

**COMMUNITY MENTAL HEALTH CENTER
OF CRAWFORD COUNTY**

Independent Auditor's Report
and Financial Statements

December 31, 2012

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY

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MANAGEMENT DISCUSSION AND ANALYSIS
(a decade of continual struggle with KS reg. & funding)
Richard H. Pfeiffer, Executive Administrator

July 15, 2013

This section of Community Mental Health Center of Crawford County Annual Financial Report presents our discussion and analysis of the Mental Health Center's financial performance during the fiscal year ending December 31, 2012.

FINANCIAL HIGHLIGHTS

Revenues

Our Community Mental Health Center (CMHCCC) in Kansas provides home and community-based, as well as outpatient mental health services on a 24-hours a day, seven days a week basis. We provide full range of residential substances abuse services and therapeutic preschool and infant center services.

This CMHCCC is the local Mental Health Authority coordinating the delivery of publicly funded community-based mental health services. Our CMHC system is state and county funded and locally administered. Service delivery decisions are made at the community level, closest to the residents that require mental health treatment. We employ over 176 staff and professionals. We provide services to Kansans of all ages with a diverse range of presenting problems. As part of licensing regulations, our CMHCCC is required to provide services to all Kansans needing them, regardless of their ability to pay. This makes the community mental health system the "safety net" for Crawford County for persons with mental health needs. Our CMHC system serves over 3,000 persons per year.

Revenues decreased -8.3% percent in FY 2012(\$689,945.00). Revenues decreased -2 % percent in FY 2011. During the FY12 audited year the largest revenue decrease was in Medicaid billed to Kansas Health Solutions. This was based on Kansas State SRS directive of mandated savings to KHS regardless of medical necessity to consumers. The result will be a higher cost to the State in inpatient admissions and a decrease in consumer quality of life. The largest decrease in revenue from FY 2008 to FY 2010 was in Kansas State Grants and Contractual Services primarily Mental Health Reform of minus -26% percent in total. This will stress the safety net of services for Emergency State Hospital Screens and impact the services for those who are in the community due to lack of State Hospital psychiatric beds. State Mental Health Reform dollars are what we use to fund our Emergency Screening. In 2011 the State refused to pay for Mental Health Reform Screenings on private pay cases as required by Kansas Law and our contract with the State. There is a continued trend by the State to require service by regulation and then to drop funding. FY 13 shows the same State trend with the MCO's.

Historical Statewide CMHC System Budget Reductions since FY 05 – FY 08

Highlights of funding reductions sustained by the Statewide CMHC system since 2008:

1. \$20 million reduction in **Mental Health Reform** grants since FY 2008 – a 65 percent reduction.
2. \$9.6 million all funds in **Medicaid rate reductions** during FY 2010 as a result of the 10% rate reduction. Restored in FY 2011.
3. \$3.1 million in **MediKan** funding in FY 2010 – a 45 percent reduction. Elimination of MediKan General Assistance in FY 2012.
4. \$560,000 SGF in **Community Support Medication Program** funding during FY 2010 – a 53 percent reduction.
5. \$7.4 million in cost controls (savings) in the **Medicaid Mental Health** managed care contract for FY 2011. There is \$14.8 million in cost control (savings) projected for FY 2012.

Mental Health Reform Funding

FY	Amount	Impact	Cumulative Impact	% Difference	Cumulative Difference
FY07	\$31,066,330				
FY08	\$21,874,340	-\$9,191,990	-\$9,191,990	-29.59%	-29.59%
FY09 (Base)	\$21,874,340	-	-\$9,191,990	-	-29.59%
FY09 (Revised - Governor's 3% cut to SRS)	\$20,074,340	-\$1,800,000	\$10,991,990	-8.23%	-35.38%
FY10 Budget Bill	\$17,374,340	-\$4,500,000	\$13,691,990	-20.57%	-44.07%
FY10 Omnibus Bill	\$14,874,340	-\$2,500,000	\$16,191,990	-14.39%	-52.12%
FY10 Governor's Allotments	\$10,874,340	-\$4,000,000	\$20,191,990	-26.89%	-65.00%
FY11	\$10,874,340	-	\$20,191,990	-	-65.00%
FY12 Governor's Budget Recommendation	\$10,874,340	-	\$20,191,990	-	-65.00%

Mental Health Reform funding helped our system close state hospital beds and helps support services that are essential in keeping individuals out of inpatient settings. Reducing these funds puts at risk an already overstretched state hospital capacity. Without Mental Health Reform funding, there would be no universal system; no safety net; no 24 hour emergency care; with increasing demands for mental health care in emergency rooms and in-patient setting; and a growing number of Mentally Ill citizens in Crawford County jail.

The Agency had no notice from the State of Kansas that allowed us to plan for the a significant drop in Certified Match in our FY06 year nor the drop in State Grant Funds FY08 to FY09. In FY 08 we had no notice of the State intent to move us to a primary Medicaid based system, until there were significant drops in our Mental Health Reform State SGF funds. These SGF funds have continued to be dropped by State Officials in FY08. Further more in FY10 the first 6 months the State dropped Medicaid reimbursement by 10% costing an estimated revenue loss of over \$200,000. The cumulative loss continues. In FY 12 revenue loss was (\$689,945.00). The MHC Governing Board has asked for the retention of revenue for the last decade to manage these continued funding reductions and mismanagement by the State.

In 2005 we were planning to build a 3,000 square foot building and stopped the process due to financial hardship brought on by the lack of notice to this MH Agency in the State's certified match program. The State's inability to inform us of our Certified Match reduction in revenue and then over paying the MHC Agency, due to the State's lack of fiscal management. This placed the MHC Agency with needing three times that space two years ago. Basically, the MHC Agency will have put up with the State's Certified Match planning and delivery problem for seven years by the time all the money is repaid in FY 12. None of the above would have been a problem if timely notice from the State had occurred. Therefore, the building need is on hold awaiting fiscal stability.

To further complicate office space matters, a building owned by the County has been demolished. MHC Agency is in a position that encourages the need for more space and forces us to wait until the building is down. The Executive and Mental Health Governing Board have determined a minimum of \$3 million needs to be set aside to assure a funding base to remodel or new construction, of 30,000 square feet of building space.

Our current need for a precautionary operating reserve continues to be reality. The State and MHC Governing Board have defined this as a minimum of three months operating expense and a \$3 million building fund. Further contingent liabilities are that the MHC Agency participates in several federal and state grant programs. Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the MHC Agency expects such amounts, if any, to be immaterial.

These funding precautions have continued over the last seven State of Kansas Fiscal Years 05 through 12. This MHC agency has had a difficult time with funding stability. The first fiscal crisis happened on July 28, 2006, when a spread sheet from the State of Kansas and the Association of Community MHC's notified us that we would receive one million dollars less in funding from our Certified Match effective July 1, 2006.

Expenditures

The Mental Health Center Personnel Department July of 2006 laid off or transferred an estimated 3/4 million dollars in staff expense. These reductions allowed the agency to function after the million dollar reduction in State Certified Match. The actual positions were Preschool Teachers and Nursing staff expense, etc. Additional reductions in the State Fiscal year 2008 of SGF MH reform dollars totaled an estimated \$180,000 dollars. The exact totals will be found in the annual Audit.

Reductions in twelve staff this FY 2012 is the only way we have been able to stay open.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Center's basic financial statements.

Community Mental Health Center of Crawford County (CMHCCC) is a component unit of the primary government of Crawford County, Kansas (County) and as such is considered to be a governmental organization. CMHCCC provides services in the mental health field and drug and alcohol counseling, and also provides emergency response and gate keeping for the State Hospital Psychiatric Inpatient Beds. The Agency's government-wide financial statements provide both long-term and short-term information about the Center's overall financial status.

Government-Wide Statement

The government-wide statement reports information about the Center as a whole, using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the government assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position regardless of when cash is received or paid. The Net Position is the difference between the Center's assets and liabilities and are one way to measure the Center's financial health or position.

The Governing Board of the quasi-government Mental Health Center requires a minimum of three (3) months Operating Expense held in reserve with contingency to meet payroll, warrants, and lease expense obligations.

Cost Center Financial Statements

The cost center Financial Statements provide detail information about the Center's cost per program breakdowns. Cost centers are accounting devices that the Center uses to keep track of specific sources of funding and spending for particular purposes.

- Some cost centers are required by State regulations to keep track of grants or funding through SRS.
- The Governing Board annually establishes cost centers to control and manage money for particular purposes and/or to show that a particular cost center is properly using designated taxes and grants for their selected roles.

OPERATIONS AND SUMMARY OF POLICIES **DISCUSSION AND ANALYSIS**

Revenue Recognition

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements, shared revenues, and donations. Revenues from grants, entitlements, shared revenues and donations are recognized when all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year the resources are required to be used, or the year when use is first permitted, matching requirements and expenditure requirements in which the resources are provided to the Center on a reimbursement basis.

Compensated Absences

CMHCCC's policy permits most employees to accumulate vacation benefits, up to twenty-four days, that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits, which are earned whether the employee is expected to realize the benefits as time off or in cash. Sick leave benefits are recognized as expense when the time off occurs and no liability is accrued for such benefits. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments. These compensation related payments can include Social Security and Medicare taxes at a rate computed at the effective date.

Risk Management

CMHCCC is exposed to various risks of loss from torts, theft of, damage to and destruction of assets; business interruptions; errors and omissions; natural disasters; employee injuries and illnesses; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Income Taxes

As an essential government function of Crawford County, Kansas, The Center is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

County & State Services FY 2012

- The County maintains a commitment to former clients of State hospitals that have moved from institutional care to community-based services.
- The Community Mental Health Center of Crawford County has played a critical role in accomplishing significant bed reductions in our State mental health hospitals, which state wide, have declined from 1,003 in FY 90 to 340 today. While bed days have decreased, our inpatient system is nearing capacity due to an increase in admissions. The closure of (local) Mt. Carmel inpatient psychiatric beds has stressed local resources. Then FY10 year closure of Coffeyville psychiatric beds.
- Our local Community-based services have proven effective in diverting thousands of individuals from State hospitalization. We provide for children, intensive wraparound services to allow them to stay at home and achieve higher performance in school. For adults, it means living independently and becoming competitively employed.
- The Community Mental Health Center of Crawford County is the public safety net for adults and children with mental illnesses. The number of SPMI adults served state-wide by CMHCs has grown from 7,775 in FY92, to over 18,000 today. The number of children/adolescents with SED served by CMHCs state-wide has grown from 6,034 in FY92, to over 27,000 today.
- The Community Mental Health Center of Crawford County provides services in every city in the county, 24 hours a day, seven days a week. This is a funding issue that affects every person in the county.
- Without the Community Mental Health Center of Crawford County services, law enforcement, local emergency rooms, schools and families will be adversely affected. The failure to keep CMHC programs fully funded increases the census in state hospitals, impacts foster care and nursing homes, to say nothing of correctional facilities and juvenile detention facilities.
- The Community Mental Health Center of Crawford County has a State mandate to serve regardless of an ability to pay. State-wide over 100,000 Kansans walk through the doors of a CMHC each year – over 70,000 are the working poor and their children.
- Because of current events in our everyday lives and around the world, there are an increasing number of individuals with severe illnesses coming to the CMHCs.

- Because of current events in our everyday lives and around the world, there are an increasing number of individuals with severe illnesses coming to the CMHCs. Without adequate funding, neither the necessary amount of services nor array of services may be available at the time of need.
- The Community Mental Health Center of Crawford County has met or exceeded every target and objective set in reducing the use of state hospital beds. The CMHCs have simultaneously succeeded in providing quality community care for virtually thousands of seriously disabled former state hospital patients. The outcomes are impressive state-wide...
- Now in FY 12 with the advent of MCOs from out of State the service plan is to continue the decade long decrease in funding to Mental Health Centers Statewide. Require the Centers to do the service by KS statute, yet not pay them to the task.

MCOs Provider Outcomes Report Findings:

- Outpatient appointment access performance exceeded that of the peer CMHC mean.
- Screening access performance was similar to the peer group mean.
- Performance on adult AIMS outcomes measures was exemplary.
- Performance on youth AIMS outcomes measures was generally comparable to the CMHC peer group means.
- The overall rate of hospitalization was slightly lower than the peer CMHC mean.
- Penetration rates were generally comparable to the peer CMHC means.
- The Community Mental Health Center of Crawford County performed comparably to the peer mean, with regard to the likelihood that Members received a mental health service in the 30 days prior to being screened for hospital admission.
- Timeliness of follow-up after a hospital diversion showed a trend for superiority relative to the peer CMHC means.

CONTACTING THE MENTAL HEALTH CENTER FISCAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Community Mental Health Center's finances and to demonstrate the Center's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the Center's Executive Administration at (620) 235-7111.

Richard H. Pfeiffer
Executive Administrator

Diehl Banwart Bolton

Certified Public Accountants P.A.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Mental Health Center of Crawford County
Pittsburg, Kansas

We have audited the accompanying statement of net position of the Community Mental Health Center of Crawford County (a component unit of Crawford County), as of December 31, 2012, and the related statement of revenues, expenses and changes in net position and statement of 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Community Mental Health Center of Crawford County as of December 31, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages i through vii be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Diehl Banwart Bolton CPA's PA

DIEHL, BANWART, BOLTON, CPAs PA

August 19, 2013
Fort Scott, Kansas

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY
Statement of Net Position
December 31, 2012

ASSETS

Current Assets

Cash	\$1,946,483.85
Certificate of deposit	3,100,000.00
Accounts receivable, less allowance for doubtful accounts of \$ 219,393.32	231,914.64
Prepaid expenses and unearned revenues	<u>750.42</u>
Total Current Assets	<u>5,279,148.91</u>

Property and Equipment, at Cost

Land	44,700.00
Leasehold Improvements	1,133,387.36
Equipment and furniture	1,300,591.28
Vehicles	<u>1,037,024.40</u>
	3,515,703.04
Less accumulated depreciation	<u>2,416,550.15</u>
Total Property and Equipment	<u>1,099,152.89</u>

Total Assets	<u>\$6,378,301.80</u>
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LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$110,349.96
Accrued expenses	293,329.43
Deferred revenues - federal and state grants	<u>(2,357.00)</u>
Total Current Liabilities	<u>401,322.39</u>

Net Position

Invested in capital assets, net of related debt	1,099,152.89
Reserved for contingency	300,000.00
Unreserved	<u>4,577,826.52</u>
Total Net Position	<u>5,976,979.41</u>

Total Liabilities and Net Position	<u>\$6,378,301.80</u>
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See notes to financial statements

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY
Statement of Revenues, Expenses and Changes in
Net Position - Budget and Actual
For the Year Ended December 31, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Budget</u>
Operating Revenues			
Net contract fees	\$5,238,373.32	\$5,493,245.07	\$254,871.75
Net client fees	1,849,900.00	1,203,875.49	(646,024.51)
Federal and state grants	463,606.00	498,710.11	35,104.11
County and city funding	620,048.00	604,314.52	(15,733.48)
Other	3,500.00	35,801.31	32,301.31
Total operating revenues	<u>8,175,427.32</u>	<u>7,835,946.50</u>	<u>(339,480.82)</u>
Operating Expenses			
Personnel	6,067,254.76	5,393,762.49	(673,492.27)
Professional services	32,900.00	24,935.00	(7,965.00)
Property Services	852,094.00	766,524.13	(85,569.87)
Communications	99,600.00	107,181.98	7,581.98
Supplies	461,700.00	373,436.92	(88,263.08)
Rent	22,500.00	21,600.00	(900.00)
Travel	67,800.00	38,756.73	(29,043.27)
Professional and educational meetings	53,500.00	29,838.15	(23,661.85)
Juvenile justice authority	86,000.00	115,362.56	29,362.56
Health department	-	12,249.41	12,249.41
Wraparound services	42,800.00	32,116.67	(10,683.33)
Bad debts	42,000.00	54,239.00	12,239.00
Detention	160,000.00	156,053.70	(3,946.30)
Miscellaneous	171,200.00	102,558.73	(68,641.27)
Total operating expenses	<u>8,159,348.76</u>	<u>7,228,615.47</u>	<u>(930,733.29)</u>
Operating Income	16,078.56	607,331.03	591,252.47
Investment Income	<u>50,000.00</u>	<u>23,100.80</u>	<u>(26,899.20)</u>
Excess of Revenues over Expenses	<u>\$66,078.56</u>	<u>630,431.83</u>	<u>\$564,353.27</u>
Net Position, January 1, 2012		<u>5,346,547.58</u>	
Net Position, December 31, 2012		<u>\$5,976,979.41</u>	

See notes to financial statements

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY
Statement of Cash Flows
For the Year Ended December 31, 2012

	<u>2012</u>
Cash Flows From Operating Activities	
Cash received from contracts and grants	\$7,878,546.57
Other cash receipts	35,801.31
Cash paid to employees	(5,407,630.30)
Cash paid for other goods and services	<u>(1,798,794.38)</u>
Net Cash Provided (Used) by Operating Activities	<u>707,923.20</u>
Cash Flows From Noncapital Financing Activities	
Cash Flows from Capital and Related Financing Activities	
Proceeds from sale of vehicles	7,019.90
Purchases of property and equipment	<u>(287,382.29)</u>
Net Cash Provided (Used) by Capital Financing Activities	<u>(280,362.39)</u>
Cash Flows From Investing Activities	
Interest revenue collected	<u>23,100.80</u>
Net Cash Provided (Used) by Investing Activities	<u>23,100.80</u>
NET INCREASE (DECREASE) IN CASH	450,661.61
CASH AT BEGINNING OF YEAR	<u>1,495,822.24</u>
CASH AT END OF YEAR	<u>\$1,946,483.85</u>

See notes to financial statements

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY
Statement of Cash Flows
For the Year Ended December 31, 2012

**Reconciliation of Net Income (Loss) to Net
Cash Provided (Used) by Operating Activities**

Operating Income	\$607,331.03
Adjustments to reconcile net income to net cash provided (used) by operating activities	
Depreciation	260,549.59
Gain from sale of fixed assets	(7,019.90)
(Increase) decrease in accounts receivable	121,932.28
Increase (decrease) in accounts payable	(224,490.99)
Increase (decrease) in other accrued liabilities	(13,867.81)
Increase (decrease) in unearned revenue	<u>(36,511.00)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$707,923.20</u>

See notes to financial statements

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY

Notes to the Financial Statements
For the Year Ended December 31, 2012

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Community Mental Health Center of Crawford County (CMHCCC) is a component unit of the primary government of Crawford County, Kansas (County) and as such is considered to be a governmental organization. CMHCCC provides services in the mental health field and drug and alcohol counseling.

Proprietary Fund Accounting

The Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Center has elected to apply only Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, that do not conflict with or contradict a GASB pronouncement.

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 during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable at December 31, 2012, consisted of Medicaid and Medicare reimbursements, insurance claims, governmental units and client private pays. Unsecured credit is extended to clients.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the least term or their respective estimated useful lives.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Cash and Cash Equivalents

For the purposes of the statement of cash flows, CMHCCC considers time deposits with an original maturity of less than three months to be cash.

Revenue Recognition

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements, shared revenues and donations. Revenues from grants, entitlements, shared revenues and donations are recognized when all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year the resources are required to be used or the year when use is first permitted, matching requirements and expenditure requirements in which the resources are provided to the Center on a reimbursement basis.

Compensated Absences

CMHCCC's policy permits most employees to accumulate vacation benefits, up to twenty-four days, that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefits as time off or in cash. Sick leave benefits are recognized as expense when the time off occurs and no liability is accrued for such benefits. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Risk Management

CMHCCC is exposed to various risks of loss from torts, theft of, damage to and destruction of assets; business interruptions; errors and omissions; natural disasters; employee injuries and illnesses; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Income Taxes

As an essential government function of Crawford County, Kansas, the Center is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

2. **BUDGETARY INFORMATION**

Kansas statutes require that an annual operating budget be legally adopted. The legal annual operation budget is prepared using the accrual basis of accounting.

The statutes permit transferring budgeted amounts between line items. However, such statutes prohibit expenses in excess of the total amount of the adopted budget of expenses. A budget comparison statement is presented showing actual revenues and expenses compared to legally budgeted revenues and expenses.

3. CASH INVESTMENTS AND DEPOSITS WITH FINANCIAL INSTITUTIONS

K.S.A. 9-1401 establishes the depositories which may be used by CMHCCC. The statute requires banks eligible to hold CMHCCC's funds have a main or branch bank in the county in which the CMHCCC is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The CMHCCC has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the CMHCCC's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The CMHCCC has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the CMHCCC may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the CMHCCC's deposits may not be returned to it. State statutes require the CMHCCC's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. At December 31, 2012, all deposits were adequately secured.

At December 31, 2012 the CMHCCC's carrying amount of deposits was \$5,046,483.85 and the bank balance was \$5,121,488.47. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$252,488.50 was covered by federal depository insurance, \$4,868,949.97 was collateralized by securities with a market value of \$5,565,463.96 held by the pledging financial institutions' agents in the CMHCCC's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the CMHCCC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. CMHCCC was in compliance with those statutes.

4. OPERATING LEASES

Rent expense for the year ended December 31, 2012, was \$21,600.00.

5. RETAINED EARNINGS RESERVES

Reserved for Contingency

The Board of Directors has established a \$300,000 contingency reserve for which funds are to be set aside rather than used for ordinary day to day operations.

6. PENSION PLAN

Plan Description

CMHCCC contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Kansas. Pension expense is recorded for the amount CMHCCC is contractually required to contribute for the year. The plan provides retirement, withdrawal and disability benefits and death benefits to plan members and their beneficiaries. State law assigns the authority to establish and amend benefit provisions to the plan's board of trustees which is appointed by the Governor with the approval of the State Legislature. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803 or by calling 1-888-275-5737.

Funding Policy

The authority to establish and amend obligations of plan members and CHMCCC is set forth in state law and is vested in the plan's board of trustees. Plan members are required to contribute from 4% of their annual covered salary. CMHCCC is required to contribute at an actuarially determined rate; for 2012 the rate was 8.34% annual covered payroll. CMHCCC's contributions to the plan for 2012, 2011, and 2010 were \$296,637, \$295,414, and \$290,041, respectively, which equaled the required contributions for each year.

Tax Sheltered Annuity

In addition to KPERS, CMHCCC allows employees to make voluntary contributions to tax sheltered annuities. CMHCCC matches contributions for employees that are eligible to retire under KPERS but are still working. For 2012 the amount of the matching contribution was \$35,400.

7. PROPERTY AND EQUIPMENT

The following is a summary of changes in property and equipment for the year ended December 31, 2012:

	Balance January 1, 2012	Additions	Retirements	Balance December 31, 2012
Land	\$ 44,700.00	\$ -	\$ -	\$ 44,700.00
Leasehold improvements	925,451.95	207,935.41	-	1,133,387.36
Equipment and furniture	1,273,585.40	27,005.88	-	1,300,591.28
Vehicles	1,016,010.40	52,441.00	31,427.00	1,037,024.40
	<u>\$ 3,259,747.75</u>	<u>\$ 287,382.29</u>	<u>\$ 31,427.00</u>	<u>\$ 3,515,703.04</u>

8. ACCOUNTS PAYABLE

Included in current payables is \$97,065 which is a repayment to the State of Kansas. CMHCCC has been notified that this repayment will be required to be made in semi-annual installments of \$97,064. The original repayment amount was \$776,510.

9. SUBSEQUENT EVENT

Subsequent events have been evaluated through August 19, 2013. There are no subsequent events recognized in these financial statements or disclosed in the notes to the financial statements.

10. FEDERAL AND STATE GRANTS

Federal and State grants shown as revenue on the Statement of Revenues, Expenditures and Changes in Net Assets are comprised of the following

State Aid	\$ 131,420.25
State Grant	143,665.00
Family Center System of Care	136,908.00
Family Mental Health Block Grant	46,416.00
Child Nutrition Grant	<u>40,300.86</u>
	<u>\$ 498,710.11</u>