



*Certified Public Accountants*

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

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**FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2019**

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2019

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## **INDEPENDENT AUDITORS' 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 statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year 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.

### **Auditors' 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. 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 auditors' 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.

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RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International.

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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As described in Note 1 to the financial statements, the Center has changed its method of accounting for revenue recognition effective January 1, 2019 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* and FASB Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

BT & Co., P.A.

July 15, 2020  
Topeka, Kansas

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2019

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,008,272
Accounts receivable, net	1,210,316
Unconditional promises to give	279,380
Grant receivables	84,917
Other receivables	324,531
Prepaid expenses	92,467
Short term investments	1,232,527

Total current assets 4,232,410

Property and equipment:

Land	66,400
Buildings and improvements	247,617
Furniture, fixtures, and equipment	2,098,473
Construction in progress	114,999
Less accumulated depreciation	(1,859,854)

Property and equipment, net 667,635

Other assets:

Cash held for endowment	95,807
Long term investments	700,000
Investments held for endowment	5,302,621
Unconditional promises to give, net, less current portion	348,454
Investment in equity method investees	20,216

Total other assets 6,467,098

Total assets \$ 11,367,143

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 687,977
Accrued payroll expenses	708,861

1,396,838

Net assets:

Without donor restrictions	8,426,328
With donor restrictions	1,543,977

9,970,305

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\$ 11,367,143

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, support and gains:			
Patient fees	\$ 5,721,695	\$ -	\$ 5,721,695
State and federal grants	1,468,223	-	1,468,223
Other grants	551,794	-	551,794
Contracts	797,997	-	797,997
Douglas County tax levy	1,928,744	-	1,928,744
Douglas County subsidy	1,529,099	-	1,529,099
In-kind contribution - donated office space	538,191	-	538,191
State aid	248,077	-	248,077
Donations	54,821	290,861	345,682
Miscellaneous income	210,101	-	210,101
Net assets released from restrictions	129,604	(129,604)	-
	<u>13,178,346</u>	<u>161,257</u>	<u>13,339,603</u>
Expenses:			
Access center	568,751	-	568,751
Adult services	4,545,909	-	4,545,909
Child and family services	2,947,647	-	2,947,647
Medical services	1,982,899	-	1,982,899
Management and general	3,286,655	-	3,286,655
Fundraising	229,311	-	229,311
	<u>13,561,172</u>	<u>-</u>	<u>13,561,172</u>
Change in net assets before other income (expense)	<u>(382,826)</u>	<u>161,257</u>	<u>(221,569)</u>
Other income (expense):			
Interest and dividend income	171,131	-	171,131
Loss from equity method investees	(3,332)	-	(3,332)
Net realized and unrealized gains	992,563	-	992,563
	<u>1,160,362</u>	<u>-</u>	<u>1,160,362</u>
Change in net assets	777,536	161,257	938,793
Net assets, beginning of year	<u>7,648,792</u>	<u>1,382,720</u>	<u>9,031,512</u>
Net assets, end of year	<u>\$ 8,426,328</u>	<u>\$ 1,543,977</u>	<u>\$ 9,970,305</u>

See accompanying notes to financial statements.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019

	Program Services				Management and General	Fundraising	Total
	Access Center	Adult Services	Child and Family Services	Medical Services			
Expenses:							
Salaries	\$ 384,101	\$ 2,700,921	\$ 1,899,909	\$ 1,263,622	\$ 1,737,994	\$ 134,266	\$ 8,120,813
Payroll taxes and benefits	112,711	1,099,579	682,084	293,071	739,619	29,316	2,956,380
Education	2,244	15,410	4,738	2,693	59,827	-	84,912
Program costs	1,829	151,156	116,842	306,931	79,716	-	656,474
Communications	25,762	20,524	12,022	242	64,504	-	123,054
Transportation	1,157	109,136	32,006	-	14,720	-	157,019
Postage	-	91	164	773	9,590	-	10,618
Office supplies	98	4,139	2,090	696	33,101	-	40,124
Dues and subscriptions	-	354	312	1,310	114,220	-	116,196
Advertising	-	-	-	-	4,649	-	4,649
Legal and accounting	-	347	75	-	22,117	-	22,539
Operating fundraising	-	5	-	12	-	65,729	65,746
Equipment	206	6,967	2,339	1,379	7,163	-	18,054
Computer equipment/support	2,933	2,334	2,369	2,569	277,297	-	287,502
Insurance	-	5,134	-	16,086	61,028	-	82,248
Utilities and building maintenance	32,292	311,895	158,780	59,201	12,763	-	574,931
Bad debts	5,418	108,362	33,779	34,314	(1,269)	-	180,604
Depreciation	-	8,771	-	-	40,031	-	48,802
Miscellaneous expense	-	784	138	-	9,585	-	10,507
Total expenses	<u>\$ 568,751</u>	<u>\$ 4,545,909</u>	<u>\$ 2,947,647</u>	<u>\$ 1,982,899</u>	<u>\$ 3,286,655</u>	<u>\$ 229,311</u>	<u>\$ 13,561,172</u>
Internal allocation of management and general expenses:							
Total expenses	\$ 568,751	\$ 4,545,909	\$ 2,947,647	\$ 1,982,899	\$ 3,286,655	\$ 229,311	\$ 13,561,172
Allocation	129,185	1,970,081	904,300	226,075	(3,229,641)	-	-
	<u>\$ 697,936</u>	<u>\$ 6,515,990</u>	<u>\$ 3,851,947</u>	<u>\$ 2,208,974</u>	<u>\$ 57,014</u>	<u>\$ 229,311</u>	<u>\$ 13,561,172</u>

See accompanying notes to financial statements.



BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2019

Cash flows from operating activities:		
Change in net assets	\$	938,793
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation		48,802
Bad debt expense		180,604
Net realized and unrealized gains		(992,563)
Loss from equity method investees		3,332
Change in discount on promises to give		(26,774)
Loss on disposal of property and equipment		16,079
Changes in operating assets and liabilities:		
Accounts receivable, net		(801,883)
Unconditional promises to give for other than long-term purposes		10,338
Grant receivables		(48,773)
Other receivables		(283,718)
Prepaid expenses		76,970
Accounts payable		519,578
Accrued payroll expenses		129,323
Net cash flows from operating activities		<u>(229,892)</u>
Cash flows from investing activities:		
Purchase of property and equipment		(14,643)
Proceeds from sale of property and equipment		2,810
Purchase of investments/earnings reinvested		(363,699)
Purchase of certificates of deposit		(11,596)
Proceeds from investments		462,253
Net cash flows from investing activities		<u>75,125</u>
Cash flows from financing activities:		
Collections of contributions restricted for long-term purposes		75,322
Net change in cash and cash equivalents		<u>(79,445)</u>
Cash and cash equivalents, beginning of year		<u>1,183,524</u>
Cash and cash equivalents, end of year	\$	<u><u>1,104,079</u></u>
Cash and cash equivalents consisted of the following:		
Cash and cash equivalents	\$	1,008,272
Cash held for endowment		95,807
	\$	<u><u>1,104,079</u></u>

See accompanying notes to financial statements.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

1 - 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.

The Center is located in Lawrence, Kansas. The financial statements reflect the activity of all the Center's operations.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

1 - Organization and Summary of Significant Accounting Policies (Continued)

Concentrations of Services Risk

The Center provides significant services and support to persons considered Medicaid eligible. These services are funded through Federal, State, local, and other grants and contracts. Violations as a result of the annual licensing visits for compliance with Kansas statutes and rules and regulations of the Kansas Department of Aging and Disability Services would have a significant effect on the Center's ability to service these individuals and as a result, a significant effect on the operations of the Center.

Basis of Accounting

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

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions:* Net assets available for use in general operations and not subject to donor restrictions. As of December 31, 2019, the Center had included in net assets without donor restrictions \$ 4,480,259 in board-designated net assets for the endowment.

*Net Assets With Donor Restrictions:* Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-restricted contributions are reported as increases in net assets with donor restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

1 - Organization and Summary of Significant Accounting Policies (Continued)

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, 2019, cash equivalents consisted of checking accounts, an insured cash sweep account, and petty cash.

Concentrations of Credit

The Center manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in mutual funds. To date, the Center has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and foundations supportive of the Center's mission. Investments are made by diversified investment managers whose performance is monitored by the Center. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Center believes that the investment policies and guidelines are prudent for the long-term welfare of the organization.

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  
(Continued)

1 - 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

Patient Service Revenue

The Center reports patient service revenue at the amount that reflects the consideration to which the Center expects to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and include variable consideration for retroactive adjustments due to settlement of audits and reviews. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Center believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and the Center does not believe it is required to provide additional goods or services to the patient.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

1 - Organization and Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Patient Service Revenue (Continued)

The Center determines the transaction price based on standard charges for goods and services provided to patients, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Center's policy, and/or implicit price concessions. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts expected to be collected based on the Center's collection history with similar class of patients. The Center analyzes its past history and identifies trends for each of its major payor sources of revenue. Management regularly reviews data about these major payor sources of revenue. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the year ended December 31, 2019 was not significant.

The Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant price concession related to uninsured patients in the period the services are provided. Accounts receivable associated with patient service revenue was \$ 1,210,316 and \$ 589,037 for the years ended December 31, 2019 and 2018, respectively.

Non-Patient Service Revenue

The Center recognizes revenue from program services when the services are provided. The Center records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference. Significant judgements are made in determining the value of the exchange and contribution element of special events.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

1 - Organization and Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Non-Patient Service Revenue (Continued)

All services are transferred at a point in time. Payment terms for services are not deemed to include any significant financing component as payment is received at the time, or shortly after, the services are provided. Consideration paid for services is not variable.

The Center recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Center's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at December 31, 2019, conditional contributions from significant grants approximating \$ 776,522 have not been recognized in the accompanying financial statements.

The Center's customers consist of federal, state and local government agencies and private customers, primarily located within the state of Kansas. For government grants and contracts, future cash flows depend on the Center's ability to continue to obtain federal, state and local government contracts, and indirectly on the amount of funding available to these agencies for new and current government projects. Therefore, a portion of the Center's operations is dependent upon the level and timing of government funding. As it relates to private customers, credit risk is mitigated because payment is received before, shortly after or at the time the goods or services are provided. For those program services provided before payment is received, continuing services will be terminated for non-payment, limiting future credit risk.

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.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

1 - Organization and Summary of Significant Accounting Policies (Continued)

Accounts Receivable (Continued)

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.

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 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. Promises to give are written off when deemed uncollectible.

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 using 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 included in the statement of activities. The cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Deductions are made for retirements resulting from renewals or betterments. Contributions of long-lived assets without restrictions are included as net assets without donor restrictions. Contributions of assets with restrictions are included with net assets without donor restrictions when placed in service.

Depreciation expense for the year ended December 31, 2019 was \$ 48,802.



BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

1 - Organization and Summary of Significant Accounting Policies (Continued)

Income Taxes

The Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Center has not been classified as a private foundation. Accordingly, no provision for income taxes is made in these statements.

Administrative Overhead Allocation

Administrative 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 allocated 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 year ended December 31, 2019 was \$ 4,649.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

1 - Organization and Summary of Significant Accounting Policies (Continued)

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. The lease value is calculated based on a rate per square foot provided by an independent consultant. The amount recorded as in-kind contributions for donated office space was \$ 538,191 for the year ended December 31, 2019.

Change in Accounting Principle

FASB Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Center has implemented Topic 606 and has adjusted the presentation in these consolidated financial statements accordingly. The Center adopted the new standard effective January 1, 2019, the first day of the Center's current fiscal year using the modified retrospective approach. Any cumulative effect of initially applying the new standard would be recognized as an adjustment directly to the opening balance of net assets at January 1, 2019. The new revenue standard did not have a material impact on the amount and timing of revenue recognized in the Center's consolidated financial statements.

As part of the adoption of the ASC, the Center elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

1 - Organization and Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle (Continued)

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Center has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying consolidated financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

Pending Accounting Pronouncement

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either financing or operating with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Management is currently evaluating the effect that the standard will have on the financial statements.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

2 - Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019 are:

Financial assets:

Cash and cash equivalents	\$	1,008,272
Accounts receivable, net		1,210,316
Grant receivables		84,917
Other receivables		324,531
Short term investments		<u>1,232,527</u>

Total financial assets available for general expenditures within one year	\$	<u><u>3,860,563</u></u>
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The Center regularly monitors liquidity required to meet its operating needs and other contractual commitments while striving to maximize the investment of its available funds. The Center has various sources of liquidity available to it, including cash and cash equivalents, a line of credit, ongoing liquidity generated from operations, and endowment funds without donor restrictions.

In addition to financial assets available to meet general expenditures over the next 12 months, the Center operates a balanced budget and anticipates collecting enough revenue to cover general expenditures not covered by donor-restricted resources.

As part of the liquidity management plan, the Center invests excess cash in short-term investments, certificates of deposit, and money market funds. The Center uses a ladder approach with certificates of deposit to limit the Center's investment rate risk and ensure consistent access to these funds.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

3 - Promises to Give

Unconditional promises to give at December 31, 2019 are as follows:

Receivable in less than one year	\$ 279,380
Receivable in one to five years	360,285
Receivable in six to ten years	<u>7,012</u>
Total unconditional promises to give	646,677
Less discount to net present value	<u>(18,843)</u>
Net unconditional promises to give	<u><u>\$ 627,834</u></u>

The long-term promises to give have been discounted using a rate of 1.48%.

4 - Investments

Investments include the following at December 31, 2019:

Mutual funds:	
Foreign large blend	\$ 2,605,746
Large blend	<u>2,696,875</u>
	5,302,621
Certificates of deposit	1,932,481
Cash	<u>46</u>
Total investments	<u><u>\$ 7,235,148</u></u>

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

5 - Equity Method Investees

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 (BrightEHR); 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, 2019. 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 of \$ 300,000 has been fully absorbed by the Center's share of losses of BrightEHR.

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 Operating Agreement (the Agreement). The Agreement states that Members of the LLC (the Members) 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 entered into a new contribution agreement. Under the terms of the agreement, the Center and each other member were 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 contributions of \$ 65,000 in 2015 and \$ 50,000 in 2016 are recorded with property and equipment on the statement of financial position.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

6 - Fair Value

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.

The asset or liability's fair value 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 methodology used for assets measured at fair value. There have been no changes in the methodology used at December 31, 2019.

*Mutual funds:* 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.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

6 - Fair Value (Continued)

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within 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 table sets forth the Center's financial assets that were measured at fair value on a recurring basis as of December 31, 2019.

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Mutual funds:				
Foreign large blend	\$ 2,605,746	\$ -	\$ -	\$ 2,605,746
Large blend	2,696,875	-	-	2,696,875
	<u>\$ 5,302,621</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,302,621</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.

7 - 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 the Center's 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, 2019, the Center carried no amounts due from the Corporation. There were no significant reimbursements to the Center from the Corporation during 2019.



BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

7 - Related Party Transactions (Continued)

A condensed unaudited balance sheet and income statement is presented below for the Corporation as of and for the year ended December 31, 2019.

Assets:

Current assets	\$ 31,147
Property and equipment	<u>74,194</u>
Total assets	<u><u>\$ 105,341</u></u>
Liabilities	\$ 1,062
Net assets	<u>104,279</u>
Total liabilities and net assets	<u><u>\$ 105,341</u></u>
Total revenue	\$ 21,356
Total expense	<u>49,605</u>
Decrease in net assets	<u><u>\$ (28,249)</u></u>

8 - Line of Credit

The Center has an operating line of credit established with a bank for working capital purposes that matures in November 2020. 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 a security agreement dated March 17, 2002. The full amount of the line was available as of December 31, 2019.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

9 - Defined Benefit Pension Plan

*Plan description.* The Center participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. The Center's identifying number for KPERS is 9234. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report, which can be found on the KPERS website at [www.kpers.org](http://www.kpers.org) or by writing to KPERS (611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603) or by calling 1-888-275-5737.

*Funding policy.* K.S.A. 74-4919 and K.S.A. 74-49,210 establishes 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. Effective January 1, 2015, Kansas law established the KPERS members-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2, and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (including a 1% contribution rate for the Death and Disability Program) was 9.89% for the year ended December 31, 2019. Contributions to the pension plan from the Center was \$ 785,361 for the year ended December 31, 2019. The Center's contributions represent less than 5% of the total contributions into this multiple-employer plan. The funded ratio of KPERS (Retirement System total) was 68%. 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. No surcharges have been imposed on employers.

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

10 - Endowment Funds

The Center's endowment consists of funds established to support the general operations of the Center. Contributions to the endowment fund are subject to donor restrictions that stipulate the original principal and income from the gift is to be expended for program services. The endowment includes funds which are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center generally retains in perpetuity (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity is subject to appropriation for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds
- The purpose of the Center and the board-designated and donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Center
- The investment policies of the Center

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

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

10 - Endowment Funds (Continued)

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, 2019 is as follows:

Board-designated endowment funds	\$ 4,480,259
Donor-restricted endowment funds:	
Purpose restricted	600,186
Original donor-restricted gift amount required to be maintained in perpetuity by donor	<u>564,385</u>
Total funds	<u><u>\$ 5,644,830</u></u>

Changes in endowment net assets for the year ended December 31, 2019 were:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,926,840	\$ 1,062,450	\$ 4,989,290
Investment income	112,812	12,666	125,478
Net appreciation	660,307	87,520	747,827
Contributions	4,300	1,935	6,235
Amounts appropriated for expenditure	<u>(224,000)</u>	<u>-</u>	<u>(224,000)</u>
Endowment net assets, end of year	<u><u>\$ 4,480,259</u></u>	<u><u>\$ 1,164,571</u></u>	<u><u>\$ 5,644,830</u></u>

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

11 - Net Assets with Donor Restrictions

The Center has net assets with donor restrictions as follows as of December 31:

Purpose restriction:

Non-capital activities, invested in endowment	\$ 500,000
Dave's Dream, invested in endowment	100,186

Time restriction:

Unconditional promise to give	379,406
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Net assets with donor restrictions subject to endowment  
spending policy and appropriations

564,385

Total net assets with donor restrictions

\$ 1,543,977

Net assets were released from time restrictions in the amount of \$ 129,604 during the year ended December 31, 2019.

12 - Concentration of Credit Risk

The Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31, 2019 was as follows:

Medicaid	71%
Other third party payers	19%
Medicare	6%
Patients	4%
	<hr/>
	100%
	<hr/> <hr/>

BERT NASH COMMUNITY MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

13 - Subsequent Events

The Center has evaluated subsequent events through the date of the independent auditors' report, which is the date that the financial statements are available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and, on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Center operates. On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was enacted to, amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the pandemic.

It is unknown how long the adverse conditions associated with the pandemic will last and what the complete financial effect will be to the Center. The Center was able to respond quickly and was able to move to an environment of working remotely in a short amount of time. Despite this, patient utilization immediately dropped and continues to be lower due to multiple factors relating to this pandemic. All patient interactions are being affected by the pandemic. Accordingly, while management cannot quantify the financial and other impacts to the Center as of the date of the auditors' report, management believes that a material impact on the Center's financial position and results of future operations is reasonably possible.

Additionally, it is reasonably possible that estimates made in the Center's financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including a significant decrease in patient revenue.

In April 2020, the Center applied for and received \$ 1,707,700 from the Paycheck Protection Program, made available through the CARES Act. There is a potential for a portion of this funding to be unforgiven and, therefore, converted to a 5-year loan with an annual interest rate of 1%.