

***BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.***

FINANCIAL STATEMENTS
WITH
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2015 AND 2014
WITH
INDEPENDENT AUDITOR'S REPORT



BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.

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WITH
SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2015 AND 2014

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**BERT NASH COMMUNITY
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SUPPLEMENTARY INFORMATION**

Years Ended December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Bert Nash Community Mental Health Center, Inc.

We have audited the accompanying financial statements of Bert Nash Community Mental Health Center, Inc. (the Center) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Bert Nash Community Mental Health Center, Inc., as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

August 22, 2016
Wichita, KS

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,948,494	\$ 1,834,643
Accounts receivable	778,785	907,779
Unconditional promises to give	127,315	115,294
Bequest receivable	125,000	--
Other receivables	19,201	26,192
Prepaid expenses	121,010	138,702
Short term investments	512,258	200,060
	<u>3,632,063</u>	<u>3,222,670</u>
Total current assets		
PROPERTY AND EQUIPMENT		
Land	440,437	440,437
Buildings and improvements	247,617	247,617
Furniture, fixtures and equipment	2,003,294	1,845,264
Construction in progress	8,130	8,130
Less accumulated depreciation	(1,693,334)	(1,644,402)
	<u>1,006,144</u>	<u>897,046</u>
Property and equipment, net		
OTHER ASSETS		
Cash held for endowment	393,229	27,660
Investments held for endowment	3,456,153	3,678,167
Long term investments	663,747	673,012
Unconditional promises to give	228,943	215,452
Investment in equity method investees	33,572	36,979
	<u>4,775,644</u>	<u>4,631,270</u>
Total other assets		
Total assets	<u>\$ 9,413,851</u>	<u>\$ 8,750,986</u>

LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES		
Accounts payable	\$ 74,947	\$ 60,925
Deferred revenue	50,000	--
Accrued expenses:		
Payroll and payroll taxes	611,912	529,240
Other	453,894	426,002
	<u>1,190,753</u>	<u>1,016,167</u>
Total current liabilities		
	<u>1,190,753</u>	<u>1,016,167</u>
Total liabilities		
	<u>1,190,753</u>	<u>1,016,167</u>
 NET ASSETS		
Unrestricted	3,892,458	3,698,246
Unrestricted - board designated	3,474,382	3,705,827
Temporarily restricted	856,258	330,746
	<u>8,223,098</u>	<u>7,734,819</u>
Total net assets		
	<u>8,223,098</u>	<u>7,734,819</u>
Total liabilities and net assets		
	<u>\$ 9,413,851</u>	<u>\$ 8,750,986</u>

The accompanying notes are an integral
part of these financial statements.

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

STATEMENT OF ACTIVITIES

Year Ended December 31, 2015

	2015		
	Unrestricted	Temporarily Restricted	Total
Revenues			
Fees	\$ 6,403,417	\$ --	\$ 6,403,417
State and federal grants	908,557	--	908,557
Other grants	259,950	--	259,950
Contracts	330,688	--	330,688
Douglas County tax levy	1,051,500	--	1,051,500
Douglas County subsidy	1,287,461	--	1,287,461
Donated office space	538,191	--	538,191
State aid	248,077	--	248,077
Interest and dividend income	99,609	--	99,609
Donations	119,740	679,856	799,596
Miscellaneous income	106,092	--	106,092
Gain (loss) from equity method investees	(3,407)	--	(3,407)
Net realized and unrealized gains (losses)	(187,454)	--	(187,454)
Net assets released from restrictions	154,344	(154,344)	--
Total revenues	11,316,765	525,512	11,842,277
Expenses			
Access center	635,145	--	635,145
Adult services	5,140,661	--	5,140,661
Child and family services	3,089,755	--	3,089,755
Medical services	1,542,497	--	1,542,497
Health home services	714,809	--	714,809
Administration	84,022	--	84,022
Fundraising	147,109	--	147,109
Total expenses	11,353,998	--	11,353,998
Change in net assets	(37,233)	525,512	488,279
Net assets, beginning of year	7,404,073	330,746	7,734,819
Net assets, end of year	\$ 7,366,840	\$ 856,258	\$ 8,223,098

The accompanying notes are an integral
part of these financial statements.

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

STATEMENT OF ACTIVITIES

Year Ended December 31, 2014

	2014		
	Unrestricted	Temporarily Restricted	Total
Revenues			
Fees	\$ 5,959,411	\$ --	\$ 5,959,411
State and federal grants	982,363	--	982,363
Other grants	248,438	--	248,438
Contracts	198,246	--	198,246
Douglas County tax levy	886,500	--	886,500
Douglas County subsidy	1,211,700	--	1,211,700
Donated office space	486,108	--	486,108
State aid	248,078	--	248,078
Interest and dividend income	113,291	--	113,291
Donations	--	267,215	267,215
Miscellaneous income	102,446	--	102,446
Gain (loss) from equity method investees	(78,420)	--	(78,420)
Net realized and unrealized gains	72,200	--	72,200
Net assets released from restrictions	208,549	(208,549)	--
Total revenues	10,638,910	58,666	10,697,576
Expenses			
Access center	589,391	--	589,391
Adult services	5,046,698	--	5,046,698
Child and family services	3,047,635	--	3,047,635
Medical services	1,402,151	--	1,402,151
Health home services	156,911	--	156,911
Administration	720,298	--	720,298
Endowment fundraising	145,878	--	145,878
Total expenses	11,108,962	--	11,108,962
Change in net assets	(470,052)	58,666	(411,386)
Net assets, beginning of year	7,874,125	272,080	8,146,205
Net assets, end of year	\$ 7,404,073	\$ 330,746	\$ 7,734,819

The accompanying notes are an integral
part of these financial statements.

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

STATEMENT OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 488,279	\$ (411,386)
Adjustments to reconcile changes in net assets to cash flows from operating activities:		
Depreciation and amortization	72,640	77,639
Bad debts expense	52,997	103,277
Net realized and unrealized losses (gains) on investments	187,454	(72,200)
Losses from equity method investees	3,407	3,420
Donation of land	--	525,000
Loss on disposal of fixed assets	727	--
Receipt of donated investments	(12,258)	--
Noncash grant received for property and equipment	(32,673)	--
Changes in operating assets and liabilities		
Accounts receivable	75,997	(615,387)
Unconditional promises to give	(25,512)	(58,666)
Bequest receivable	(125,000)	--
Other receivables	6,991	225,670
Prepaid expenses	17,692	(29,209)
Accounts payable	14,022	21,819
Deferred revenue	50,000	(21,222)
Accrued expenses	110,564	12,416
Net cash flow from operating activities	<u>885,327</u>	<u>(238,829)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(151,699)	(137,829)
Proceeds from sale of property and equipment	1,907	--
Purchase of investments/earning reinvested	(131,175)	(139,202)
Redemption (purchase) of certificates of deposit	(299,940)	696,414
Proceeds from investments	175,000	556,093
Net cash flow from investing activities	<u>(405,907)</u>	<u>975,476</u>
Change in cash and cash equivalents	<u>479,420</u>	<u>736,647</u>
Cash and cash equivalents, beginning of year	<u>1,862,303</u>	<u>1,125,656</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,341,723</u></u>	<u><u>\$ 1,862,303</u></u>

The accompanying notes are an integral
part of these financial statements.

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bert Nash Community Mental Health Center, Inc. (the Center) was formed in 1950 to provide mental health services to the people of Douglas County. The purpose of the Center as a charitable organization is to promote mental health wellness. This is accomplished by providing training, counseling and other services to those in need.

The major programs through which the Center provides its services are as follows:

The Access Center provides licensed master clinicians to perform psychiatric hospitalization assessments both on site and for community based emergencies.

Adult Services helps adults with a variety of concerns related to the stress associated with family, relationships, work, illness or the loss of a loved one. Stress in adults can result in physical complaints such as insomnia, depression, anxiety, eating disorders or alcohol and substance abuse. Adult services offer a variety of helping strategies based on individual needs including individual, couple, group and family therapy and psychological evaluations and appropriate medications.

Child and Family Services helps children and families cope with stresses related to family relationships, the challenges of parenting, blending families and the impact of job loss or divorce. Stress in children can manifest as chronic conflict with parents or children, failing grades, poor peer choices, drug use, and trouble with the law or physical complaints. A variety of helping strategies based on an individual child's and family's needs are used and are often provided in the home or other natural settings.

Medical Services staff consists of psychiatrists, psychiatric nurse practitioners, and registered nurses that provide medication evaluations and ongoing medication treatment to patients of the Center.

Health Home Services provides a comprehensive and intense system of care coordination that integrates and coordinates all services and supports for individuals eligible for Medicaid who also have complex chronic conditions, including, but not limited to a serious mental illness, diabetes, asthma or obesity. The Health Home provides services to children and adults. The team is comprised of a nurse care coordinator, a social worker, care coordinators, a peer support specialist, a PCP consultant, and a psychiatrist consultant.

The Center has two locations in Douglas County, located in Lawrence and Eudora, Kansas. The financial statements reflect the activity of all the Center's operations.

Concentrations of Risk - The Center provides services and support to persons as described above. The majority of these services are rendered to Medicaid eligible individuals.

Due to the large volume of services provided that are dependent on the Center maintaining the right to serve the individuals who are Medicaid eligible, as well as providing services as stated in other grants and contracts, the loss of the ability to serve these persons would have a significant effect on the operations of the Center. The Center is subject to annual licensing visits for compliance with Kansas statutes and rules and regulations of the Kansas Department for Aging and Disability Services. The Center's current license is effective through April 30, 2017.

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting - The accompanying financial statements of the Center have been prepared on the accrual basis of accounting.

Financial Statement Presentation - Under accounting principles generally accepted in the United States of America, net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are required to be classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. See Note 10 for the composition of temporarily restricted net assets as of December 31, 2015 and 2014.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that neither expire by actions of the Center nor by the passage of time. As of December 31, 2015 and 2014, the Center did not have any permanently restricted net assets.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash equivalents include all highly liquid investment instruments with original maturities of three months or less. At December 31, 2015 and 2014, cash equivalents consisted of checking accounts, an insured cash sweep account, and petty cash.

The Center maintains deposits in banks that are insured by the Federal Deposit Insurance Corporation (FDIC). The balances are insured up to \$250,000. The Center's deposits may have exceeded the FDIC insurance limits during the years ended December 31, 2015 and 2014.

Investments - Investments in mutual funds are reported at fair value. Fair value is determined using quoted market prices in active markets for identical assets. Gains or losses on sales of investments are determined on a specific cost identification basis and are included in investment income. Unrealized gains and losses are determined based on year-end value fluctuations. Investments received by gift are recorded at fair value at the date of receipt. The Center invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in value of the investment securities will occur in the near term, and those changes could materially affect the amounts reported in the statement of financial position. The Center also invests in certificates of deposit which are reported at cost as they are not affected by market changes.

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in Equity Method Investees - Investee companies that are not consolidated but over which the Center exercises significant influence are accounted for under the equity method of accounting. Whether or not the Center exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, ownership level which is generally a 20% to 50% interest in the investee company. Under the equity method of accounting, an investee company's accounts are not reflected in the Center's financial statements. However, the Center's carrying value in an equity method investee company is reflected in the Center's statement of financial position.

Revenue Recognition - Substantially all of the Center's revenue is from service recipients, third party payers or governmental support. Revenue from governmental sources is recognized during the period the support is intended to cover. Prepayments are recorded as deferred revenue, while payments not yet received, but for which a commitment and fund availability have been established, are accrued as a receivable.

The Center has agreements with third-party payers that provide payments to the Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per service, reimbursed costs, discounted charges and per diem payments. Net service patient revenues are reported at the estimated net realizable value from patients, third-party payers, and other payers for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Such agreements are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Accounts Receivable - Accounts receivable consist primarily of fees owed by clients and third-party payers. Clients are charged full rates for services, but accounts are frequently settled for amounts less than the full rate as a result of contractual adjustments made upon subsequent payment by third-party payers. Estimated allowances for these contractual adjustments are reflected in the net accounts receivable amount on the statement of financial position.

The Center uses the allowance method to account for estimated uncollectible accounts receivable, and the allowance is determined by management based on the Center's past collection experience. The provision is made in amounts required to maintain an adequate allowance to cover anticipated bad debts, resulting from nonpayment by clients. A receivable is considered to be past due if any portion of the receivable balance is more than thirty days old. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Below is a summary of accounts receivable at December 31, 2015 and 2014:

	2015	2014
Net patient accounts receivable	\$ 862,531	\$ 1,006,529
Less: Allowance for uncollectible accounts	(83,746)	(98,750)
Net estimated realizable accounts receivable	\$ 778,785	\$ 907,779

Promises to Give - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. No allowance for uncollectible accounts has been established for promises to give, since management deems them fully collectible.

Property and Equipment - The Center capitalizes all expenditures for property and equipment over \$5,000. Property and equipment are recorded at cost at the date of acquisition, or fair value at the date of donation, and are depreciated under a straight-line method over the estimated useful lives of forty years for buildings and improvements and three to ten years for furniture, fixtures and equipment. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is recognized in operations for the period. The cost of maintenance and repairs is charged to operations as incurred; significant renewals or betterments are capitalized.

Deductions are made for retirements resulting from renewals or betterments. Contributions of long-lived assets without restrictions are reported as unrestricted support. Contributions of assets with restrictions are reported as restricted support and, in accordance with the nature and type of restriction, are considered to have time and use restrictions released over the useful life of the assets, unless the restriction is otherwise stated.

Depreciation expense for the years ended December 31, 2015 and 2014 was \$72,640 and \$77,639, respectively.

Income Taxes - The Center is exempt from federal income taxation as an organization described in Section 501(c) (3) of the Internal Revenue Code. The Center has not been classified as a private foundation. However, the Center is subject to federal income tax on any unrelated business income. The Center did not have any material unrelated business income tax liability for the years ended December 31, 2015 and 2014.

The Center follows accounting requirements related to uncertain tax positions. Tax positions taken may include positions that the Center is exempt from income taxes or be related to how the Center determines its unrelated business income. The Center recognizes the financial statement effects of a tax position only when it believes it can more likely than not sustain the position upon an examination by the relevant tax authority.

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Overhead Allocation - Overhead costs are allocated to each program based upon the percentage of the average number of department and staff hours spent on each program.

Functional Allocation of Expenses - The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the programs and supporting services benefited.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses, including functional allocations during the reporting period. Actual results could differ from those estimates.

Advertising - Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2015 and 2014 was \$8,146 and \$10,977, respectively.

Donated Use of Facility - The Center operates in a facility provided by the City of Lawrence, Kansas. The Center records the lease value of the building in which it operates as revenue and expense on the statement of activities.

Reclassifications - Certain amounts reported on the statement of activities for the year ended December 31, 2014 have been reclassified to be consistent with classifications adopted for the year ended December 31, 2015.

2. PROMISES TO GIVE

Unconditional promises to give at December 31 are as follows:

	2015	2014
Receivable in less than one year	\$ 127,315	\$ 115,294
Receivable in one to five years	245,586	235,095
Receivable in six to ten years	3,000	--
Total unconditional promises to give	375,901	350,389
Less discount to net present value	(19,643)	(19,643)
Net unconditional promises to give	\$ 356,258	\$ 330,746

The long-term promises to give have been discounted using a 3% rate.

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS

Investments include the following at December 31:

	2015	2014
Mutual funds		
Foreign large blend	\$ 1,898,560	\$ 1,972,634
Large blend	2,221,340	2,378,545
Common stock:		
Health care	5,476	--
Consumer	4,765	--
Real estate	2,017	--
	<u>4,132,158</u>	<u>4,351,179</u>
Certificate of deposits	<u>500,000</u>	<u>200,060</u>
Total investments	<u><u>\$ 4,632,158</u></u>	<u><u>\$ 4,551,239</u></u>

Investment income (loss) consists of the following for the years ended December 31:

	2015	2014
Realized/unrealized gain (loss)	\$ (187,454)	\$ 72,200
Interest and dividend income	<u>99,609</u>	<u>113,291</u>
Total investment income (loss)	<u><u>\$ (87,845)</u></u>	<u><u>\$ 185,491</u></u>

4. EQUITY METHOD INVESTEEES

During 2009, the Center purchased a 25% share of Corridor Technology Solutions, LLC (CTS). During 2010, the Center purchased a 37.5% share of BrightEHR, LLC; however, the Center's share in BrightEHR was decreased to 30% during fiscal year 2013 due to the addition of a new investor. The Center uses the billing software, PowerFace, that was developed by CTS. BrightEHR licenses and sells the software rights held in CTS.

The investments in both companies are accounted for by the equity method of accounting. The carrying value represents the Center's equity at December 31, 2015 and 2014. Under the equity method of accounting, the original investment is increased by earnings and decreased by losses of the LLCs. Distributions received from the LLCs reduce the Center's investment.

The Center's original investment in BrightEHR, LLC of \$300,000 has been fully absorbed by the Center's share of losses of BrightEHR, LLC.

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

4. EQUITY METHOD INVESTEEES (CONTINUED)

In 2014, the Center entered into a promissory note with BrightEHR, LLC., for \$75,000. The note accrues interest using the Wall Street Journal prime rate, plus 1%. BrightEHR is to pay the Center 5% of the gross revenues received from the sales of products and services, with such payments applied first to any outstanding interest, and then to the principal. A lump sum payment of any remaining unpaid principal and accrued interest was due on April 18, 2019. This note was considered an additional investment in BrightEHR for purposes of applying the equity method of accounting. Therefore, the Center's share of losses in BrightEHR were applied to this investment, resulting in a write down of the note to \$0 as of December 31, 2014.

The Center does not have any capital contribution requirements to provide additional financial support to BrightEHR, except as required by the terms of the BrightEHR, LLC Operating Agreement (the Agreement). The Agreement states that Members of the LLC acknowledge that the LLC may require capital funds for the payment of debts and liabilities, and to provide operating capital. The Members from time to time may contribute additional cash based on their respective distribution percentage interests (as defined), subject to the requirement that the proposed capital contributions must be unanimously approved by the Members.

In 2015, the Center and other members of BrightEHR, LLC entered into a new contribution agreement. Under the terms of the agreement, the Center and each other member is required to provide contributions of \$65,000 in April 2015 and \$50,000 in January 2016. Such contributions are intended to fund redevelopment of the billing software for the members' use and are not considered capital contributions. The Center's contribution of \$65,000 in 2015 is recorded with property and equipment (software) on the statement of financial position.

5. FAIR VALUE MEASUREMENTS

The disclosure provisions of the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 820) establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

- | | |
|---------|--|
| Level 1 | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities; |
| Level 2 | Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly; |
| Level 3 | Prices or valuations that require inputs that are both significant to fair value measurement and unobservable. |

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

5. FAIR VALUE MEASUREMENTS (CONTINUED)

The asset or liability's fair measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2015.

Mutual funds and common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments with the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

The following tables set forth the Center's financial assets that were measured at fair value on a recurring basis as of December 31, 2015 and 2014.

2015 Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total Fair Value
Mutual funds:				
Foreign large blend	\$ 1,898,560	\$ -	\$ -	\$ 1,898,560
Large blend	2,221,340	-	-	2,221,340
Common stock:				
Health care	5,476	-	-	5,476
Consumer	4,765	-	-	4,765
Real estate	2,017	-	-	2,017
	<u>\$ 4,132,158</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,132,158</u>

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

5. FAIR VALUE MEASUREMENTS (CONTINUED)

2014 Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total Fair Value
Mutual funds:				
Foreign large blend	\$ 1,972,634	\$ -	\$ -	\$ 1,972,634
Large blend	2,378,545	-	-	2,378,545
	<u>\$ 4,351,179</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,351,179</u>

There were no transfers between the levels during the year. The Center's policy is to only recognize transfers in and out of the levels at the end of the fiscal year; interim changes in the fair value inputs are not recognized.

6. RELATED PARTY TRANSACTIONS

The Center operates a residential housing program for its clients through Building Independence, Inc. (the Corporation). The housing properties are owned by the Corporation, financed with loan proceeds provided by the U.S. Department of Housing and Urban Development, and supervised and managed by Center personnel and the Lawrence Douglas County Housing Authority. The Center donates supervision, management and administrative services to the Corporation on a no cost basis. In addition, the Corporation also reimburses the Center for certain costs incurred related to the Corporation. As of December 31, 2015 and 2014, the Center carried no amounts due from the Corporation. Reimbursements to the Center from the Corporation during 2015 and 2014 amounted to \$0.

**BERT NASH COMMUNITY
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NOTES TO FINANCIAL STATEMENTS

6. RELATED PARTY TRANSACTIONS (CONTINUED)

A condensed unaudited balance sheet and income statement is presented below for the Corporation as of and for the years ended December 31, 2015 and 2014, respectively.

	2015	2014
Assets		
Current assets	\$ 59,576	\$ 54,670
Property and equipments	113,480	122,818
Total assets	<u>\$ 173,056</u>	<u>\$ 177,488</u>
Liabilities	<u>\$ 3,474</u>	<u>\$ 2,768</u>
Net assets	<u>169,582</u>	<u>174,720</u>
Total liabilities and net assets	<u>\$ 173,056</u>	<u>\$ 177,488</u>
 Total revenue	 \$ 21,885	 \$ 22,229
Total expense	<u>27,023</u>	<u>27,105</u>
Decrease in net assets	<u>\$ (5,138)</u>	<u>\$ (4,876)</u>

7. LINE OF CREDIT

The Center has an operating line of credit established with a bank for working capital purposes that matures in November 2016. The line of credit has a limit of \$500,000 with variable interest at the one month LIBOR average + 2.5%. The line of credit is collateralized by various assets of the Center. The full amount of the line was available as of December 31, 2015.

8. RETIREMENT PLAN

Plan Description. The Center participates in the Kansas Public Employees Retirement System plan (KPERS or the Plan). KPERS is a cost-sharing multiple-employer defined benefit pension plan as provided by Kansas Statutes. KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. KPERS issues publicly available financial reports that include financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737. The risks of participating in these multiple-employer plans are different from the risks of participating in single-employer plans in the following aspects: (1) Assets contributed to the multiple-employer plan by one employer may be used to provide benefits to employees of other participating employers, and (2) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

8. RETIREMENT PLAN (CONTINUED)

Since 1996, all participating employees have been included in KPERS. Employees are eligible upon employment.

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Kansas law establishes the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. KPERS is funded on an actuarial reserve basis. The employer contribution rate was 10.33% from January 1, 2015 to June 30, 2015, and 10.48% from July 1, 2015 to December 31, 2015. In 2014, the employer contribution rate was 9.69% for the entire year. The amount of employer contribution expense was \$689,001 and \$600,132 for the years ending December 31, 2015 and 2014, respectively.

The difference between the Plan's actuarial value of Plan assets and the actuarial accrued liability (the unfunded accrued actuarial liability) reported in the Plan's audited financial statements as of June 30, 2015 and 2014 was approximately \$9.5 billion and \$9.7 billion, respectively, which represents a funded status of approximately 62% and 60%, respectively. In the event of a plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. The Center represents less than 5% of the total contributions into this multiple-employer plan.

In response to KPERS' long-term funding shortfall, the 2012 Kansas Legislature made changes to future benefits and contributions, affecting both current members and employers, to improve KPERS long-term sustainability. The 2015 Kansas Legislature passed Senate Bill 228 authorizing the issuance of \$ 1.0 billion in pension obligation bonds. The proceeds of these bonds were transferred to KPERS. No surcharges have been imposed on employers.

9. ENDOWMENTS

The Center's endowment consists of funds established to support the general operations of the Center, and consists solely of funds designated by the Board of Directors to function as endowments. The underlying sources of funds designated for investment in the endowment come from either unrestricted funds or donor funds that were restricted for operational purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The investment policy of the Center reflects the long-term nature of endowed funds in which the principal is protected. The policy states that the investment portfolio balance shall consist of a maximum position of 100% equity mutual funds and a maximum position of 30% fixed

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

9. ENDOWMENTS (CONTINUED)

income mutual funds. The Investment Committee retains the authority to change allocations as deemed necessary.

The Board of Directors has adopted a formal policy of determining the factors for calculating the annual distribution from the board-designated portion of the endowment funds on an annual basis. Current practice is to distribute five percent of the trailing 36-month average market value of these investments to the Center's general operations. There is not a formal policy for calculating the annual distribution for the donor-restricted funds.

Endowment net asset composition by type of fund as of December 31 is as follows:

	2015	2014
Board-designated endowment funds	\$ 3,474,382	\$ 3,705,827
Board-designated endowment from donor-restricted funds	375,000	-
Total funds	<u>\$ 3,849,382</u>	<u>\$ 3,705,827</u>

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Unrestricted
Endowment net assets, beginning of year	\$ 3,705,827	\$ -	\$ 3,705,827	\$ 3,676,544
Investment income	73,709	-	73,709	114,846
Net appreciation (depreciation)	(163,129)	-	(163,129)	52,537
Contributions	32,975	375,000	407,975	29,900
Amounts appropriated for expenditure	(175,000)	-	(175,000)	(168,000)
Endowment net assets, end of year	<u>\$ 3,474,382</u>	<u>\$ 375,000</u>	<u>\$ 3,849,382</u>	<u>\$ 3,705,827</u>

10. NET ASSETS AND CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

The Center has net assets temporarily restricted for specific purposes or periods as follows as of December 31:

	2015	2014
Purpose restriction:		
Operating activities, invested in endowment	\$ 375,000	\$ --
Operating activities, bequest receivable	125,000	--
Time restriction:		
Unconditional promises to give	<u>356,258</u>	<u>330,746</u>
Total temporarily restricted net assets	<u>\$ 856,258</u>	<u>\$ 330,746</u>

**BERT NASH COMMUNITY
MENTAL HEALTH CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

**10. NET ASSETS AND CHANGES IN TEMPORARILY RESTRICTED NET ASSETS
(CONTINUED)**

Net assets were released from time restrictions in the amount of \$154,344 and \$208,549 during the years ended December 31, 2015 and 2014, respectively.

11. CONCENTRATION OF CREDIT RISK

The Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31 was as follows:

	2015	2014
Medicaid	63%	67%
Patients	17%	11%
Other third-party payers	16%	17%
Medicare	4%	5%
	<u>100%</u>	<u>100%</u>

12. COMMITMENTS

In 2012, the Center purchased a parcel of land to be used for the future construction of a comprehensive health care facility in partnership with local organizations. Construction will depend on the availability of future funding.

See also Note 4 for the Center's commitments to provide additional contributions to BrightEHR, LLC in 2016.

13. LAND DONATION

In 2014, the Center donated land with an estimated original cost of \$525,000 to the City of Lawrence for a new city park. The expense associated with this donation is recorded with Administration expenses on the Statement of Activities for the year ended December 31, 2014.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 22, 2016, which is the date the financial statements were available to be issued. Subsequent to December 31, 2015, Medicaid reimbursements were decreased by the State of Kansas by 4% beginning July 1, 2016.

SUPPLEMENTARY INFORMATION

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

	<u>Access Center</u>	<u>Adult Services</u>	<u>Child & Family Services</u>	<u>Medical Services</u>	<u>Health Home Services</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES								
Salaries	\$ 413,073	\$ 2,724,100	\$ 1,606,427	\$ 886,362	\$ 333,193	\$ 801,253	\$ 73,420	\$ 6,837,828
Payroll taxes and benefits	131,632	1,080,591	618,757	258,318	135,187	308,309	12,731	2,545,525
Education	--	6,244	7,234	2,570	2,854	17,835	--	36,737
Program costs	392	64,502	127,933	86,996	6,499	106,283	--	392,605
Communications	4,715	58,799	33,046	8,238	6,330	12,079	--	123,207
Transportation	1,141	133,978	22,459	--	3,280	19,333	--	180,191
Postage	567	4,571	2,707	994	552	1,680	--	11,071
Office supplies	1,793	13,795	7,843	4,987	2,828	4,579	--	35,825
Dues and subscriptions	--	125	175	2,240	--	36,651	--	39,191
Advertising	--	--	673	--	--	7,473	--	8,146
Legal and accounting	--	336	--	50	--	21,268	--	21,654
Operating fundraising	--	--	--	--	--	-	60,958	60,958
Equipment	1,157	5,682	3,346	1,442	450	1,528	--	13,605
Computer equipment/support	9,782	73,130	45,661	19,879	60,507	25,720	--	234,679
Insurance	3,314	32,275	16,239	17,102	3,314	10,075	--	82,319
Utilities and building maintenance	33,385	281,810	162,588	59,201	26,953	5,603	--	569,540
Bad debts	225	32,972	12,159	7,375	266	-	--	52,997
Depreciation	2,666	41,015	13,728	5,285	3,063	6,883	--	72,640
Miscellaneous expense	--	--	--	--	--	35,280	--	35,280
Administrative overhead	31,303	586,736	408,780	181,458	129,533	(1,337,810)	--	--
Total Expenses	<u>\$ 635,145</u>	<u>\$ 5,140,661</u>	<u>\$ 3,089,755</u>	<u>\$ 1,542,497</u>	<u>\$ 714,809</u>	<u>\$ 84,022</u>	<u>\$ 147,109</u>	<u>\$ 11,353,998</u>

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2014

	<u>Access Center</u>	<u>Adult Services</u>	<u>Child & Family Services</u>	<u>Medical Services</u>	<u>Health Home Services</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES								
Salaries	\$ 397,583	\$ 2,576,035	\$ 1,575,105	\$ 788,531	\$ 102,250	\$ 886,346	\$ 71,445	\$ 6,397,295
Payroll taxes and benefits	121,728	1,020,848	584,938	216,736	32,729	364,734	12,389	2,354,102
Education	2,858	6,462	4,467	2,270	1,450	19,523	--	37,030
Program costs	267	74,966	122,658	114,734	479	24,594	--	337,698
Communications	4,142	56,266	29,760	6,513	5,026	10,412	--	112,119
Transportation	9,092	136,881	17,307	102	557	23,669	--	187,608
Postage	583	5,112	3,091	1,008	220	1,681	--	11,695
Office supplies	1,698	14,241	8,936	3,938	923	4,780	--	34,516
Dues and subscriptions	--	79	161	2,660	--	30,598	--	33,498
Advertising	--	--	--	--	--	10,977	--	10,977
Legal and accounting	--	--	--	--	--	18,471	--	18,471
Operating fundraising	--	--	--	--	--	--	60,973	60,973
Equipment	1,224	14,961	6,505	1,219	7,380	2,032	--	33,321
Computer equipment/support	7,702	72,088	46,307	15,032	3,109	21,145	1,071	166,454
Insurance	3,229	31,916	17,210	18,483	--	5,744	--	76,582
Utilities and building maintenance	4	314,622	152,153	47,153	2,388	4,146	--	520,466
Bad debts	383	47,747	42,357	12,790	--	--	--	103,277
Depreciation	3,169	44,096	17,636	5,384	400	6,954	--	77,639
Donations	--	--	--	--	--	525,000	--	525,000
Miscellaneous expense	--	--	4,366	--	--	5,875	--	10,241
Administrative overhead	35,729	630,378	414,678	165,598	--	(1,246,383)	--	--
Total Expenses	<u>\$ 589,391</u>	<u>\$ 5,046,698</u>	<u>\$ 3,047,635</u>	<u>\$ 1,402,151</u>	<u>\$ 156,911</u>	<u>\$ 720,298</u>	<u>\$ 145,878</u>	<u>\$ 11,108,962</u>