

# Hamm Memorial Psychiatric Clinic

St. Paul, Minnesota

Financial Statements

Years Ended June 30, 2019 and 2018

**WIPFLi**<sup>LLP</sup>  
CPAs and Consultants



## **Independent Auditor's Report**

Board of Directors  
Hamm Memorial Psychiatric Clinic  
St. Paul, Minnesota

We have audited the accompanying financial statements of Hamm Memorial Psychiatric Clinic, which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, 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; 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. 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 Hamm Memorial Psychiatric Clinic as of June 30, 2019 and 2018, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

*Wipfli LLP*

Wipfli LLP

September 26, 2019  
Minneapolis, Minnesota

# Hamm Memorial Psychiatric Clinic

## Balance Sheets

June 30,	2019	2018
<b>Current assets:</b>		
Cash and cash equivalents	\$ 819,112	\$ 373,523
Investments	701,017	1,103,605
Patient accounts receivable - Net	122,786	80,672
Prepaid expenses and other	45,810	31,446
<b>Total current assets</b>	<b>1,688,725</b>	<b>1,589,246</b>
<b>Property and equipment:</b>		
Furniture and fixtures	78,365	78,365
Equipment	70,638	65,101
Leasehold improvements	15,854	15,854
Office electronics	339,724	339,724
<b>Total property and equipment</b>	<b>504,581</b>	<b>499,044</b>
Less - Accumulated depreciation	485,473	485,683
<b>Property and equipment - Net</b>	<b>19,108</b>	<b>13,361</b>
<b>Other assets:</b>		
Investments - Deferred compensation plan	-	21,643
The Saint Paul Foundation - Endowment funds	454,012	451,870
<b>Total other assets</b>	<b>454,012</b>	<b>473,513</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,161,845</b>	<b>\$ 2,076,120</b>

# Hamm Memorial Psychiatric Clinic

## Balance Sheets (Continued)

June 30,	2019	2018
Current liabilities:		
Accounts payable	\$ 35,192	\$ 25,687
Accrued expenses	123,305	166,934
Current portion of capital lease	2,821	1,178
<b>Total current liabilities</b>	<b>161,318</b>	<b>193,799</b>
Long-term liabilities:		
Long-term capital lease obligations - Less current portion	11,684	-
Accrued deferred compensation plan	-	21,643
<b>Total long-term liabilities</b>	<b>11,684</b>	<b>21,643</b>
<b>Total liabilities</b>	<b>173,002</b>	<b>215,442</b>
Net assets:		
Without donor restrictions	1,534,581	1,388,808
With donor restrictions	454,262	471,870
<b>Total net assets</b>	<b>1,988,843</b>	<b>1,860,678</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,161,845</b>	<b>\$ 2,076,120</b>

See accompanying notes to financial statements.

# Hamm Memorial Psychiatric Clinic

## Statements of Activities

Year Ended June 30, 2019	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Revenue:			
Net patient service revenue - Net of contractual allowance and discounts	\$ 1,078,431	\$ -	\$ 1,078,431
Less - Provision for doubtful accounts	18,137	-	18,137
Net patient fees and contracts, less provision for doubtful accounts	1,060,294	-	1,060,294
Seminar fee and other	11,711	-	11,711
Total revenue	1,072,005	-	1,072,005
Other support:			
Contributions	1,609,778	2,950	1,612,728
Investment income	23,524	-	23,524
Change in value - Endowment funds	-	(558)	(558)
Net assets released from restrictions	20,000	(20,000)	-
Total other support	1,653,302	(17,608)	1,635,694
Total revenue and other support	2,725,307	(17,608)	2,707,699
Expenses:			
Program services	1,957,331	-	1,957,331
Management and general	557,824	-	557,824
Fundraising	64,379	-	64,379
Total expenses	2,579,534	-	2,579,534
Change in net assets from operations	145,773	(17,608)	128,165
Net assets at beginning	1,388,808	471,870	1,860,678
Net assets at end	\$ 1,534,581	\$ 454,262	\$ 1,988,843

# Hamm Memorial Psychiatric Clinic

## Statements of Activities (Continued)

Year Ended June 30, 2018	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Revenue:			
Net patient fees and contracts - Net of contractual allowances and discounts	\$ 1,031,032	\$ -	\$ 1,031,032
Less - Provision for doubtful accounts	24,278	-	24,278
Net patient fees and contracts, less provision for doubtful accounts	1,006,754	-	1,006,754
Seminar fee and other	20,813	-	20,813
Total revenue	1,027,567	-	1,027,567
Other support:			
Contributions	1,660,519	1,560,759	3,221,278
Investment income	7,493	-	7,493
Change in value - Endowment funds	-	13,360	13,360
Net assets released from restrictions	1,535,409	(1,535,409)	-
Total other support	3,203,421	38,710	3,242,131
Total revenue and other support	4,230,988	38,710	4,269,698
Expenses:			
Program services	1,895,133	-	1,895,133
Management and general	546,128	-	546,128
Fundraising	43,705	-	43,705
Total expenses	2,484,966	-	2,484,966
Change in net assets from operations	1,746,022	38,710	1,784,732
Other changes in net assets -			
Change in pension obligation	106,090	-	106,090
Change in net assets	1,852,112	38,710	1,890,822
Net assets (deficit) at beginning	(463,304)	433,160	(30,144)
Net assets at end	\$ 1,388,808	\$ 471,870	\$ 1,860,678

See accompanying notes to financial statements.

# Hamm Memorial Psychiatric Clinic

## Statements of Functional Expenses

Year Ended June 30, 2019	Clinical Services	Training and Professional Development	Research and Publication	Community Outreach	Total Program	Management and General	Fundraising	Total
Salaries	\$ 1,093,113	\$ 244,398	\$ 18,532	\$ 30,692	\$ 1,386,735	\$ 195,519	\$ 23,021	\$ 1,605,275
Employee benefits	212,192	55,312	4,404	7,294	279,202	45,631	5,471	330,304
Professional fee	46,383	8,147	6,314	518	61,362	220,076	22,101	303,539
Occupancy	151,493	26,386	2,293	2,784	182,956	23,197	4,019	210,172
Depreciation	4,941	-	-	-	4,941	4,942	-	9,883
Office supplies	7,796	2,055	164	271	10,286	5,072	203	15,561
Miscellaneous	20,269	3,344	31	8,205	31,849	63,387	9,564	104,800
<b>Totals</b>	<b>\$ 1,536,187</b>	<b>\$ 339,642</b>	<b>\$ 31,738</b>	<b>\$ 49,764</b>	<b>\$ 1,957,331</b>	<b>\$ 557,824</b>	<b>\$ 64,379</b>	<b>\$ 2,579,534</b>

Year Ended June 30, 2018	Clinical Services	Training and Professional Development	Research and Publication	Community Outreach	Total Program	Management and General	Fundraising	Total
Salaries	\$ 1,036,876	\$ 259,655	\$ 39,017	\$ 17,722	\$ 1,353,270	\$ 269,940	\$ 19,218	\$ 1,642,428
Employee benefits	184,207	48,793	7,626	3,464	244,090	52,760	3,756	300,606
Professional fee	41,662	10,632	6,300	241	58,835	119,403	10,843	189,081
Occupancy	136,318	23,839	2,711	2,002	164,870	23,104	3,462	191,436
Depreciation	14,019	-	-	-	14,019	14,018	-	28,037
Office supplies	11,247	3,068	479	218	15,012	5,248	236	20,496
Miscellaneous	28,284	4,789	-	11,964	45,037	61,655	6,190	112,882
<b>Totals</b>	<b>\$ 1,452,613</b>	<b>\$ 350,776</b>	<b>\$ 56,133</b>	<b>\$ 35,611</b>	<b>\$ 1,895,133</b>	<b>\$ 546,128</b>	<b>\$ 43,705</b>	<b>\$ 2,484,966</b>

See accompanying notes to financial statements.

# Hamm Memorial Psychiatric Clinic

## Statements of Cash Flows

Year Ended June 30,	2019	2018
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 128,165	\$ 1,890,822
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net unrealized and realized (gains) losses	(2,287)	3,201
Depreciation	9,883	28,037
Provision for doubtful accounts	18,137	24,278
Change in value - Endowment funds	558	(13,360)
Contributions restricted for endowment	(2,700)	(7,350)
Change in pension obligation	-	(106,090)
Changes in operating assets and liabilities:		
Patient accounts receivable	(60,251)	(28,082)
Contributions receivable	-	2,000
Prepaid expenses and other	(14,364)	(10,154)
Accounts payable	9,505	(11,000)
Accrued expenses	(43,629)	4,549
Total adjustments	(85,148)	(113,971)
Net cash flows from operating activities	43,017	1,776,851
Cash flows from investing activities:		
Purchases of investments	(103,309)	(608,817)
Proceeds from sale of investments	508,184	203,387
Purchases of furniture and equipment	-	(2,520)
Net cash flows from investing activities	404,875	(407,950)
Cash flows from financing activities :		
Principal payments on capital lease obligations	(2,303)	(2,019)
Payment of pension obligation	-	(1,138,443)
Net cash flows from financing activities	(2,303)	(1,140,462)
Net change in cash and cash equivalents	445,589	228,439
Cash and cash equivalents at beginning	373,523	145,084
Cash and cash equivalents at end	\$ 819,112	\$ 373,523

See accompanying notes to financial statements.

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies

#### Description of Organization

Hamm Memorial Psychiatric Clinic (the "Clinic") provides a variety of outpatient mental health and related services to adults and operates in the Twin Cities metropolitan area.

The Clinic offers a full spectrum of outpatient mental health services in English and Spanish, including:

Clinical Services - The Clinic seeks to treat symptoms and also to help clients gain insight into and understanding of their behavior. The Clinic team comprises clinical social workers, psychologists, and psychiatrists working together to improve mental health.

Training and Professional Development - The Clinic's training program provides specialized training and education for graduates and post-graduates in clinical social work, psychology, and psychiatry. The Clinic's comprehensive approach to training enables students to provide direct client care under close supervision.

Research and Publication - The Clinic conducts effectiveness research. Effectiveness research seeks to determine whether the treatment at the Clinic is effective in a community mental health center setting with a variety of clients.

Community Outreach - The Clinic works to educate the public about mental health issues and promotes the value of good mental health. It also works to be a voice in the community for persons with mental illness and to improve public awareness of the scope of influence adult mental illness has on the community.

#### Financial Statement Presentation

The Clinic follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities.

#### Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

#### Cash Equivalents

The Clinic considers highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts held as short-term investments or that are restricted.

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Patient Accounts Receivables and Credit Policy**

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. Most patients are local residents. The Clinic bills third-party payers on the patients' behalf, or if a patient is uninsured, that patient is billed directly. Once claims are settled with the primary payer, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement. The Clinic does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying balance sheets net of contractual adjustments and an allowance for doubtful accounts, which reflects management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts through a reduction of gross revenue and a credit to the allowance for doubtful accounts.

In evaluating patient accounts receivable, the Clinic analyzes past results and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the Clinic analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for doubtful accounts for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Clinic records a provision for doubtful accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. Payment is required 30 days after receipt of the invoice. Patient accounts receivable past due more than 90 days are individually analyzed for collectibility. Accounts for which no payments have been received for five months are written off. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Investments**

Investments are measured at fair value in the accompanying balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenue and support without donor restrictions, unless the income or loss is restricted by donor or law.

#### **Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier hierarchy prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

#### **Property, Equipment, and Depreciation**

Property and equipment acquisitions are recorded at cost or, if donated, at fair value on the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Leasehold improvements are depreciated, and equipment under capital lease obligations is amortized over the shorter period of the estimated useful life or the remaining term of the lease using the straight-line method. Estimated useful lives for leasehold improvements, furniture and fixtures, office electronics, and equipment range from three to seven years.

Purchases of property and equipment having a cost of \$2,000 or more and an estimated useful life of more than one year are capitalized at cost.

#### **Net Assets**

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of the Clinic and include those expendable resources which have been designated for special use by the Clinic's Board of Directors. Net assets with donor restrictions are those whose use by the Clinic has been limited by donors to a specific time period or purpose or which have been restricted by donors to be maintained by the Clinic in perpetuity.

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Patient Fees and Contracts**

The Clinic recognizes patient fee revenue associated with services provided to patients who have third-party payer coverage primarily on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for subsidies given by the Clinic for those unable to pay the billed amounts, the Clinic recognizes revenue on the basis of discounted rates established under the Clinic's uninsured patient policy.

#### **Contributions**

Contributions are considered available for use without restriction unless specifically restricted by the donor. Unconditional promises to give cash and other assets to the Clinic are reported at fair value at the date the promise is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contributions are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

#### **In-Kind Contributions**

Donated goods and services are reflected in the accompanying financial statements at their estimated fair values at the date of receipt to the extent that those services required specialized skills which, if not provided by donations, would have to be purchased by the Clinic. In-kind contributions are presented as a revenue and offsetting program cost.

#### **Functional Expenses**

The costs of providing programs and services have been summarized on a functional basis. Salaries and related expenses are allocated based on job descriptions and systematically by management based on the program benefited. Expenses, other than salaries and related expenses, that are not directly identifiable by program or supporting service are allocated systematically by management based on the program benefited.

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Income Taxes

The Clinic is a publicly supported tax-exempt 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. The Clinic is also exempt from state income taxes under similar provisions of the Minnesota Statutes.

#### Accounting Pronouncements Adopted

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This ASU provides for certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classification, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, netting of investment expenses with return, among other changes. The guidance in this ASU is effective for the Clinic's year ended June 30, 2019, and was applied retrospectively to these comparative financial statements, with the exception of certain omissions permitted by the ASU. The Clinic has elected, under the standard's adoption guidance, to omit the liquidity disclosures for the year ended June 30, 2018.

Net assets as of June 30, 2019 and 2018, were restated by combining the temporarily restricted net assets of \$20,000 and permanently restricted net assets of \$451,870 into net assets with donor restrictions of \$471,870.

#### Future Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new standard supersedes current revenue recognition requirements in FASB ASC (Topic 605), *Revenue Recognition*, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for the Clinic's year ending June 30, 2020. Management is evaluating the impact this pronouncement will have on revenue recognition of the Clinic.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The objective of this ASU is to assist organizations in recognizing the right to use of an asset and its related liability or obligation when there is a contract in place that includes the right to control or direct the use of an identifiable asset. This ASU also includes provisions whereby the majority of leases that have lease terms greater than one year are to be recorded as capital leases on the balance sheet, whereas in the past these leases might have been recorded as either capital leases or operating leases. This ASU is effective for the Clinic's year ending June 30, 2021. Management is evaluating the impact this pronouncement will have on the Clinic.

#### Subsequent Events

Subsequent events have been evaluated through September 26, 2019, which is the date the financial statements were available to be issued.

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### Note 2: Reimbursement Arrangements With Third-Party Payers

The Clinic has agreements with third-party payers, including the Minnesota Department of Human Services (Medicaid) and commercial insurance carriers that provide for reimbursement at amounts which vary from its established rates. The basis for payment to the Clinic under these agreements includes prospectively determined rates and discounts from established charges.

#### Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those related to the Medicaid program, can be subject to government review and interpretation as well as regulatory actions unknown and unasserted at this time. In recent years, federal government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties as well as significant repayments of previously billed and collected revenue from patients' services.

### Note 3: Patient Accounts Receivable

Patient accounts receivable - net consisted of the following at June 30:

	2019	2018
Patient accounts receivable	\$ 224,786	\$ 146,672
Less:		
Allowance for contractual adjustment	100,000	64,000
Allowance for doubtful accounts	2,000	2,000
Patient accounts receivable - Net	\$ 122,786	\$ 80,672

### Note 4: Investments

Investments consisted of the following at June 30:

	2019	2018
Certificates of deposit - Negotiable	\$ 399,390	\$ 695,548
Certificates of deposit - Bank	-	400,000
Cash and cash equivalents	301,627	8,057
Investments	\$ 701,017	\$ 1,103,605

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### Note 4: Investments (Continued)

#### Investment Income

Investment income, including net realized and unrealized losses on investments, consisted of the following for the years ended June 30:

	2019	2018
Cash and cash equivalents - Interest income	\$ 11,319	\$ 1,812
Investments:		
Investment income	8,363	8,882
Realized and unrealized gains (losses)	3,842	(3,201)
Investment income	\$ 23,524	\$ 7,493

#### Investments - Deferred Compensation Plan

In 2006, the Clinic entered into an agreement whereby its former executive medical director was eligible to receive an annual deferred bonus allocation, which shall be equal to the maximum dollar amount that may be deferred for him for that year under Code Section 457(b). The Clinic has been accruing the payout over the term of the agreement.

To fund the payout, the Clinic purchased mutual funds and cash equivalents. The former executive medical director was responsible for determining the specific investment vehicles chosen and for bearing the risk for the performance of those investments. At June 30, 2018, the value of these investment was \$21,643, and an offsetting liability was accrued in accrued liabilities. On January 22, 2019, the former executive medical director transferred the funds out of the 457(b) deferred compensation investment plan, and as a result, the Clinic removed both the asset and the liability.

Investments - deferred compensation plan consisted of the following at June 30:

	2019	2018
Mutual funds	\$ -	\$ 21,079
Cash and cash equivalents	-	564
Investments - Deferred compensation plan	\$ -	\$ 21,643

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

### Note 5: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value.

*Certificates of deposit:* Certificates of deposit are valued at cost plus accrued interest, which approximates fair value.

*Mutual funds:* Mutual funds are valued at quoted market prices that represent the NAV of shares held by the Clinic at year-end.

Fair values determined by Level 3 inputs are unobservable data points of the asset and include situations in which there is little, if any, market activity for the asset.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while the Clinic believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the fair value of the Clinic's assets at June 30:

2019	Level 1	Level 2	Level 3	Total Assets at Fair Value
Certificates of deposit - Negotiable	\$ -	\$ 399,390	\$ -	\$ 399,390

2018	Level 1	Level 2	Level 3	Total Assets at Fair Value
Certificates of deposit - Negotiable	\$ -	\$ 695,548	\$ -	\$ 695,548
Mutual funds	21,079	-	-	21,079
Totals	\$ 21,079	\$ 695,548	\$ -	\$ 716,627

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### Note 5: Fair Value Measurements (Continued)

Reconciliation of the fair value hierarchy tables to the financial statements was as follows at June 30:

	2019	2018
Investments per balance sheets	\$ 701,017	\$ 1,103,605
Investments - Deferred compensation plan per balance sheets	-	21,643
Less:		
Cash and cash equivalents	(301,627)	(8,621)
Certificates of deposit - Bank	-	(400,000)
Totals from the fair value hierarchy tables	\$ 399,390	\$ 716,627

### Note 6: Liquidity

The following reflects the Clinic's financial assets and liquidity as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled capital lease payments, and capital items, were as follows:

Cash and cash equivalents	\$ 819,112
Investments	701,017
Patient accounts receivable - Net	122,786
Total	\$ 1,642,915

### Note 7: Lease Commitments

The Clinic leases a copier under a capital lease. The copier lease obligation at an imputed interest rate of 4.606%, with payments due in monthly installments of \$168.22, matured in January 2019. The Clinic then entered into a new lease obligation at an imputed interest rate of 6.25%, with payments due in monthly installments of \$304 through January 2024, collateralized by leased equipment.

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### Note 7: Lease Commitments (Continued)

Future minimum payments under the capital lease obligation consist of the following at June 30, 2019:

2020	\$	3,648
2021		3,648
2022		3,648
2023		3,648
2024		2,128
<hr/>		
Total		16,720
Less - Amount representing interest		2,215
<hr/>		
Present value of minimum lease payments		14,505
Less - Current portion		2,821
<hr/>		
Long-term capital lease obligations	\$	11,684

Cost of equipment under capital lease obligations, which is included in equipment, was \$15,630 and \$10,093 at June 30, 2019 and 2018, respectively. Accumulated depreciation of equipment under capital lease obligations was \$1,303 and \$8,915 at June 30, 2019 and 2018, respectively.

The Clinic leases office space under an operating lease. A lease was signed on April 6, 2012, for a term of five years and three months. The original lease expired on June 30, 2017. A lease amendment was signed on

June 9, 2017, for a three-year term. The amended lease expires on June 30, 2020. Future minimum lease payments under this agreement are payments of \$153,250 in 2020.

Rent expense was \$154,454 and \$141,099 for the years ended June 30, 2019 and 2018, respectively.

### Note 8: Pension Plan

Prior to 2006, the Clinic participated in a noncontributory defined benefit pension plan that covered substantially all employees. Pension benefits were based primarily on employee compensation and number of years of service. Effective June 30, 2006, the pension plan was frozen and a 401(k) plan went into effect.

During 2018, the Clinic received a contribution from the Hamm Foundation Fund of The Saint Paul Foundation of \$1,500,000 to assist in liquidating the pension plan. As a result, the Clinic signed a single annuity contract with Mutual of Omaha for a premium of \$2,562,663. This amount was transferred to Mutual of Omaha in August 2017, and the related pension plan liability was removed from the Clinic's balance sheets.

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

### Note 9: Net Assets With Donor Restrictions

Net assets with donor restrictions include assets set aside in accordance with donor restrictions as to time or use. Net assets with donor restrictions were available for the following purposes at June 30:

	2019	2018
Technology infrastructure upgrades	\$ -	\$ 20,000
Held for addition to Dr. James J. Jordan Endowment for Psychiatry	250	-
Endowment to be held in perpetuity - Nonprofit endowment - Held at the Foundation	22,663	22,857
Endowment to be held in perpetuity - Dr. James J. Jordan Endowment for Psychiatry - Held at the Foundation	431,349	429,013
<b>Totals</b>	<b>\$ 454,262</b>	<b>\$ 471,870</b>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for programs as follows for the years ended June 30:

	2019	2018
Pension plan closeout	\$ -	\$ 1,500,000
Education	-	24,659
Clinical	-	10,750
Technology infrastructure upgrades	20,000	-
<b>Totals</b>	<b>\$ 20,000</b>	<b>\$ 1,535,409</b>

### Note 10: Endowment

The nonprofit endowment fund is held at the Foundation in a separate fund designated as the Shawn Marie Hart/Eleanor Fitzpatrick Fund. The Clinic's agreement with the Foundation requires that income of the nonprofit endowment fund be distributed to the Clinic subject to the Foundation's Board of Trustees approval and spending rate restrictions. Principal is not to be used to supplement, augment, or add to the general operating budget of the Clinic.

The Dr. James J. Jordan Endowment for Psychiatry is also held at the Foundation in a separate fund. Like the nonprofit endowment fund, the Clinic's agreement with the Foundation requires that income of the Dr. James J. Jordan Endowment for Psychiatry be distributed to the Clinic subject to the Foundation's Board of Trustees' approval and spending rate restrictions. Principal is not to be used to supplement, augment, or add to the general operating budget of the Clinic.

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### Note 10: Endowment (Continued)

#### Donor-Restricted Endowments

The Clinic is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions until the Board of Trustees appropriates such amounts for expenditure and any other purpose restrictions have been met. The Board of Trustees of the Clinic has interpreted UPMIFA as requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Clinic considers a fund to be underwater when the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Clinic has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with UPMIFA, the Clinic considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Clinic, and (7) the investment policies of the Clinic.

Changes in endowment net assets for the years ended June 30, are as follows:

	With Donor Restrictions
Balance at June 30, 2017	\$ 433,160
Donor-designated amounts	5,350
Investment return	13,360
Balance at June 30, 2018	451,870
Donor-designated amounts	2,700
Investment return	(558)
Balance at June 30, 2019	\$ 454,012

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

### Note 11: Funds Held by Others

The Clinic is a designated grantee of a portion of the Hamm Foundation Fund, the Shawn Marie Hart/Eleanor Fitzpatrick Fund, and the Richey Fund of the Foundation. Any distributions of assets of these funds to the Clinic are at the discretion of the Foundation. Income earned by the funds is distributed to the Clinic on a periodic basis agreed on by both parties. The assets of the funds have not been included in the Clinic's financial statements. Contributions to the Clinic and the market values of the funds were as follows for the years ended June 30:

	2019		2018	
	Market Value	Contributions Paid	Market Value	Contributions Paid
Hamm Foundation Fund	\$ 18,936,097	\$ 704,885	\$ 19,011,883	\$ 742,508
Hamm Memorial Psychiatric Clinic Endowment Fund	130,941	5,169	131,766	5,054
Shawn Marie Hart/Eleanor Fitzpatrick NFP Fund	22,663	896	22,857	878
Shawn Marie Hart/Eleanor Fitzpatrick Designated Fund	168,316	6,645	169,376	6,497
Richey Fund	81,986	3,228	82,078	3,141
<b>Totals</b>	<b>\$ 19,340,003</b>	<b>\$ 720,823</b>	<b>\$ 19,417,960</b>	<b>\$ 758,078</b>

As noted in Note 8, funds were withdrawn from the Hamm Foundation Fund during 2018 to fulfill the liability requirements and terminate the pension plan.

### Note 12: 401(k) Plan

The Clinic sponsored a 401(k) plan (the "Plan") that went into effect on July 1, 2006, for all employees. Participation in the Plan was voluntary and was open to employees who had attained the age of 18 and completed three months of service. Beginning January 1, 2010, the Plan was changed to become a discretionary plan in which the Clinic may elect, but is not required, to make a matching contribution. The Clinic elected to reinstate a matching contribution of 4% starting in October 2017. Total matching contributions were \$42,894 and \$37,015 for the years ended June 30, 2019 and 2018, respectively.

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### Note 13: Patient Fees and Contracts Revenue (Net of Contractual Allowances and Discounts)

Patient fees and contracts revenue, net of contractual allowances and discounts, consisted of the following for the years ended June 30:

	2019	2018
Medicaid	\$ 405,889	\$ 385,515
Medicare	199,142	192,919
Commercial and other	1,136,334	1,040,605
Private pay	206,272	159,429
Total gross patient fees and contracts revenue	1,947,637	1,778,468
Less - Allowances and discounts	869,206	747,436
Patient fees and contracts revenue - Net of contractual allowances and discounts	\$ 1,078,431	\$ 1,031,032

### Note 14: Related-Party Transactions

The Clinic receives a significant amount of contributions from related parties. Contributions received from board members, their family members, and related foundations totaled \$814,037 and \$739,915 for the years ended June 30, 2019 and 2018, respectively.

### Note 15: Concentration of Credit Risk

Financial instruments that potentially subject the Clinic to credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions.

Patient accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicaid) for health care provided to the patients. The majority of the Clinic's patients are from St. Paul, Minnesota, and the surrounding area.

# Hamm Memorial Psychiatric Clinic

## Notes to Financial Statements

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### Note 15: Concentration of Credit Risk (Continued)

The mix of receivables was as follows at June 30:

	2019	2018
Medicaid	16 %	18 %
Medicare	10	11
Commercial and other	67	60
Private pay	7	11
Totals	100 %	100 %

The Clinic maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. The Clinic maintains cash in accounts at these institutions which are insured by the FDIC up to \$250,000. At June 30, 2019, the Clinic's deposits exceeded the insured limits by approximately \$593,000.

### Note 16: Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 classifications.