflect the impacts of adopting GASB No. 68, as described in Note 15. However, the information for periods prior to June 30, 2014 is not readily available, therefore the 2014 financial information has not been restated to reflect the effects of the new standard.

Other Matters

Required Supplementary Information

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

Other Matters (Continued)

Other Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2015 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 1, 2015

The following Management's Discussion and Analysis provides an overview of the Richmond Behavioral Health Authority's (RBHA) financial activities for the fiscal year ended June 30, 2015. This information should be read in conjunction with the RBHA's financial statements and footnote disclosures.

General Comments on Fiscal Year (FY) 2015

RBHA's financial infrastructure was significantly impacted with the implementation of GASB 68 (see explanation below in the Financial Overview). Net position decreased by $8,517,933 or 64.59% in FY 2015. RBHA's current position remains strong as demonstrated by a current ratio of 2.37 to 1 reflecting sufficient current assets were available to cover RBHA's current liabilities. The increase in cash and cash equivalents of $2,991,188 or 17.95% includes the approximate $2 million increase in regional funds held. RBHA did not incur any long-term debt in FY 2015 to subsidize its cash flow. The strong current ratio and lack of long-term debt are indicative of RBHA's continued sound financial position.

Integrated Health Care Program

The RBHA has completed the third year of a four year $1.6 million dollar SAMHSA grant to develop and operate an integrated primary and behavioral health program. The Richmond Integrated Health (RICH) Recovery Initiative has expanded and enhanced RBHA's on-site primary medical care clinic.

Regional Programs

<u>Role as Fiscal Agent</u>

During FY 2015, RBHA continued to serve as the Fiscal Agent for Region IV community services boards of the Virginia Department Behavioral Health and Developmental Services (DBHDS). Region IV community services boards, in addition to RBHA, includes Southside, Chesterfield, Goochland-Powhatan, Crossroads, Henrico, Hanover, and District 19 (catchment area includes the Central State Hospital). Broadly stated, these regional programs are intended to keep people out of an institutional setting and in a community based setting. Region IV expended over $9.1 million in FY 2015 to support such programs. As of June 30, 2015 RBHA held approximately $9.9 million of Regional funds. Three of the regional programs are highlighted below.

<u>Regional Education Assessment Crisis Habilitation (REACH)</u>

In FY 2012, Region IV, with guidance and assistance from DBHDS, began development of the Systemic Therapeutic Assessment Respite and Treatment (START) program. In FY 2014, the program name changed to Regional Education Assessment Crisis Habilitation (REACH). This is a program designed to serve adults with an intellectual disability and/or developmental disability, as well as a mental health condition or challenging behavior that is negatively affecting their quality of life. This program is a critical component of the state's plan for complying with the recently agreed upon settlement with the Department of Justice involving the closing of the state's training centers for people with intellectual disabilities. In March 2014 the Southside Virginia Training Center, located in Region IV, closed. Region IV received from DBHDS $2 million in FY 2015 to operate the program.

<u>Crisis Stabilization Unit (CSU)</u>

The RBHA began operation of a 16 bed Residential Crisis Stabilization Unit in November 2009. This program provides short-term residential emergency stabilization services for adults with serious mental illness and related co-occurring disorders. A combination of regional funds and Medicaid fees are used to support the operating budget. The CSU serves residents of the City of Richmond and also accepts referrals from other Region IV community services boards.

(Continued)

MH Crisis Response & Child Psychiatry

In FY 2012, Region IV initiated a specialized children's program consisting of crisis stabilization beds, mobile crisis services, and child psychiatry. Region IV received $481,582 from DBHDS in FY 2015 to operate this program.

Financial Statement Overview

RBHA's three basic financial statements are: (1) Statement of Net Position; (2) Statement of Revenues, Expenses and Changes in Fund Net Position; and (3) Statement of Cash Flows.

Our financial position is measured in terms of resources (assets) we own and deferred outflows of resources and obligations (liabilities) we owe and deferred inflows of resources on a given date. This information is reported on the Statement of Net Position, which reflects RBHA's assets in relation to its debts to its suppliers, employees and other creditors. The excess of our assets and deferred outflows of resources over liabilities and deferred inflows of resources is our equity, or net position.

In 2015 the Authority adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The overall effect of this new standard is to reflect the Authority's long-term Richmond Retirement System (RRS) obligations directly in the financial statements. Previously, such amounts were mostly disclosed, but were not recognized as long as the Authority was current with its required RRS contributions. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the Authority record net pension liability directly on the statement of net position. Beginning net position has been restated as discussed in footnote 15, and this has had a significant impact on the Authority's net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

A summary of the Statement of Net Position for RBHA for 2015 and 2014 is presented below:

	2015	2014
Current Assets	$ 29,822,183	$ 25,701,869
Prepaid Retirement Contributions	-	664,784
Capital Assets	1,989,791	2,352,215
Total Assets	$ 31,811,974	$ 28,718,868
Deferred Outflows of Resources	$ 1,162,603	$ -
Current Liabilities	$ 12,598,074	$ 10,328,564
Long-term Liabilities	11,228,882	3,027,686
Total Liabilities	$ 23,826,956	$ 13,356,250
Deferred Inflows of Resources	$ 4,477,650	$ 2,174,714
Net Position:		
Net Investment in Capital Assets	$ 1,989,791	$ 2,352,215
Unrestricted	2,680,180	10,835,689
Total Net Position	$ 4,669,971	$ 13,187,904

(Continued)

Assets:

Total assets increased 10.8% to $31,811,974 in FY 2015.

Current assets totaling $29,822,183 consist of cash, investments, accounts receivable and prepaid items represent resources RBHA can utilize to pay current obligations. RBHA's cash balance was $19.7 million, an increase of 18% from prior year. This is primarily due to an increase of approximately $2.3 million in regional restricted funds held by RBHA. The accounts receivable balance was $2.4 million, an increase of 85%. The balance for prepaid items and other receivables was $929,793, an increase of 37.8%.

The capital assets owned by RBHA consist of leasehold improvements, computer equipment, furniture, and vehicles. Capital assets (net of depreciation) decreased by 15.4% to $1,989,791. (Refer to Note 6 for additional information on capital assets.)

Liabilities:

Total liabilities increased by 78.4% to $23,826,956. This is largely due to the adoption of GASB 68 which requires the recording of the unfunded pension liability.

Current liabilities are obligations of RBHA consisting of accounts payable, accrued payroll and related liabilities, and funds held for other community service boards in the region. Current liabilities increased 22% to $12,598,074 due to unexpended regional funds. These are the funds RBHA holds in trust for regional programs. The regional funds held as of June 30, 2015 totaled $9.9 million.

Long-term liabilities are obligations of RBHA consisting of employees' accrued leave, and post-retirement benefits. With the adoption of GASB 68 in fiscal year 2015, as previously explained, Net Pension Liability of $8,139,165 was recorded as a long-term liability in the current year. As a result of the recording of the pension liability, long-term liabilities increased by 270% to $11,228,956. (Refer to Notes 9 and 10 for details.)

Information regarding the results of our operation during the year is reported in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement shows how much overall net position increased or decreased during the year as a result of operations. A summary of RBHA's Statement of Revenues, Expenses and Changes in Fund Net Position for FY2015 and 2014 is presented below:

	2015	2014
Operating revenue	$ 16,126,803	$ 15,552,054
Operating expenses	38,784,788	37,563,121
Operating income	$ (22,657,985)	$ (22,011,067)
Net non-operating income	23,173,916	24,048,866
Changes in net position	$ 515,931	$ 2,037,799

Operating Revenue:

Operating revenue is defined as the amount of revenue received from providing patient (consumer) services. The net Medicaid fees were $14,338,550 or 88.9% of consumer service revenue. Operating revenue increased slightly for the first year since 2011. The FY 2015 revenue increase of 3.7% has been attributed, among other reasons, to the provision of Medicaid reimbursed services by the REACH program.

Operating Expenses:

Operating expenses represent the direct expenses of operating RBHA. They consist of salaries and benefits, occupancy, payments to contracting agencies, depreciation, etc. Refer to the full Statement of Revenues, Expenses, and Changes in Net Position for a complete breakdown of these expenses. During FY 2015, operating expenses increased by 3.3% as programs adjusted staffing and services to address the increase in services in Medicaid reimbursed programs.

Non-operating Income:

Non-operating income represents income received as appropriations or grants. In FY 2015, appropriations from the Commonwealth of Virginia represented 60.8% of the non-operating income. Grants from the federal government constituted 23.5% and local government appropriations and program funding were 14.3% of the total non-operating income. RBHA also realized an $81,881 gain on its investments in governmental bonds.

Our Statement of Cash Flows discloses the flow of cash resources into and out of RBHA during the year (from operations, contributions and other sources) and how we applied those funds (for example, payment of expenses, repayment of debt, purchases of new property, etc.). Condensed Statements of Cash Flows for FY 2015 and 2014 are presented below:

	2015	2014
Cash flows used in operating activities	$ (20,451,425)	$ (18,453,584)
Cash flows provided by non-capital financing activities	23,769,826	22,617,236
Cash flows used in capital activities	(335,275)	(347,810)
Cash flows provided by (used) in investing activities	8,062	7,707
Net increase (decrease) in cash and cash equivalents	$ 2,991,188	$ 3,823,549

Cash flows from operating activities:

Cash Flows from operating activities are made up of receipts from customers, payments to suppliers and payments to and from employees. Overall, the net cash flows used in operating activities, increased by 10.8%.

Receipts from customers decreased by 5.9% to $15,028,681. Payments to suppliers increased by 14% to $13,935,014. Payments to and for employees decreased by .9% to $23,817,527.

Cash flows from non-capital financing activities:

Cash Flows provided by non-capital financing activities are primarily government appropriations and grants. In FY 2015, this activity increased by 5.1%.

Cash flows from capital activities:

Capital assets acquisition activity was comparable to prior year.

Cash flows from investing activities:

RBHA's interest bearing bank account yielded interest income of $8,062. The minor increase from FY 2014 is due to the positive cash flow of RBHA. RBHA has made no additional cash investments in FY 2014 or FY 2015.

The overall net effect of these changes resulted in a cash increase of $2,991,488 in FY 2015. RBHA ended FY 2015 with a cash balance of $19,652,550. This includes funds of $9,915,363 held for Region IV.

Subsequent event

In 2015, RBHA entered into an agreement to acquire the land, building and fixtures of Rubicon, Inc., a 501(c)(3) non-profit substance abuse residential treatment center. The purchase price of approximately $3,227,376 consists of payment at closing by RBHA of all known liabilities of Rubicon. The closing occurred on November 9, 2015.

Request for Information

Questions concerning any of the information in this report or requests for additional information should be addressed in writing to G. Edward Dalton, Director of Finance and Fiscal Management, Richmond Behavioral Health Authority, 107 S. Fifth Street, Richmond, Virginia 23219.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

STATEMENT OF NET POSITION
June 30, 2015

	2015	(For Comparative Purposes Only) 2014
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 9,736,887	$ 9,018,134
Cash and cash equivalents, restricted for regional funds held for others (Note 2)	9,915,363	7,642,928
Investments (Note 2)	5,166,695	5,084,814
Accounts receivable, net (Note 3)	2,390,568	1,292,446
Due from other governments (Note 4)	401,254	633,089
Self-insurance refund receivable	641,270	445,403
Prepaid retirement contributions (Note 5)	640,353	910,000
Prepaid expenses and other receivables	929,793	675,055
Total current assets	29,822,183	25,701,869
Noncurrent assets		
Prepaid retirement contributions (Note 5)	-	664,784
Capital assets, net (Note 6)	1,989,791	2,352,215
Total noncurrent assets	1,989,791	3,016,999
Total assets	31,811,974	28,718,868
DEFERRED OUTFLOWS OF RESOURCES		
Employer contributions subsequent to the measurement date (Note 9)	1,123,560	-
Other pension deferrals (Note 9)	39,043	-
Total deferred outflows of resources	1,162,603	-
LIABILITIES		
Current liabilities		
Accounts payable	1,519,075	1,540,309
Accrued payroll and related liabilities	1,163,636	1,145,327
Regional funds held for others	9,915,363	7,642,928
Total current liabilities	12,598,074	10,328,564
Long-term liabilities		
Compensated absences	1,165,239	1,145,086
Net pension liability (Note 9)	8,139,165	-
Other post-employment benefits (Note 10)	1,924,478	1,882,600
Total long-term liabilities	11,228,882	3,027,686
Total liabilities	23,826,956	13,356,250
DEFERRED INFLOWS OF RESOURCES		
Net difference between projected and actual earnings on pension plan investments (Note 9)	881,298	-
Proportionate change in employer share (Note 9)	298,274	-
Other pension deferrals (Note 9)	655,829	-
Unearned revenue	2,642,249	2,174,714
Total deferred inflows of resources	4,477,650	2,174,714
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)	-	-
NET POSITION		
Net investment in capital assets	1,989,791	2,352,215
Unrestricted	2,680,180	10,835,689
Total net position	$ 4,669,971	$ 13,187,904

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

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

	2015	(For Comparative Purposes Only) 2014
OPERATING REVENUES		
Net client service revenue (Note 11)	$ 16,126,803	$ 15,552,054
OPERATING EXPENSES		
Salaries and benefits	24,414,530	24,286,647
Staff development	251,311	208,534
Facility	2,934,762	2,801,387
Supplies	678,969	636,642
Travel	254,081	325,443
Contractual and professional services	8,291,518	7,606,869
Client services	590,534	496,456
Leases	151,141	166,231
Insurance and licenses	391,232	233,370
Depreciation	711,216	712,582
Other	115,494	88,960
Total operating expenses	38,784,788	37,563,121
Operating loss	(22,657,985)	(22,011,067)
NONOPERATING REVENUES (EXPENSES)		
Commonwealth of Virginia grants	14,095,835	13,915,797
Federal grants	5,455,245	5,429,837
Contributions from the City of Richmond	3,311,125	2,640,766
Interest income	8,062	7,707
Unrealized gain on investments	81,881	170,562
Other income	208,251	244,309
Gain (loss) on sale of capital assets	13,517	(5,112)
Richmond Retirement System forfeiture (Note 5)	-	1,645,000
Total nonoperating revenues	23,173,916	24,048,866
Change in net position	515,931	2,037,799
NET POSITION AT JULY 1, AS RESTATED (NOTE 15)	4,154,040	11,150,105
NET POSITION AT JUNE 30	$ 4,669,971	$ 13,187,904

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

RICHMOND BEHAVIORAL HEALTH AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	2015	(For Comparative Purposes Only) 2014
OPERATING ACTIVITIES		
Receipts from clients, private insurers, Medicaid, and others	$ 15,028,681	$ 15,964,680
Payments to suppliers	(13,935,014)	(12,228,910)
Payments to and for employees	(23,817,527)	(24,039,359)
Other receipts	2,272,435	1,850,005
Net cash used in operating activities	(20,451,425)	(18,453,584)
NON-CAPITAL FINANCING ACTIVITIES		
Contributions from local, state, and federal governments	23,561,575	22,372,927
Other receipts	208,251	244,309
Net cash provided by non-capital financing activities	23,769,826	22,617,236
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and development of capital assets	(348,792)	(349,224)
Proceeds from the sale of capital assets	13,517	1,414
Net cash used in capital and related financing activities	(335,275)	(347,810)
INVESTING ACTIVITIES		
Interest received	8,062	7,707
Net cash provided by investing activities	8,062	7,707
Net increase in cash and cash equivalents	2,991,188	3,823,549
CASH AND CASH EQUIVALENTS		
Beginning at July 1	16,661,062	12,837,513
Ending at June 30	$ 19,652,250	$ 16,661,062
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 9,736,887	$ 9,018,134
Cash and cash equivalents, restricted for regional funds held for others	9,915,363	7,642,928
	$ 19,652,250	$ 16,661,062

(Continued)

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

RICHMOND BEHAVIORAL HEALTH AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	2015	(For Comparative Purposes Only) 2014
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (22,657,985)	$ (22,011,067)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	711,216	712,582
Pension expense net of employer contribution	(221,901)	-
(Increase) decrease in:		
Accounts receivable	(1,098,122)	412,626
Self insurance refund receivable	(195,867)	(445,403)
Prepaid expenses and other receivables	679,693	(120,171)
Increase (decrease) in:		
Accounts payable	(21,234)	525,369
Accrued payroll and related liabilities	18,309	234,343
Regional funds held for others	2,272,435	1,850,005
Compensated absences	20,153	42,416
Other post-employment benefits	41,878	345,716
Net cash used in operating activities	$ (20,451,425)	$ (18,453,584)
SCHEDULE OF NON-CASH ACTIVITIES		
Required retirement contributions paid through the consumption of prepaid retirement contributions	$ 934,431	$ 70,216

Note 1. Summary of Significant Accounting Policies

Organization and purpose:

The Richmond Behavioral Health Authority (the "Authority") was created on July 1, 1996, to provide behavioral health services to residents of the City of Richmond under applicable sections of the *Code of Virginia*. The Authority provides a system of community mental health disorders, developmental, and substance abuse services that relate to and are integrated with existing and planned programs. Substantially all of the Authority's funding is from service fees, the Commonwealth of Virginia, the Federal Government, and the City of Richmond.

Reporting entity:

The Authority's Board of Directors is appointed by the Richmond City Council. The City provides funding to the Authority that satisfies matching requirements for state grant funding, and deems the Authority to be a component unit.

Measurement focus and basis of accounting:

The Authority is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board (GASB). The Authority'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 incurred, regardless of the timing of the related cash flows.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority 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 Authority. 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 Authority's policy to use restricted resources first when allowed.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results (including the ultimate collectability of receivables as discussed below) could differ from those estimates.

The allowance for uncollectible accounts is a significant estimate that involves a great deal of judgment and the consideration of many factors. By nature, this estimate is not precise and requires re-evaluation as the balances, conditions, and factors surrounding client accounts receivable fluctuate. 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 by the Authority based on their ability to pay.

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents:

Cash and cash equivalents include cash on hand, checking and savings accounts, and short-term, highly liquid investments (including repurchase agreements) with original maturities of three months or less from the date of acquisition.

Investments:

Investments are stated at fair value.

Accounts receivable:

The Authority internally records and monitors differences between its full established rates and contractual rates. However, at the time of service only estimated realizable amounts are recorded as net client service revenue and as accounts receivable. The estimated realizable amounts include discounts based on contractual agreements with Medicaid and insurers as well as discounts based on the client's ability to pay. Revenue under third-party payer agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement.

The Authority's current practice is to charge off all self-pay accounts over 120 days past due. Management has established an allowance for doubtful accounts based on historical collection data and the aging of accounts receivable.

Capital assets:

Capital assets include property and equipment with an initial, individual cost of more than $5,000 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:

Leasehold improvements	7-20 years
Furniture and equipment	3-10 years
Motor vehicles	5 years
Computers	3-5 years

Compensated absences:

The Authority's employees earn annual leave (vacation pay) in varying amounts and can accumulate annual leave based on length of service subject to certain maximum accumulation amounts. All employees earn the same sick pay rate regardless of the length of service. Sick pay does not vest, is not paid out upon separation, and is not recorded as a liability. Accumulated annual leave up to the maximum limit is paid out upon separation, and is recorded as a liability.

Note 1. Summary of Significant Accounting Policies (Continued)

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Richmond Retirement System (RRS). 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.

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 Authority has two items that qualifies for reporting in this category. One is the difference between expected and actual experience on pension matters. The second item is pension contributions subsequent to the measurement date for the pension assets and liability; this will be applied to the net pension liability 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 applicable to future periods, and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has four items that qualifies for reporting in this category. The first is unearned revenue, which results from restricted grants and earmarked funds for which revenue recognition criteria have not been met. The second is the difference between expected and actual investment earnings on pension plan investments. The third is changes in assumptions and the fourth item is the proportionate change of the Authority's share net pension liability. See Note 9 for additional pension details.

Note 1. Summary of Significant Accounting Policies (Continued)

Regional funds held for others:

The Authority serves as the fiscal agent for a Regional Program, which is administered by several community services boards in a district established by the state. The Regional Program oversees a pool of state funds, and directs the allocation of those funds to various community services boards within the region. The Regional Program has allocated certain of these funds, such as Crisis Stabilization, directly to the Authority to provide services on behalf of the region; these are accounted for as revenues and expenses of the Authority. Other funds which are received and expended under the direction of the Regional Program are not included in the accompanying statement of revenues, expenses, and changes in fund net position, and are accounted for as funds held for others. Changes in the regional program funds held for others in fiscal year 2015 consisted of the following:

Balance, July 1, 2014	$ 7,642,928
Increases	11,338,500
Decreases	(9,066,065)
Balance, June 30, 2015	$ 9,915,363

Financial assistance:

The Authority 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 Authority has established procedures for granting financial assistance in cases of hardship, which results in a substantial reduction and/or elimination of charges to individual clients. Because the Authority does not pursue the collection of such amounts, they are not reported in net revenue.

Comparative information and reclassifications:

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the prior year from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to the current year presentation.

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.

Cash and cash equivalents consist of the following:

Petty cash	$ 485
Demand deposits	19,651,765
	$ 19,652,250
Statement of net position:	
Cash and cash equivalents	$ 9,736,887
Cash and cash equivalents, restricted for regional funds held for others	9,915,363
	$ 19,652,250

Investments:

Statutes of the state and the City of Richmond authorize the Authority 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).

The Authority's investment policy requires it to abide by these statutes, and otherwise simply to seek to minimize the risk of loss of capital while maximizing returns. Commercial paper must have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's, or Fitch Investor's Service, provided that the issuing corporation has a net worth of $50 million and its long-term debt is rated A or better by Moody's and Standard & Poor's.

Concentration of credit risk:

The intent of the policy is for the Authority to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity. The Authority did not have any investments at June 30, which exceeded 5.00% of the total investment balance.

Note 2. Deposits and Investments (Continued)

Interest rate risk:

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. As of June 30, the Authority's various investments are managed by Morgan Stanley and consist of the following:

	Fair Value	Weighted Average Time to Maturity (Years)
Cash	$ 117,398	-
Municipal bonds	5,049,297	1.02
	$ 5,166,695	1.02

Note 3. Accounts Receivable

Accounts receivable consist of the following:

Virginia Department of Medical Assistance Services (Medicaid)	$ 2,906,805
Medicare	177,435
Direct client, third-party, and other	577,666
	3,661,906
Allowance for uncollectible accounts	(1,271,338)
	$ 2,390,568

Note 4. Due From Other Governments

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

City of Richmond	$ 125,796
Commonwealth of Virginia	99,639
Federal government	175,819
	$ 401,254

Note 5. Prepaid Retirement Contributions

The Authority entered a "contribution holiday" arrangement with respect to the Richmond Retirement System (RRS) Defined Contribution 401(k) Plan effective with the June 6, 2014 pay date. The Authority temporarily stopped making employer contributions into the Plan and the contributions will be made from a Plan forfeiture account on behalf of the Authority. Based on RRS projections, the Authority's initial contribution holiday will cease after the March 14, 2016 pay date. The date is an estimate and the RRS will notify the Authority prior to the end of the contribution holiday. The "contribution holiday" arose from previous errors in the accounting for forfeitures within the RRS which should have been allocated to the Authority and thus reduced its required contributions. Such forfeitures totaled $1,645,000. The contribution holiday utilized through fiscal year 2015 is $1,004,647 leaving a $640,353 asset of the Authority.

Note 6. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Land	$ -	$ 198,916	$ -	$ 198,916
Construction in progress	196,937	-	196,937	-
Capital assets, nondepreciable	196,937	198,916	196,937	198,916
Capital assets, depreciated:				
Furniture and equipment	260,240	9,336	-	269,576
Computers	2,118,632	202,457	-	2,321,089
Vehicles	1,566,227	121,620	90,175	1,597,672
Leasehold improvements	2,458,766	13,400	-	2,472,166
Capital assets, depreciated	6,403,865	346,813	90,175	6,660,503
Less accumulated depreciation for:				
Furniture and equipment	179,483	25,000	-	204,483
Computers	1,118,351	353,069	-	1,471,420
Vehicles	1,422,426	61,379	90,175	1,393,630
Leasehold improvements	1,528,327	271,768	-	1,800,095
Total accumulated depreciation	4,248,587	711,216	90,175	4,869,628
Capital assets depreciable, net	2,155,278	(364,403)	-	1,790,875
Capital assets, net	$ 2,352,215	$ (165,487)	$ 196,937	$ 1,989,791

Note 7. Lease Commitments

The Authority leases offices, clinics, and housing for residential programs under various lease agreements ending in fiscal year 2020. Lease expense for office and clinic space was $1,479,158 for 2015. Rental expense for residential housing and related programs totaled $2,095,129 for 2015.

At June 30, 2015, the remaining minimum annual operating lease payments are as follows:

Fiscal Year	
2016	$ 1,649,260
2017	1,748,202
2018	1,862,562
2019	1,995,737
2020	2,152,717
	$ 9,408,478

Note 8. Commitments and Contingencies

Grants:

The Authority operates programs that are typically funded by grants received from federal, state, or local sources. Expenditures financed by grants are subject to audit by the grantor. If expenditures are disallowed due to noncompliance with grant program regulations, the Authority may be required to reimburse the grantor. The Authority believes that the likelihood of disallowance of expenditures and subsequent reimbursement is remote and would not have a material effect on the overall financial position of the Authority.

Legal/litigation:

The Authority may be involved in potential lawsuits arising in the ordinary course of business. It is management’s belief that any liability resulting from such lawsuits would not be material in relation to the Authority’s financial position.

The Authority signed a letter of intent with Rubicon, Inc. on June 25, 2015. This letter included the agreement to enter into an asset purchase agreement to acquire all the land, buildings, and fixtures of Rubicon, Inc. The purchase price of approximately $3,227,376 consists of payment at closing by the Authority of all known liabilities of Rubicon, Inc. The final valuation of the purchase was not known until November 9, 2015. The Authority will continue to operate the comprehensive chemical dependency treatment program and provide the services Rubicon, Inc. has been providing.

(Continued)

Note 9. Retirement Plan

Plan Description:

All full-time permanent employees of the Authority employed prior to July 1, 2006 are covered by a Defined Benefit Pension Plan administered by the Richmond Retirement System (RRS). The plan is a multiple-employer cost-sharing Defined Benefit Pension Plan. Members are vested after five years of creditable service. The plan is contributory for employees.

The Defined Benefit and Enhanced Defined Benefit Plans pay a monthly benefit at retirement based on the member's years of creditable service (up to a maximum of 35 years) and average final compensation. General employees participating in the Defined Benefit and Enhanced Defined Benefit Plans are required to pay contributions of 1.00% or 4.57% of their creditable compensation, respectively. The Defined Benefit Plan formula has a multiplier of 1.75% for general employees whereas the Enhanced Option has a multiplier of 2.00%. A member is eligible for normal retirement on his normal retirement date (age 65). Upon retirement, a member becomes eligible to receive an annual allowance payable in equal monthly installments. The Plan permits early retirement.

Employees with 30 years of service may retire at any age with unreduced benefits. Employees may retire at age 55 with 5 or more years of service; however, benefits will be reduced by $5/12^{th}$ of 1.00% for each complete month or 5.00% per year by which retirement precedes the earlier of age 65 or the date on which the employee would have completed 30 years of service.

The benefit level is set by formula, regardless of the retirement fund's investment performance. Participating employers contribute an amount each year that varies according to the contribution rate as determined by the RRS's actuary. The participating employers' contributions are invested by outside investment firms with the primary objective of ensuring the security, stability and continued growth of assets for members' future benefits.

The Code of the City of Richmond requires that the Plan be maintained on an actuarially sound basis.

The City of Richmond also offers a Defined Contribution 401(a) Plan as another retirement option. This plan is mandatory for general employees hired on or after July 1, 2006, and optional for senior executives and public safety officers. The RRS is the Trustee for this Plan and has contracted with an independent, not-for-profit financial services organization to administer the Plan. The City of Richmond and the Authority contribute a percentage of an employee's creditable compensation, based on years of service, to a portable account for investment by the employee. This Plan is non-contributory for employees.

Vested members in the Defined Contribution 401(a) Plan who terminate employment are entitled to the account balance. The account balance of non-vested members who terminate employment is forfeited unless a member is reemployed with a participating employer before a five year lapse and remains in service until vesting. (Also see Note 5) Members of the Defined Contribution 401(a) Plan are eligible for disability retirement benefits under the RRS.

Note 9. Retirement Plan (Continued)

Plan Description: (Continued)

The RRS issues a separate comprehensive annual financial report on the Defined Contribution 401(a) Plan. A copy of the report may be obtained from the RRS's website at www.richmondgov.com/retirement.

The Authority is required to annually contribute to the Defined Benefit Plans an amount as determined by the actuary (expressed as a percentage of payroll) equal to the sum of the "normal contribution" and the "accrued liability contribution." The accrued liability contribution is determined as that amount necessary to amortize the unfunded actuarial accrued liability and any increase or decrease in the unfunded actuarial accrued liability in future years due to changes in actuarial assumptions, changes in the Plan provisions (including the granting of cost-of-living increases) or actuarial gains or losses amortized over a period of 20 years.

Net Pension Liability:

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

Actuarial Method and Significant Assumptions:

The actuarial cost method utilized is the entry age actuarial cost method. The July 1, 2013 valuation developed contribution rates for the fiscal year ending June 30, 2015, using the projected unit cost method. In the future the projected unit cost method will be phased out and the entry age actuarial cost method will be utilized to develop contribution rates for the fiscal year ending June 30, 2016.

The amortization method used is a level dollar method over a closed period not to exceed 30 years. For purposes of determining contribution rates, the difference between actual investment earnings and expected investment earnings is recognized over a five year period, with the restriction that the actuarial asset value cannot be less than 90% or greater than 110% of the market value of assets.

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

Contributions to the Defined Benefit Plan by the Authority were $1,123,560 and $1,113,946 for the years ended June 30, 2015 and June 30, 2014, respectively. The contribution rate was 39.08% for 2015. The Authority also contributed $934,431 to the Defined Contribution Plan for 2015. The Authority's contribution to the Defined Contribution Plan is 5.00% for employees with less than 5 years of service, 6.00% for employees with 5 to 9 years of service, 8.00% for employees with 10 to 14 years of service, and 10% for employees with 15 years or more of service.

(Continued)

Note 9. Retirement Plan (Continued)

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

At June 30, 2015, the Authority reported a liability of $8,139,165 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the Authority's proportion was 2.63% as compared to 2.73% at June 30, 2013.

For the year ended June 30, 2015, the Authority recognized pension expense of $901,659. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions. At June 30, 2015, the Authority 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	$ 39,043	$ -
Change in assumptions	-	655,829
Proportionate change in employer contribution and beginning net pension liability	-	298,274
Net difference between projected and actual earnings on pension plan investments	-	881,298
Employer contributions subsequent to the measurement date	1,123,560	-
Total	$ 1,162,603	$ 1,835,401

The $1,123,560 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Note 9. Retirement Plan (Continued)

Actuarial Assumptions:

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

Inflation	3.00%
Salary increases, including inflation	3.00 – 4.00%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

There is no cost of living increase assumption and the assumption is that benefits will not increase after retirement.

Mortality rates

RP-2000 Employee Mortality Table Projected with males set forward 2 years.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2013.

Note 9. Retirement Plan (Continued)

Long-Term Expected Rate of Return:

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

Asset Class (Strategy)	Target Allocation	30 Year 2014 NEPC Assumptions – Arithmetic Return
Large Cap Equities	18.00 %	9.13 %
SMID Cap Equities	5.00 %	9.95 %
Developed Intl Equities	8.00 %	10.11 %
Emerging Intl Equities	7.00 %	12.39 %
Hedge Funds	12.00 %	7.38 %
Private Equity	8.00 %	12.85 %
Core Bonds	10.50 %	4.65 %
Core Plus Bonds	0.00 %	4.65 %
High Yields Bonds	6.00 %	6.78 %
Global Bonds	4.00 %	3.35 %
Inflation Linked Bonds	4.00 %	4.47 %
Emerging Market Debt (external)	4.00 %	7.66 %
Multi-Sector Fixed Income	2.00 %	5.52 %
Private Debt	5.00 %	9.86 %
Real Estate (core)	5.00 %	7.82 %
Cash	1.50 %	3.75 %
Total	100.00 %	

Discount Rate:

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. 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 plan members. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Note 9. Retirement Plan (Continued)

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

The following presents the net pension liability of the Authority using the discount rate of 7.50%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
Authority's proportionate share of retirement plan net pension liability	$ 10,300,818	$ 8,139,165	$ 6,286,349

Pension Plan Fiduciary Net Position:

Detailed information about the RRS Retirement Plan's Fiduciary Net Position is available in the separately issued RRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 RRS CAFR may be downloaded from the City of Richmond, Virginia website at http://www.richmondgov.com/Retirement/documents/CAFR2014.pdf.

Payables to the Pension Plan:

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

Note 10. Other Post-Employment Benefits

Plan description:

The Authority pays a portion of the cost of health related insurance benefits to all employees who retire from the Authority. The benefits are comprised of health related group insurance policies through which retirees, their spouses and eligible unmarried dependents can obtain coverage. Once retirees reach age 65 or are eligible for Medicare they are not entitled to these benefits. There were 22 retirees covered by the plan at June 30, 2015. The authority to establish and amend the benefit provisions of the plan rests with the Authority's Board. There is no publicly available report for the plan.

Funding policy:

The Authority establishes the employer contribution rates and how the plan will be funded as part of the annual budget process. Various amounts are paid by the Authority depending on the status of each plan participant. Monthly payments range from $465 to $1,270. The Authority is on a pay-as-you-go basis and has not funded the plan, therefore there are no plan assets.

Note 10. Other Post-Employment Benefits (Continued)

Annual OPEB cost:

The annual post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The Authority has elected to calculate the ARC as the normal cost plus the amortization of the unfunded portion of the actuarial accrued liability. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The contributions are based on medical premium payments made during the year for the retired employees by the Authority. The following table presents the components of the annual OPEB cost for the year, the contributions to the Plan, and changes in the net obligation for the Plan:

Annual required contribution	$ 168,100
Interest on OPEB obligation	65,891
Adjustment to ARC	(69,613)
Annual OPEB cost	164,378
Contributions made	(122,500)
Increase in net OPEB obligation	41,878
Net OPEB obligation at beginning of year	1,882,600
Net OPEB obligation at end of year	$ 1,924,478

Certain OPEB trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	$ 507,899	32%	$ 1,536,884
June 30, 2014	$ 537,116	36%	$ 1,882,600
June 30, 2015	$ 164,378	75%	$ 1,924,478

Funded status and funding progress:

At June 30, 2014, the most recent actuarial valuation date available, the Plan was unfunded. The actuarial accrued liability for benefits was $1,215,600 and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability (UAAL) of 1,215,600. The covered payroll (annual payroll of active employees covered by the plan) was $18,258,300 and the ratio of the UAAL to the covered payroll was 6.66%.

Note 10. Other Post-Employment Benefits (Continued)

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, if any, consistent, with the long-term perspective of the calculations.

In the June 30, 2014 actuarial valuation, the normal cost method was used. The actuarial assumptions included an annual healthcare cost trend rate starting at 6.90% and grading to 4.50% over 66 years.

The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at June 30, 2014 was 30 years.

Note 11. Net Client Service Revenue

Net patient service revenues were from the following sources:

Medicaid	$ 14,338,550
Third-party insurers	1,573,667
Other	214,586
	$ 16,126,803

Note 12. Related Party Transactions

During 2015, the Authority paid the City of Richmond $129,894 for routine vehicle maintenance, telecommunications, duplicating, and other services. The City also contributes in local funds to support the provision of behavioral health services to City residents. The Authority also received pass-through federal and state grants from the City totaling $849,169 in 2015. The Authority participates in the City's retirement system and pays contributions to that plan. See Note 9 for details relating to the retirement system.

Note 13. Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Authority participates in a self-insured liability plan sponsored by the state of Virginia for local political subdivisions. The plan provides $1,000,000 coverage against public official liability claims. The Authority participates in the Virginia Municipal Liability Pool for comprehensive property and casualty coverage, a general liability coverage (claims made), automobile coverage, and employer's liability. The Authority also is a member of the Virginia Municipal Group Self Insurance Association and obtains workers compensation coverage for Authority employees.

Certain other risks are covered by commercial insurance policies. Management believes the above-described coverage is sufficient to preclude any significant uninsured losses to the Authority. The Authority has had no settlements in excess of insurance coverages or significant reductions in coverage in each of the past three years. The Authority's primary risk of loss is anticipated to be limited to any deductibles not covered by the insurance arrangements.

The Authority is also insured under a commercial public official's policy in the amount of $100,000 that indemnifies the insured against loss of money or property that might result from the fraudulent or dishonest acts of its employees.

Note 14. Designation of Net Position

Management has internally designated $1,500,000 of unrestricted net position as a reserve for future uncertainties.

Note 15. Adoption of New Standard and Prior Period Restatement

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

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

Net position, July 1, 2014, as previously reported	$ 13,187,904
Recognition of pension related asset and deferred outflows in accordance with GASB No. 68	(9,033,864)
Net position July 1, 2014, as restated	$ 4,154,040

(Continued)

Note 16. Subsequent Event

In October 2015, the Authority entered a $1.4 million contract for the construction of a house under the REACH program.

Note 17. New Accounting Standards

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

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

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

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

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

Management has not yet evaluated the effects, if any, of adopting these standards.

REQUIRED SUPPLEMENTARY INFORMATION

RICHMOND BEHAVIORAL HEALTH AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
RRS RETIREMENT PLAN
June 30, 2015

Year Ended June 30,	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2.63%	$ 8,139,165	$ 3,312,178	245.73%	63.50%

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

The amounts presented have a measurement date as of the previous year end.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
RRS RETIREMENT PLAN
June 30, 2015

Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	$ 1,123,560	$ 1,123,560	$ -	$ 3,071,142	36.58%

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

The amounts presented have a measurement date as of the previous year end.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

SCHEDULES OF OPEB FUNDING PROGRESS
June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll	UAAL as % of Covered Payroll (c/e)
	(a)	(b)	(c)	(d)	(e)	(f)
June 30, 2010	$ -	$ 3,165,100	$ 3,165,100	- %	$ 20,086,600	15.76%
June 30, 2012	-	3,450,300	3,450,300	-	19,956,900	17.29
June 30, 2014	-	1,215,600	1,215,600	-	18,258,300	6.66

RICHMOND BEHAVIORAL HEALTH AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

Note 1. Methods and Assumptions Used to Determine contribution Rates

Valuation date:

Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay over a closed period not to exceed 30 years for police and fire employees; level dollar amount over a closed period not to exceed 30 years for general members.
Remaining amortization period	20 years for remaining unfunded accrued liability as of July 1, 2006; 20 years for subsequent changes.
Asset valuation method	Five-year spread of actual over expected investment earnings with the restriction that the resulting value must be within 90%-110% of market value.
Inflation	3.00%
Salary increases – general employees	3.00% to 5.00%
Salary increases – police and fire employees	3.00% to 4.50%
Investment rate of return	7.50%
Retirement age – general employees	20% in 1st year of unreduced retirement eligibility; 3.00% at age 55 increasing to 100% at age 75.
Retirement age – police and fire employees	40% in 1st year of unreduced retirement eligibility; 9.00% at age 50 increasing to 100% at age 64.
Mortality – general employees	RP-2000 Mortality Table with 2 year set-forward for males.
Mortality – police and fire employees	RP-2000 Mortality Table

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
Richmond Behavioral Health Authority
Richmond, 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 the Richmond Behavioral Health Authority (the "Authority"), a component unit of the City of Richmond, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 1, 2015, which was qualified because we were not able to obtain adequate evidence on the net pension liability and certain deferred outflows and inflows recorded by the Authority.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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. **However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness (Item 13-1) and another deficiency that we consider to be a significant deficiency (Item 11-2).**

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Compliance and Other Matters

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

Richmond Behavioral Health Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 1, 2015

BROWNEDWARDS
certified public accountants

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

To the Board of Directors
Richmond Behavioral Health Authority
Richmond, Virginia

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority'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 programs. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Richmond Behavioral Health Authority 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 programs for the year ended June 30, 2015.

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Report on Internal Control Over Compliance

Management of the Authority 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 Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 1, 2015

RICHMOND BEHAVIORAL HEALTH AUTHORITY

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

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Award Date	Federal Catalogue Number	Pass-Through Entity Identifying Number	Expenditures
Department of Education				
Pass-Through Payments:				
Virginia Department of Behavioral Health and Developmental Services:				
Special Education Grants for Infants and Families Cluster:				
Special Education – Grants for Infants and Families	7/1/2013	84.181		$ 223,435
Total Department of Education				223,435
Department of Health and Human Services				
Direct payments:				
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	7/1/2013	93.243		686,312
Pass-Through Payments:				
Virginia Department of Behavioral Health and Developmental Services:				
Block Grants for Community Mental Health Services	7/1/2014	93.958	501380000 501390000	680,409
Block Grants for Prevention and Treatment of Substance Abuse	7/1/2014	93.959	501490000 501790000	3,951,908
Virginia Department of Social Services				
Temporary Assistance for Needy Families	7/1/2013	93.558	BEN-08-007-27	340,000
City of Richmond, Virginia				
Healthy Start Initiative	9/1/2014	93.926	HRSA 09-130	138,044
Total Department of Health and Human Services				5,796,673
Department of Housing and Urban Development				
Pass-Through Payments:				
City of Richmond, Virginia				
Emergency Shelter Grants Program	7/1/2014	14.231	4617-2233-09505	95,000
Department of Agriculture				
Direct payments:				
Child & Adult Care Food Program	7/1/2014	10.558		40,137
Total expenditures of federal awards				$ 6,155,245

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

RICHMOND BEHAVIORAL HEALTH AUTHORITY

SUMMARY OF COMPLIANCE MATTERS
June 30, 2015

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards,* we performed tests of the Authority'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.

RICHMOND BEHAVIORAL HEALTH AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses a **modified 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 programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as major was:

	CFDA #
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243
Temporary Assistance for Needy Families	93.558
Block Grants for the Prevention and Treatment of Substance Abuse	93.959

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

B. FINDINGS – FINANCIAL STATEMENT AUDIT

13-1 Analysis of Accounts (Material Weakness)

Condition:

Asset and liability accounts should be analyzed and reconciled at regular intervals in order to detect and correct misstatements that may otherwise accumulate and lead to corresponding misstatements of revenue and expense accounts. The Authority has not regularly reconciled all such accounts, and we posted several journal entries that included accounts receivable for fiscal year 2015.

(Continued

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

13-1 Analysis of Accounts (Material Weakness) (Continued)

Recommendation:

Improvements have been made but management should continue monthly reconciliation of asset and liability accounts.

Management's Response:

We concur with the above finding. We will assure that the reconciliations, especially accounts receivable, are performed timely.

11-2 Segregation of Duties (Significant Deficiency)

Condition:

A fundamental concept of internal controls is the separation of duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. A lack of segregation of duties exists in functions related to the preparation of bank reconciliations and the processing of payroll, cash receipts, cash disbursements, and ability to prepare signed checks; and overlapping functions for the director of finance and fiscal management, including posting and approving journal entries, and performing final review for the finance department.

Recommendation:

Steps should be taken to eliminate the performance of conflicting duties where possible. Resolving all conflicts may be difficult given current staffing levels.

Management's Response:

The accounting function at the Authority has only five authorized positions. During fiscal year 2015 we were not able to find a viable candidate for the fiscal manager one position for the entire year. The staff accountant and payroll coordinator positions were vacant, due to resignations, for more than six months. These vacancies restricted our ability to re-assign job duties that would, to the extent possible, improve internal controls. All authorized positions have been filled and the re-assignment of job duties has begun.

Optimal internal controls may not be achieved due to the limited authorized staffing levels. We will implement compensating procedures, where possible, to improve internal controls.

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

None.