



**HORIZON BEHAVIORAL HEALTH**

**FINANCIAL REPORT**

**June 30, 2017**



**HORIZON BEHAVIORAL HEALTH**

**FINANCIAL REPORT**

**June 30, 2017**



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# **INTRODUCTORY SECTION**

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**HORIZON BEHAVIORAL HEALTH**  
**DIRECTORY OF PRINCIPAL OFFICIALS**  
**June 30, 2017**

Board of Directors

Jim Sikkema, Chair

Clyde Clark Sr., Vice-Chair

James Borland, Treasurer

Rob Merryman, Secretary

Betty Brickhouse

Terrie Conrad

Andy Crawford

Dana Koenig

Abe Loper

William Scott

Mary Lou Spiggle

Treney Tweedy

Gary Marple

Betty Wise

John Rice

Principal Management Team

Damien Cabezas

André McDaniel

Sandy Bryant

Theresa McCaskill

Emmanuel Buabeng

Rob Viohl

Jaime Bamford

Tecca Wright

Chief Executive Officer

Chief Operating Officer

Chief Clinical Officer

Director of Talent Management

Director of Reimbursement and  
Continuous Quality Improvement

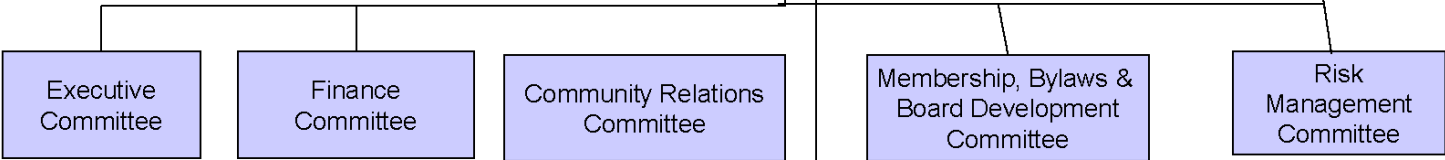
Director of Information Technology

Medical Director

Manager of Communications and  
Grants Management

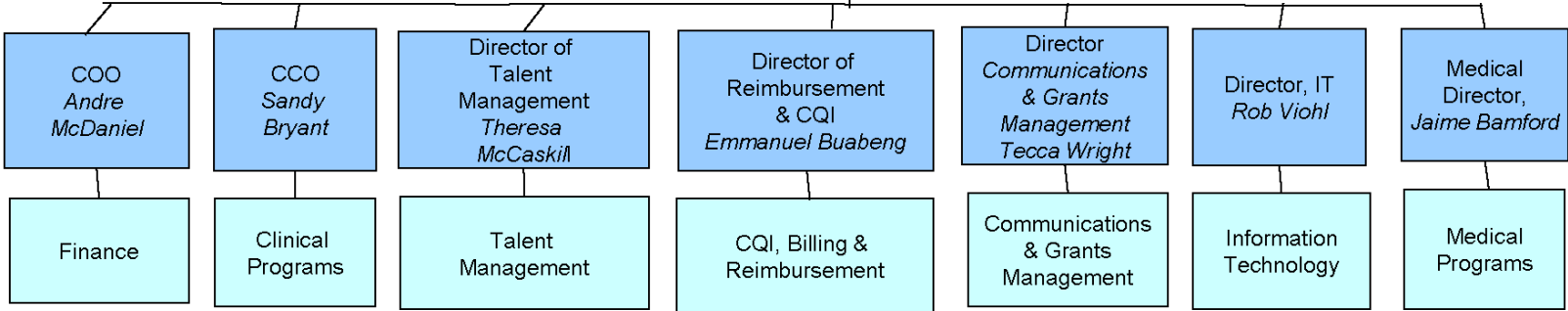
# Horizon Behavioral Health

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



**Chief Executive Officer  
Damien Cabezas**

Executive Assistant  
Sandy Farmer





## **FINANCIAL SECTION**

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



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Horizon Behavioral Health  
Lynchburg, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of Horizon Behavioral Health (the "Board"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board, as of June 30, 2017, and the changes in its financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Board's 2016 financial statements, on which, in our report dated November 30, 2016, we expressed an unmodified opinion. The 2016 financial information is provided for comparative purposes only.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on financial statements that collectively comprise the Board's basic financial statements. The introductory section and combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2017 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia  
November 22, 2017

**Horizon Behavioral Health  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2017**

The following Management's Discussion and Analysis (MD&A) of Horizon Behavioral Health's (Horizon) financial performance provides an overview of the Horizon financial activities for the fiscal year ended June 30, 2017.

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

**OVERVIEW OF FINANCIAL STATEMENTS**

Horizon Behavioral Health presents three basic financial statements for the purpose of analyzing the financial position of Horizon as of June 30, 2017. These are: (1) Statement of Net Position; (2) Statement of Revenues, Expenses, and Changes in Fund Net Position; and (3) Statement of Cash Flows.

Horizon's financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed as of June 30, 2017. This information is reported on the Statement of Net Position which reflects Horizon's assets in relation to its debts to its suppliers, employees and other creditors. The excess of assets over liabilities is indicated by the value of net position.

Information regarding the results of Horizon's operations during fiscal year 2017 is reported in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement shows how much overall net position increased during the year as a result of operations.

The Statement of Cash Flows discloses the flow of cash resources into and out of Horizon during the fiscal year 2017 (from operations, contributions and other sources) and how those funds were applied (for example: payment of expenses, repayment of debt, purchase of new property, etc.).

## Financial Summary

Financial Position: A summary of Horizon's Statement of Net Position as of June 30, 2017 and 2016 is presented below:

<b>Summary Statement of Net Position</b>		
	2017	2016
Current assets	\$ 7,394,843	\$ 6,925,804
Current restricted assets	1,426	1,062
Capital assets	13,487,386	8,683,726
Other non-current assets	3,968,830	4,756,850
Total assets	<b>\$ 24,852,485</b>	<b>\$ 20,367,442</b>
Pension-related deferred inflows	1,991,948	1,175,676
Total deferred outflows of resources	<b>\$ 1,991,948</b>	<b>\$ 1,175,676</b>
Current liabilities	7,437,598	6,729,747
Current liabilities payable from restricted assets	1,426	1,062
Long term liabilities	8,047,431	2,842,252
Total liabilities	<b>\$ 15,486,455</b>	<b>\$ 9,573,061</b>
Pension-related deferred outflows	1,406,438	1,556,508
Total deferred inflows of resources	<b>\$ 1,406,438</b>	<b>\$ 1,556,508</b>
Net position		
Net investment in capital assets	1,662,306	3,340,821
Unrestricted	8,289,234	7,072,728
Total net position	<b>\$ 9,951,540</b>	<b>\$ 10,413,549</b>

The financial position of Horizon is reflected by the current ratio (current assets / current liabilities) and was calculated to be 1.0 as of June 30, 2017, and was 1.0 as of June 30, 2016. The current ratio is an indicator of the organization's ability to cover current obligations and being able to cover current obligations 1.0 times is considered adequate.

**Change in Net Position:** A summary of Horizon Behavioral Health's Statement of Revenues, Expenses, and Changes in Fund Net Position for fiscal years 2017 and 2016 is presented below:

<b>Summary Statement of Revenues, Expenses and Changes in Fund Net Position</b>		
	2017	2016
Net client service revenue	\$ 36,353,349	\$ 38,074,165
Operating expenses	49,508,994	48,054,091
Operating loss	(13,155,645)	(9,979,926)
Non-operating revenues - net	12,693,636	10,438,407
Change in net position	<b>(462,009)</b>	<b>458,481</b>

Operating revenue is the amount of revenue received from providing client services. The vast majority of those revenues, approximately 87% in FY2017, were received from Medicaid (please see Note 11). During fiscal year 2017, operating revenue decreased by 5% due primarily to decreased revenue for group home and school based services, partially offset by higher intermediate care facility revenue.

Operating expenses are the sum of direct and indirect costs of operating Horizon. These include salaries and benefits, occupancy, payments to contracting entities, depreciation, etc. Please see the full Statement of Revenues, Expenses, and Changes in Fund Net Position for a complete

(Continued)

breakdown of these expenditures for fiscal years 2017 and 2016. During fiscal year 2017, operating expenses increased by 3%. The increase during fiscal year 2017 was due primarily to higher expenses for operating the intermediate care facilities.

Net non-operating revenue is comprised of income received as appropriations or grants, miscellaneous income and is net of interest expense. Appropriations from federal and state sources amounted to 93% for fiscal year 2017 and 94% for fiscal year 2016 of the net non-operating revenue. Appropriations from local governments constituted 7% for fiscal year 2017 and 8% for fiscal year 2016. The remaining non-operating revenue consists of other income, interest income, and expense. Also reflected in net non-operating revenues were impairment expenses related to an asset value write-down. Net non-operating revenue for fiscal year 2017 was 22% higher than fiscal year 2016.

There was a decrease in net position by \$462,009 in fiscal year 2017 and an increase of \$458,481 in fiscal year 2016.

**Cash flows:** A summary of Horizon's Statement of Cash Flows for 2017 and 2016 is presented below.

<b>Condensed Statement of Cash Flows</b>		
	2017	2016
Cash flows to operating activities	\$(12,954,438)	\$(11,043,851)
Cash flows from non-capital related financing activities	12,957,695	12,452,277
Cash flows to capital related financing activities	(248,962)	(378,199)
Cash flows from investing activities	35,641	5,971
Net cash increase (decrease)	(210,064)	1,036,198
Cash and cash equivalents, beginning of year	2,160,111	1,123,913
Cash and cash equivalents, end of year	<b>1,950,047</b>	<b>2,160,111</b>

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

Cash flows from non-capital transactions are comprised of income received as appropriations or grants (please see Statement of Revenues, Expenses, and Changes in Fund Net Position discussion above). Cash flows from capital activities are comprised of the acquisition of capital assets by Horizon in fiscal years 2017 and 2016, principal payments on mortgages and loans payable (please see Notes 5, 6 and 7). Cash flows from investing activities are comprised of interest income.

There was a net decrease in cash and cash equivalents of \$210,064 during fiscal year 2017 and a net increase of \$1,036,198 in fiscal year 2016.

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

#### **Capital Assets**

On June 30, 2017, Horizon had \$13,487,386 in Net Capital Assets. This is comprised of \$20,634,489 in capital assets less \$7,147,103 in accumulated depreciation (please see Note 5). Of the total capital assets, buildings and improvements constitute 74%, furniture and equipment constitutes 14%, vehicles constitute 5% and land and construction in progress constitutes 7%.

## **Long Term Debt**

Long term notes payable as of June 30, 2017 were \$9,256,248 (please see Note 7). This is a net increase of \$5,567,889 due to the acquisition of property that was previously leased. Concurrent with the acquisition of that property, Horizon reduced its line of credit to \$1,500,000. The line of credit balance as of June 30, 2016 was \$1,337,823.

## **Financial Highlights**

Based on operating results achieved, Horizon's net position decreased by \$462,009 during the fiscal year.

During the fiscal year ended June 30, 2017, Horizon had total expenses of \$50,226,916 compared with \$48,622,586 the previous year. These figures included interest expense on mortgages and capital leases of \$471,673 and \$198,495 in 2017 and 2016 respectively.

During the fiscal year ended June 30, 2017, Horizon had net client service revenues of \$36,353,349 compared with \$38,074,165 for the previous year. This represents a decrease of \$1,720,816 or 4.5% from fiscal year 2016.

During the fiscal year ended June 30, 2017, Horizon had net revenues from local, state and federal appropriations/grants of \$12,662,309 compared with \$10,671,149 in fiscal year 2016, an increase of \$1,991,160 or 18.7% from fiscal year 2016.

During the fiscal year ended June 30, 2017, Horizon had total revenues of \$49,764,907 including all sources as compared with \$49,081,067 the previous year, an increase of \$683,840 or 1.4% increase in total revenue.

During the year ended June 30, 2017, total expenses were \$462,009 higher than the aggregate of fee revenue, contract revenue, local, state and federal grant, and interest income. The previous year, expenses were \$458,481 lower than operating revenues.

Total expenses were \$1,631,986 lower than the budget for fiscal year ended June 30, 2017. Revenues were \$2,494,707 lower than budget. The net variance from budget was unfavorable by \$862,721.

## **Requests for Information**

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

# **BASIC FINANCIAL STATEMENTS**

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## HORIZON BEHAVIORAL HEALTH

### STATEMENT OF NET POSITION

June 30, 2017

	<u>2017</u>	<u>(For Comparative Purposes Only)</u> <u>2016</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current assets		
Cash and cash equivalents (Note 2)	\$ 1,686,631	\$ 1,751,265
Accounts receivable, net (Note 3)	3,689,915	3,883,944
Due from other governments (Note 4)	1,659,152	913,094
Prepaid expenses and other	359,145	377,501
Cash and cash equivalents, restricted for clients (Note 2)	1,426	1,062
Total current assets	<u>7,396,269</u>	<u>6,926,866</u>
Noncurrent assets		
Cash and cash equivalents, restricted for debt reserves (Note 2)	261,990	407,784
Net pension asset (Note 10)	3,706,840	4,349,066
Capital assets, net (Note 5)	13,487,386	8,683,726
Total noncurrent assets	<u>17,456,216</u>	<u>13,440,576</u>
Total assets	<u>24,852,485</u>	<u>20,367,442</u>
Deferred outflows of resources		
Pension-related deferred outflows	<u>1,991,948</u>	<u>1,175,676</u>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>		
Current liabilities		
Accounts payable	893,638	659,082
Accrued payroll and related liabilities	339,633	250,896
Accrued interest	62,890	44,511
Amounts held for clients, payable from restricted assets	1,426	1,062
Due to other governments	210,728	272,089
Unearned revenue (Note 8)	1,397,114	1,808,033
Line of credit (Note 6)	1,338,323	877,106
Current portion of long-term liabilities (Note 7)	3,195,272	2,818,030
Total current liabilities	<u>7,439,024</u>	<u>6,730,809</u>
Long-term liabilities (Note 7)	<u>8,047,431</u>	<u>2,842,252</u>
Total liabilities	<u>15,486,455</u>	<u>9,573,061</u>
Deferred inflows of resources		
Pension-related deferred inflows (Note 10)	<u>1,406,438</u>	<u>1,556,508</u>
<b>COMMITMENTS AND CONTINGENCIES (Notes 9 and 13)</b>		
	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,662,306	3,340,821
Unrestricted	8,289,234	7,072,728
Total net position	<u>\$ 9,951,540</u>	<u>\$ 10,413,549</u>

## HORIZON BEHAVIORAL HEALTH

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION Year Ended June 30, 2017

	<b>2017</b>	<b>(For Comparative Purposes Only) 2016</b>
	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Net client service revenue (Note 11)	\$ 36,353,349	\$ 38,074,165
<b>OPERATING EXPENSES</b>		
Salaries and benefits	38,193,039	37,598,003
Staff development and recruitment	313,852	158,849
Facility	1,705,128	1,276,830
Supplies	1,889,240	1,698,695
Travel	230,597	280,718
Contractual and professional services	3,782,299	2,917,607
Leases	1,282,533	1,959,842
Insurance	436,102	366,524
Depreciation and amortization	794,860	862,955
Other	881,344	934,068
	<u>49,508,994</u>	<u>48,054,091</u>
Total operating expenses	49,508,994	48,054,091
Operating loss	<u>(13,155,645)</u>	<u>(9,979,926)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Commonwealth of Virginia grants	10,117,719	8,092,170
Federal grants	1,649,774	1,693,786
Contributions from participating local governments (Note 12)	894,816	885,193
Interest income	35,641	5,971
Interest expense	(471,673)	(198,495)
Other income	706,304	329,782
Impairment loss	(246,249)	(370,000)
Gain on sale of capital assets	7,304	-
	<u>12,693,636</u>	<u>10,438,407</u>
Net nonoperating revenues	12,693,636	10,438,407
Change in net position	(462,009)	458,481
<b>NET POSITION AT JULY 1</b>	<u>10,413,549</u>	<u>9,955,068</u>
<b>NET POSITION AT JUNE 30</b>	<u>\$ 9,951,540</u>	<u>\$ 10,413,549</u>

## HORIZON BEHAVIORAL HEALTH

### STATEMENT OF CASH FLOWS Year Ended June 30, 2017

	<b>2017</b>	<b>(For Comparative Purposes Only) 2016</b>
<b>OPERATING ACTIVITIES</b>		
Receipts from clients, private insurers, Medicaid, and others	\$ 35,739,959	\$ 37,743,074
Payments to suppliers	(10,280,875)	(9,698,157)
Payments to employees	(38,413,886)	(39,022,969)
Other receipts (expenses)	364	(65,799)
Net cash used in operating activities	(12,954,438)	(11,043,851)
<b>NON-CAPITAL FINANCING ACTIVITIES</b>		
Contributions from local, state, and federal governments	12,251,390	12,122,495
Other receipts	706,305	329,782
Net cash provided by non-capital financing activities	12,957,695	12,452,277
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(6,050,650)	(760,972)
Proceeds from the sale of capital assets	213,185	-
Proceeds from the issuance of debt	6,457,000	-
Net borrowings on line of credit	461,217	877,106
Principal paid on debt	(876,420)	(293,802)
Interest paid on debt	(453,294)	(200,531)
Net cash used in capital and related financing activities	(248,962)	(378,199)
<b>INVESTING ACTIVITIES</b>		
Interest received	35,641	5,971
Net cash provided by investing activities	35,641	5,971
Net increase (decrease) in cash and cash equivalents	(210,064)	1,036,198
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning at July 1	2,160,111	1,123,913
Ending at June 30	\$ 1,950,047	\$ 2,160,111
<b>RECONCILIATION TO STATEMENT OF NET POSITION</b>		
Cash and cash equivalents	\$ 1,686,631	\$ 1,751,265
Cash and cash equivalents, restricted for clients	1,426	1,062
Cash and cash equivalents, restricted for debt reserves	261,990	407,784
	\$ 1,950,047	\$ 2,160,111

(Continued)

**HORIZON BEHAVIORAL HEALTH**

**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2017**

	<b>2017</b>	<b>(For Comparative Purposes Only) 2016</b>
	<b>2017</b>	<b>2016</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET</b>		
<b>CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (13,155,645)	\$ (9,979,926)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	794,860	862,955
Pension expense net of employer contributions	(324,116)	(918,243)
Decrease (increase) in:		
Accounts receivable, net	194,029	528,913
Due from other governments	(746,058)	(526,211)
Prepaid expenses and other	527,010	(126,806)
Increase (decrease) in:		
Accounts payable	(286,790)	21,782
Accrued payroll and related liabilities	88,737	(349,832)
Compensated absences	14,532	(156,891)
Due to other governments	(61,361)	(333,793)
Other current liabilities	-	(39,110)
Amounts held for clients, payable from restricted assets	364	(26,689)
Net cash used in operating activities	\$ (12,954,438)	\$ (11,043,851)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 1. Summary of Significant Accounting Policies**

Financial reporting entity:

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

Blended component unit:

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

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

Measurement focus and basis of accounting:

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

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

Use of estimates:

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

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

Use of estimates: (Continued)

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

Cash and cash equivalents:

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

Valuation of receivables:

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

Net client service revenue:

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

Financial assistance:

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

Capital assets:

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

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

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

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

Restricted assets:

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

Unearned revenue:

Unearned revenue consists of amounts which have been received, but for which revenue recognition criteria have not been met. Unearned revenue is comprised of state and federal funds with purpose and, also typically, time restrictions. Revenue are recorded when expenses are incurred in accordance with the grantor's requirements. If such expenses are not incurred, the funds may revert back to the grantor.

Deferred outflows/inflows of resources:

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Board has two items that qualify for reporting in this category. The first is contributions subsequent to the measurement date for pensions, which will be applied to the net pension asset in the next fiscal year. The second is the difference between actual and expected experience for pension plan assets and liabilities. This difference will be recognized in pension expense over a closed five year period.

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

Income taxes:

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

Compensated absences:

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

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

Rental income:

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

Pensions:

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

**Note 2. Deposits and Investments**

Deposits:

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

Investments:

Statutes authorize the Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). Current Board policy is to automatically invest cash reserves on a daily basis through the use of repurchase agreements and in a money market mutual fund with the Board's bank. All investments were held in a money market fund at June 30, 2017.

Concentration of credit risk:

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

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 2. Deposits and Investments (Continued)**

Interest rate risk:

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

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

Deposits and investments:	
Cash on hand	\$ 1,225
Deposits	1,709,649
Money market mutual fund	<u>239,173</u>
	<u>\$ 1,950,047</u>
Statement of net position:	
Cash and cash equivalents	\$ 1,686,631
Cash and cash equivalents, restricted for clients	1,426
Cash and cash equivalents, restricted for debt reserves	<u>261,990</u>
	<u>\$ 1,950,047</u>

**Note 3. Accounts Receivable**

Accounts receivable consist of the following:

Virginia Department of Medical Assistance Services (Medicaid)	\$ 2,500,256
Direct client	1,741,886
Third-party insurers and other	<u>722,861</u>
	4,965,003
Allowance for uncollectible accounts	<u>(1,275,088)</u>
	<u>\$ 3,689,915</u>

At June 30, 2017, accounts receivable balances that were 365 or more days past the initial due date consisted of approximately \$602,888 of direct client balances, \$10,933 of Medicaid balances, and \$7,044 of third-party insurers and others balances.

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 4. Due From Other Governments**

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

DMAS ICF – MR	\$ 1,579,237
Other programs	79,915
	<u>1,659,152</u>
	<u>\$ 1,659,152</u>

**Note 5. Capital Assets**

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 575,978	\$ 722,600	\$ (31,400)	\$ 1,267,178
Construction in progress	531,636	389,034	(657,024)	263,646
Capital assets, nondepreciable	1,107,614	1,111,634	(688,424)	1,530,824
Capital assets, depreciable				
Building and improvements	10,011,546	5,469,823	(234,614)	15,246,755
Furniture and equipment	3,619,924	37,901	(862,498)	2,795,327
Vehicles	986,968	88,316	(13,701)	1,061,583
Capital assets, depreciable	14,618,438	5,596,040	(1,110,813)	19,103,665
Less accumulated depreciation	(7,042,326)	(1,041,109)	936,332	(7,147,103)
Capital assets, depreciable, net	7,576,112	4,554,931	(174,481)	11,956,562
Capital assets, net	\$ 8,683,726	\$ 5,666,565	\$ (862,905)	\$ 13,487,386

Due to encountering issues with the billing software, Accumedic, and the electronic health record (E.H.R.) system, Mindlinc, over the past several fiscal years, the Board converted to a new electronic health record (Credible) on August 1, 2015. Management has determined that the Accumedic software has no recoverable value at June 30, 2017. An impairment loss of \$246,249 has been recorded on the Statement of Revenues, Expenses, and Changes in Fund Net Position as of June 30, 2017.

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 6. Line of Credit**

On August 26, 2015, the Board obtained a \$2,000,000 revolving bank line of credit with an initial interest rate of 3.25% (3.5% at June 30, 2017). On July 28, 2016, the credit limit on the line was reduced to \$1,500,000 in conjunction with the issuance of other additional debt. The line has no specified maturity date and is payable on demand. The outstanding balance at June 30, 2017 was \$1,337,823. The line of credit is secured by real property.

The Board also has a \$219,000 bank line of credit with an interest rate at prime (3.5% at June 30, 2017). The line matures on December 5, 2017. At June 30, 2017, the outstanding balance was \$500. The line is secured by real property.

**Note 7. Long-Term Liabilities**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	\$ 3,688,359	\$ 6,457,000	\$ (889,111)	\$ 9,256,248	\$ 1,208,817
Compensated absences	<u>1,971,923</u>	<u>14,532</u>	<u>-</u>	<u>1,986,455</u>	<u>1,986,455</u>
	<u>\$ 5,660,282</u>	<u>\$ 6,471,532</u>	<u>\$ (889,111)</u>	<u>\$ 11,242,703</u>	<u>\$ 3,195,272</u>

Annual debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,208,817	\$ 368,568
2019	567,111	352,174
2020	570,099	324,807
2021	577,716	297,104
2022	539,968	263,738
2023-2027	2,107,816	1,013,270
2028-2033	2,052,348	507,811
2034-2037	<u>1,632,373</u>	<u>134,360</u>
	<u>\$ 9,256,248</u>	<u>\$ 3,261,834</u>

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

Details of notes payable are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Due</u>
VHDA Mortgage payable <sup>(1)</sup>	7.10 %	Dec. 2007	Nov. 2019	\$ 318,174	\$ 85,394
VML/VACo	6.55	Feb. 2008	Aug. 2028	2,145,000	1,555,000
E.H.R Loan payable	3.45	June 2017	June 2022	757,965	757,892
Powell-Pearson ICF Mortgage payable <sup>(3)</sup>	3.20	Feb. 2014	Apr. 2017	489,170	386,366
Timothy House Mortgage	3.25	Mar. 2013	Apr. 2018	172,800	134,137
Bethany House Mortgage	3.25	Mar. 2013	Apr. 2018	168,000	130,410
Langhorne Mortgage	<sup>(2)</sup> 3.89	July 2016	July 2036	6,100,000	5,910,445
Mortgage	3.89	July 2016	July 2021	357,000	296,604
					<u>\$ 9,256,248</u>

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

<sup>(2)</sup>The rate of 3.89% at June 2017 is fixed for the first sixty months, and is then subject to adjustment thereon each five years.

<sup>(3)</sup>In February 2014, the debt was refinanced. At June 30, 2017, the Board was working with the mortgagor to extend the loan.

**Note 8. Unearned Revenues**

Unearned revenues consist of the following:

State grants	\$ 1,361,741
Federal grants	<u>35,373</u>
	<u>\$ 1,397,114</u>

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 9. Lease Commitments**

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

<u>Fiscal Year</u>	
2018	\$ 913,925
2019	721,406
2020	627,698
2021	373,934
2022	349,269
2023-2027	1,794,813
2028-2030	582,543
	<u>\$ 5,363,588</u>

Rental expense for 2017 totaled \$1,282,533, excluding \$743,126 of intercompany amounts.

**Note 10. Defined Benefit Pension Plan**

**Plan Description**

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

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

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

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

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Plan Description (Continued)**

**Plan 1 (Continued)**

- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **Creditable Service** – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
- **Vesting** – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit** – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.
- **Average Final Compensation** – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age** – Age 65 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service for hazardous duty employees.

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Plan Description (Continued)**

**Plan 1 (Continued)**

- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Age 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
  - **Eligibility** – For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
  - **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
    - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
    - The member retires on disability.
    - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
    - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
    - The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- **Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Plan Description (Continued)**

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

- **Hybrid Opt-In Election** – Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** – Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
  - **Eligibility** – Same as Plan 1.

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Plan Description (Continued)**

**Plan 2 (Continued)**

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
  - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service** – Same as Plan 1.

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

- **Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members** – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
- **Retirement Contributions** – A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **Creditable Service –**
  - **Defined Benefit Component –** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
  - **Defined Contributions Component –** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **Vesting –**
  - **Defined Benefit Component –** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
  - **Defined Contributions Component –** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
- **Calculating the Benefit –**
  - **Defined Benefit Component –** See definition under Plan 1.
  - **Defined Contribution Component –** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **Service Retirement Multiplier** – The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age** –
  - **Defined Benefit Component** – Same as Plan 2, however, not applicable for hazardous duty employees.
  - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility** –
  - **Defined Benefit Component** – Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility** –
  - **Defined Benefit Component** – Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component** – Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement** –
  - **Defined Benefit Component** – Same as Plan 2.
  - **Defined Contribution Component** – Not Applicable.
  - **Eligibility** – Same as Plan 1 and 2.
  - **Exceptions to COLA Effective Dates** – Same as Plan 1 and 2.
- **Disability Coverage** – Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Plan Description (Continued)**

**Hybrid Retirement Plan (Continued)**

- **Purchase of Prior Service –**
  - **Defined Benefit Component –** Same as Plan 1, with the following exceptions:
    - Hybrid Retirement Plan members are ineligible for ported service.
    - The cost for purchasing refunded service is the higher or 4% of creditable compensation or average final compensation.
    - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
  - **Defined Contribution Component –** Not Applicable.

**Employees Covered by Benefit Terms**

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<b>Number</b>
Inactive members or their beneficiaries currently receiving benefits	142
Inactive members:	
Vested inactive members	144
Non-vested inactive members	356
Inactive members active elsewhere in VRS	145
Total inactive members	645
Active members	666
Total covered employees	1,453

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Contributions**

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2017 was 2.95% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$697,515 and \$1,175,676 for the years ended June 30, 2017 and June 30, 2016, respectively.

**Net Pension Liability**

The political subdivision's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Actuarial Assumptions**

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: General employees – 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Long-Term Expected Rate of Return**

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

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

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

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**Discount Rate**

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

**Changes in Net Pension Liability**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) – (b)</b>
Balances at June 30, 2015	\$ 42,780,186	\$ 47,129,252	\$ (4,349,066)
Changes for the year:			
Service cost	2,505,241	-	2,505,241
Interest	2,944,753	-	2,944,753
Differences between expected and actual experience	(1,455,756)	-	(1,455,756)
Contributions – employer	-	1,177,237	(1,177,237)
Contributions – employee	-	1,336,204	(1,336,204)
Net investment income	-	867,280	(867,280)
Benefit payments, including refunds of employee contributions	(1,424,585)	(1,424,585)	-
Administrative expenses	-	(28,351)	28,351
Other changes	-	(358)	358
Net changes	<u>2,569,653</u>	<u>1,927,427</u>	<u>642,226</u>
Balances at June 30, 2016	<u>\$ 45,349,839</u>	<u>\$ 49,056,679</u>	<u>\$ (3,706,840)</u>

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

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

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

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
Political subdivision's net pension liability	\$ 3,733,966	\$ (3,706,840)	\$ (9,671,869)

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

For the year ended June 30, 2017, the political subdivision recognized pension expense of \$374,960. At June 30, 2017, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 1,406,438
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,294,433	-
Employer contributions subsequent to the measurement date	697,515	-
Total	\$ 1,991,948	\$ 1,406,438

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

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

The \$697,515 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase (Reduction) to Pension Expense
2018	\$ (431,386)
2019	(431,387)
2020	345,843
2021	404,925
2022	-
Thereafter	-

**Pension Plan Data**

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Payables to the Pension Plan**

At June 30, 2017, approximately \$301,800 was payable to the Virginia Retirement System for the legally required contributions related to June 2017 payroll.

**Note 11. Net Client Service Revenue**

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

Medicaid	\$ 31,899,074
Direct client fees	1,061,322
Third-party and other	3,392,953
	\$ 36,353,349

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 12. Contributions from Participating Local Governments**

Contributions from participating local governments were as follows:

County of Amherst	\$	98,008
County of Appomattox		41,000
County of Bedford		116,000
County of Campbell		182,485
City of Lynchburg		457,323
	\$	894,816

**Note 13. Commitments and Contingencies**

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

**Note 14. Risk Management**

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

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

**Note 15. New Accounting Standards**

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

**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 replaces the requirements of Statements No. 45 and No. 57 and establishes new accounting requirements for OPEB plans. This Statement will be effective for the year ending June 30, 2018.

## HORIZON BEHAVIORAL HEALTH

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017

#### Note 15. New Accounting Standards (Continued)

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

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

**GASB Statement No. 83, *Certain Asset Retirement Obligations*** establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement will be effective for the year ending June 30, 2019.

**GASB Statement No. 84, *Fiduciary Activities*** establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending June 30, 2020.

**HORIZON BEHAVIORAL HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 15. New Accounting Standards (Continued)**

**GASB Statement No. 85, *Omnibus 2017*** addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and “negative” goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

**GASB Statement No. 86, *Certain Debt Extinguishment Issues*** improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

**GASB Statement No. 87, *Leases*** establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending June 30, 2021.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

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## HORIZON BEHAVIORAL HEALTH

### REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS June 30, 2017

	Plan Year Ended June 30:		
	2016	2015	2014
<b>Total Pension Liability</b>			
Service cost	\$ 2,505,241	\$ 2,504,039	\$ 2,370,183
Interest on total pension liability	2,944,753	2,717,081	2,469,215
Difference between expected and actual experience	(1,455,756)	(565,689)	-
Benefit payments, including refunds of employee contributions	(1,424,585)	(1,381,362)	(1,215,558)
Net change in total pension liability	2,569,653	3,274,069	3,623,840
<b>Total pension liability – beginning</b>	42,780,186	39,506,117	35,882,277
<b>Total pension liability – ending</b>	45,349,839	42,780,186	39,506,117
<b>Plan Fiduciary Net Position</b>			
Contributions – employer	1,177,237	1,166,912	1,166,497
Contributions – employee	1,336,204	1,286,158	1,265,264
Net investment income	867,280	2,054,083	5,924,501
Benefit payments, including refunds of employee contributions	(1,424,585)	(1,381,362)	(1,215,558)
Administrative expenses	(28,351)	(26,630)	(30,598)
Other	(358)	(438)	312
Net change in plan fiduciary net position	1,927,427	3,098,723	7,110,418
<b>Plan fiduciary net position – beginning</b>	47,129,252	44,030,529	36,920,111
<b>Plan fiduciary net position – ending</b>	49,056,679	47,129,252	44,030,529
<b>Net pension asset – ending</b>	\$ (3,706,840)	\$ (4,349,066)	\$ (4,524,412)
Plan fiduciary net position as a percentage of total pension liability	108%	110%	111%
Covered employee payroll	\$ 27,409,338	\$ 26,463,462	\$ 26,048,966
Net pension liability as a percentage of covered employee payroll	-14%	-16%	-17%

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

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

**HORIZON BEHAVIORAL HEALTH**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
**June 30, 2017**

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

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

## HORIZON BEHAVIORAL HEALTH

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2017

#### Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

#### Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

**OTHER  
SUPPLEMENTARY INFORMATION**

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## HORIZON BEHAVIORAL HEALTH

### COMBINING STATEMENT OF NET POSITION June 30, 2017

	<b>Horizon Behavioral Health</b>	<b>Horizon Opportunities Inc.</b>	<b>Inter- Company Eliminations</b>	<b>Total</b>
<b>ASSETS AND DEFERRED</b>				
<b>OUTFLOWS OF RESOURCES</b>				
Current assets				
Cash and cash equivalents	\$ 1,517,802	\$ 168,829	\$ -	\$ 1,686,631
Accounts receivable, net	3,689,915	-	-	3,689,915
Due from other governments	1,659,152	-	-	1,659,152
Prepaid expenses and other	1,589,654	-	(1,230,509)	359,145
Cash and cash equivalents, restricted for clients	1,426	-	-	1,426
Total current assets	<u>8,457,949</u>	<u>168,829</u>	<u>(1,230,509)</u>	<u>7,396,269</u>
Noncurrent assets				
Cash and cash equivalents, restricted for debt reserves	261,990	-	-	261,990
Net pension asset	3,706,840	-	-	3,706,840
Capital assets, net	5,061,922	8,425,464	-	13,487,386
Total noncurrent assets	<u>9,030,752</u>	<u>8,425,464</u>	<u>-</u>	<u>17,456,216</u>
Total assets	<u>17,488,701</u>	<u>8,594,293</u>	<u>(1,230,509)</u>	<u>24,852,485</u>
Deferred outflows of resources				
Pension-related deferred outflows	1,991,948	-	-	1,991,948
<b>LIABILITIES AND DEFERRED</b>				
<b>INFLOWS OF RESOURCES</b>				
Current liabilities				
Accounts payable	893,638	-	-	893,638
Accrued payroll and related liabilities	339,633	-	-	339,633
Accrued interest	62,890	-	-	62,890
Amounts held for clients, payable from restricted assets	1,426	-	-	1,426
Due to other governments	210,728	-	-	210,728
Unearned revenue	1,397,114	-	-	1,397,114
Line of credit	1,338,323	-	-	1,338,323
Current portion of long-term liabilities	2,315,441	879,831	-	3,195,272
Total current liabilities	<u>6,559,193</u>	<u>879,831</u>	<u>-</u>	<u>7,439,024</u>
Long-term liabilities	2,365,905	6,912,035	(1,230,509)	8,047,431
Total liabilities	<u>8,925,098</u>	<u>7,791,866</u>	<u>(1,230,509)</u>	<u>15,486,455</u>
Deferred inflows of resources				
Pension-related deferred inflows	1,406,438	-	-	1,406,438
<b>NET POSITION</b>				
Net investment in capital assets	1,028,708	633,598	-	1,662,306
Unrestricted	8,120,405	168,829	-	8,289,234
Total net position	<u>\$ 9,149,113</u>	<u>\$ 802,427</u>	<u>\$ -</u>	<u>\$ 9,951,540</u>

## HORIZON BEHAVIORAL HEALTH

### COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended June 30, 2017

	<b>Horizon Behavioral Health</b>	<b>Horizon Opportunities Inc.</b>	<b>Inter- Company Eliminations</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Net client service revenue	\$ 36,353,349	\$ -	\$ -	\$ 36,353,349
<b>OPERATING EXPENSES</b>				
Salaries and benefits	38,193,039	-	-	38,193,039
Staff development and recruitment	313,852	-	-	313,852
Facility	1,639,512	65,616	-	1,705,128
Supplies	1,888,873	367	-	1,889,240
Travel	230,597	-	-	230,597
Contractual and professional services	3,738,543	108,756	(65,000)	3,782,299
Leases	2,025,659	-	(743,126)	1,282,533
Insurance	436,102	-	-	436,102
Depreciation and amortization	467,252	327,608	-	794,860
Other	797,844	83,500	-	881,344
Total operating expenses	49,731,273	585,847	(808,126)	49,508,994
Operating loss	(13,377,924)	(585,847)	808,126	(13,155,645)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Commonwealth of Virginia grants	10,117,719	-	-	10,117,719
Federal grants	1,649,774	-	-	1,649,774
Contributions from participating local governments	894,816	-	-	894,816
Interest income	68,406	-	(32,765)	35,641
Interest expense	(202,502)	(301,936)	32,765	(471,673)
Other income	660,466	853,964	(808,126)	706,304
Impairment loss	(246,249)	-	-	(246,249)
Gain on sale of capital assets	7,304	-	-	7,304
Net nonoperating revenues	12,949,734	552,028	(808,126)	12,693,636
Change in net position	(428,190)	(33,819)	-	(462,009)
<b>NET POSITION, at July 1</b>	9,577,303	836,246	-	10,413,549
<b>NET POSITION, at June 30</b>	\$ 9,149,113	\$ 802,427	\$ -	\$ 9,951,540

**HORIZON BEHAVIORAL HEALTH**  
**COMBINING STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2017**

	<b>Horizon Behavioral Health</b>	<b>Horizon Opportunities Inc.</b>	<b>Inter- Company Eliminations</b>	<b>Total</b>
<b>OPERATING ACTIVITIES</b>				
Receipts from clients, private insurers, Medicaid, and others	\$ 35,739,959	\$ -	\$ -	\$ 35,739,959
Payments to suppliers	(10,427,938)	(779,585)	926,648	(10,280,875)
Payments to employees	(38,413,886)	-	-	(38,413,886)
Other receipts	364	-	-	364
Net cash used in operating activities	<u>(13,101,501)</u>	<u>(779,585)</u>	<u>926,648</u>	<u>(12,954,438)</u>
<b>NON-CAPITAL FINANCING ACTIVITIES</b>				
Contributions from local, state, and federal governments	12,251,390	-	-	12,251,390
Other receipts	660,466	972,487	(926,648)	706,305
Net cash provided by non-capital financing activities	<u>12,911,856</u>	<u>972,487</u>	<u>(926,648)</u>	<u>12,957,695</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	(450,650)	(5,600,000)	-	(6,050,650)
Receipts from other notes receivable	630,649	-	(630,649)	-
Issuance of other notes receivable	(571,026)	-	571,026	-
Proceeds from the sale of capital assets	213,185	-	-	213,185
Proceeds from indebtedness	357,000	6,671,026	(571,026)	6,457,000
Net borrowings on line of credit	461,217	-	-	461,217
Principal paid on debt	(652,892)	(854,177)	630,649	(876,420)
Interest paid on debt	(184,123)	(301,936)	32,765	(453,294)
Net cash used in capital and related financing activities	<u>(196,640)</u>	<u>(85,087)</u>	<u>32,765</u>	<u>(248,962)</u>
<b>INVESTING ACTIVITIES</b>				
Interest received	68,406	-	(32,765)	35,641
Net cash provided by investing activities	<u>68,406</u>	<u>-</u>	<u>(32,765)</u>	<u>35,641</u>
Net increase (decrease) in cash and cash equivalents	(317,879)	107,815	-	(210,064)
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning at July 1	2,099,097	61,014	-	2,160,111
Ending at June 30	<u>\$ 1,781,218</u>	<u>\$ 168,829</u>	<u>\$ -</u>	<u>\$ 1,950,047</u>

(Continued)

**HORIZON BEHAVIORAL HEALTH**  
**COMBINING STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2017**

	<b>Horizon Behavioral Health</b>	<b>Horizon Opportunities Inc.</b>	<b>Inter- Company Eliminations</b>	<b>Total</b>
<b>RECONCILIATION TO STATEMENT OF NET POSITION</b>				
Cash and cash equivalents	\$ 1,517,802	\$ 168,829	\$ -	\$ 1,686,631
Cash and cash equivalents, restricted for clients	1,426	-	-	1,426
Cash and cash equivalents, restricted for debt reserves	261,990	-	-	261,990
	<u>\$ 1,781,218</u>	<u>\$ 168,829</u>	<u>\$ -</u>	<u>\$ 1,950,047</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>				
Operating loss	\$ (13,377,924)	\$ (585,847)	\$ 808,126	\$ (13,155,645)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization	467,252	327,608	-	794,860
Pension expense net of employer contributions	(324,116)	-	-	(324,116)
Decrease (increase) in:				
Accounts receivable, net	194,029	-	-	194,029
Due from other governments	(746,058)	-	-	(746,058)
Prepaid expenses and other	527,010	-	-	527,010
Increase (decrease) in:				
Accounts payable	116,034	(521,346)	118,522	(286,790)
Accrued payroll and related liabilities	88,737	-	-	88,737
Compensated absences	14,532	-	-	14,532
Due to other governments	(61,361)	-	-	(61,361)
Other current liabilities	-	-	-	-
Amounts held for clients, payable from restricted assets	364	-	-	364
Net cash used in operating activities	<u>\$ (13,101,501)</u>	<u>\$ (779,585)</u>	<u>\$ 926,648</u>	<u>\$ (12,954,438)</u>

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## **COMPLIANCE SECTION**

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

To the Board of Directors  
Horizon Behavioral Health  
Lynchburg, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Horizon Behavioral Health (the “Board”), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board’s basic financial statements, and have issued our report thereon dated November 22, 2017.

**Internal Control over Financial Reporting**

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

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Item 2017-001.**

## Board Response to Finding

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

## Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia  
November 22, 2017

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

To the Board of Directors  
Horizon Behavioral Health  
Lynchburg, Virginia

**Report on Compliance for the Major Federal Program**

We have audited Horizon Behavioral Health’s (the “Board”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Board’s major federal program for the year ended June 30, 2017. The Board’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

*Management’s Responsibility*

Management is responsible for compliance with federal statutes, regulations, the terms, and conditions of its federal awards applicable to its federal programs.

*Auditor’s Responsibility*

Our responsibility is to express an opinion on compliance for the Board’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## Report on Compliance for the Major Federal Program (Continued)

### *Opinion on Each Major Federal Program*

In our opinion, the Board, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

### Report on Internal Control Over Compliance

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

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia  
November 22, 2017

**HORIZON BEHAVIORAL HEALTH**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2017**

<u>Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number</u>	<u>Award Date</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<u>Department of Health and Human Services</u>				
Pass-Through Payments:				
Virginia Department of Behavioral Health and Developmental Services				
Block Grants for Community Mental Health Services	9/12/2016	93.958	4450600	\$ 177,043
Block Grants for the Prevention and Treatment of Substance Abuse	9/12/2016	93.959	4450700	<u>1,438,671</u>
Total Department of Health and Human Services				<u>1,615,714</u>
<u>Department of Justice</u>				
Pass-Through Payments:				
Virginia Department of Social Services:				
Crime Victim Assistance	6/14/2016	16.575		<u>34,060</u>
Total expenditures of federal awards				<u>\$ 1,649,774</u>

Note: The schedule is presented on the accrual basis of accounting. The Board has not elected to use the de minimis 10% rate for the allocation of indirect costs.

## **HORIZON BEHAVIORAL HEALTH**

### **SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2017**

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the Board's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

#### **STATE COMPLIANCE MATTERS**

##### *Code of Virginia*

Cash and Investment Laws

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

#### **FEDERAL COMPLIANCE MATTERS**

##### Compliance Supplement for Single Audits of State and Local Governments

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

**HORIZON BEHAVIORAL HEALTH**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2017**

**A. SUMMARY OF AUDITOR’S RESULTS**

1. The auditor’s report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements are reported in the Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor’s report on compliance for the major federal award program expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as major was:

Block Grants for the Prevention and Treatment of Substance Abuse    CFDA# 93.959
8. The threshold for distinguishing Type A and B programs was **\$750,000**.
9. The Board was **not** determined to be a **low-risk auditee**.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None.

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

None.

**D. FINDINGS – COMMONWEALTH OF VIRGINIA**

**2017-001: Procurement**

*Condition:*

The Board did not follow state procurement requirements for seeking competitive sealed bids for construction services as described in Section 4302.1 of the Code of Virginia Title 2.2, Chapter 43 (the Virginia Public Procurement Act). The Act provides specific guidance on the obtaining of bids for any construction services exceeding \$100,000. The Board failed to obtain competitive sealed bids for a project awarded to a contract that totaled approximately \$218,000 during fiscal year 2017. Based on discussions with management, it appears that it was not initially expected that the project would rise to the cost necessary to require sealed bidding. However, once it was clear the project was more in depth and would cost more than originally anticipated, no actions were taken to follow procurement requirements.

**HORIZON BEHAVIORAL HEALTH**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2017**

**D. FINDINGS – COMMONWEALTH OF VIRGINIA (Continued)**

**2017-001: Procurement (Continued)**

*Recommendation:*

We recommend management ensure all procurement personnel and any personnel in a position to approve purchases are fully aware of all Board and state requirements for the obtaining of quotes, sealed bids, request for proposals, or other support necessary for all purchases to be made with Board funds.

*Management's Response:*

The initial cost projections based on the work to be performed were estimated to be below the threshold amount. When all of the written quotes were received, Horizon realized that the cost of the renovation exceeded the threshold. Horizon will ensure that all procurement staff receive training as it relates to the Virginia Public Procurement Act. Horizon will ensure that all procurement personnel fully document purchases indicating compliance with Horizon policies and the Virginia Public Procurement Act.

**HORIZON BEHAVIORAL HEALTH**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**  
**June 30, 2017**

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

*Condition:*

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

*Recommendation:*

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

*Current Status:*

While bank reconciliations were behind at times during the fiscal year, all fiscal year 2017 bank reconciliations were completed as of the start of final audit fieldwork.

**2016 -002: Accounts Receivable (Significant Deficiency)**

*Condition:*

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

*Recommendation:*

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

*Current Status:*

Management is now able to obtain accounts receivable aging reports, collection reports, and other needed information from the system.

**HORIZON BEHAVIORAL HEALTH**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**  
**June 30, 2017**

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

*Condition:*

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

*Recommendation:*

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

*Current status:*

The 2017 end of year required reporting was filed timely.